HOCKING VALLEY COMMUNITY HOSPITAL

FINANCIAL STATEMENTS

DECEMBER 31, 2000 AND 1999

STATE OF OHIO
OFFICE OF THE AUDITOR

JIM PETRO, AUDITOR OF STATE

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490
www.auditor.state.oh.us

Board of Trustees
Hocking Valley Community Hospital
601 State Route 664 North, Logan, OH 43138

We have reviewed the independent auditor's report of the Hocking Valley Community Hospital, Hocking County, prepared by Blue & Co., for the audit period January 1, 2000 through December 31, 2000. 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.

JIM PETRO
Auditor of State

July 31, 2001

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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 (a component unit of Hocking County) as of December 31, 2000 and 1999, and the related statements of revenues, expenses and changes in fund balance 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 generally accepted auditing standards 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, 2000 and 1999, and the results of its operations, changes in fund balance and cash flows for the years then ended in conformity with generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued, under separate cover, a report dated March 30, 2001, 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. That report is an integral part of an audit performed in accordance in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audits.

BLUE & CO., LLC

March 30, 2001

HOCKING VALLEY COMMUNITY HOSPITAL
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2000 AND 1999

ASSETS

	2000	1999
Current assets:		
Cash and cash equivalents	$ 1,342,271	$ 1,395,390
Short-term investments	1,162,209	1,158,412
Patient accounts receivable, less allowance for doubtful accounts of $558,000 in 2000 and $804,000 in 1999	4,179,172	3,375,829
Inventories	139,647	221,259
Prepaid expenses and other assets	10,280	9,572
Third-party settlements	-	164,010
Total current assets	6,833,579	6,324,472
Assest whose use is limited:		
Under bond indenture agreement	330,000	330,000
Property, plant and equipment, net	8,283,206	7,412,179
Other assets:		
Long-term investments	255,101	187,025
Other receivables	35,901	89,676
Deferred financing costs, net	102,607	103,923
Total other assets	393,609	380,624
Total assets	$ 15,840,394	$ 14,447,275

LIABILITIES AND FUND BALANCE

	2000	1999
Current liabilities:		
Current portion of capital lease obligations	$ 373,723	$ 284,680
Current portion of long-term debt	260,000	250,000
Accounts payable and accrued expenses	1,874,300	1,405,439
Accrued salaries, wages and employee benefits	987,796	896,560
Third-party settlements	88,717	-
Total current liabilities	3,584,536	2,836,679
Capital lease obligations, less current portion	969,861	289,443
Long-term debt, less current portion	4,082,817	4,339,018
Total liabilities	8,637,214	7,465,140
Fund balance	7,203,180	6,982,135
Total liabilities and fund balance	$ 15,840,394	$ 14,447,275

See accompanying notes to financial statements.

Hocking Valley Community Hospital
Statements Of Revenues, Expenses And Changes In Fund Balance
Years Ended December 31, 2000 And 1999

	2000	1999
Revenues:		
Net patient service revenue	$ 20,973,644	$ 20,604,530
Other operating income	118,065	119,056
Total revenues	21,091,709	20,723,586
Operating expenses:		
Salaries and wages	7,083,836	6,490,612
Employee benefits	1,530,490	1,595,110
Supplies and other	4,617,051	5,147,516
Professional fees and services	4,525,903	4,699,581
Provision for bad debts	1,601,682	1,355,907
Depreciation and amortization	965,276	876,744
Insurance	106,348	108,981
Interest	329,010	263,477
Total expenses	20,759,596	20,537,928
Operating gain	332,113	185,658
Nonoperating gains:		
Investment income	179,630	39,533
Other	(555)	129,340
Total nonoperating gains	179,075	168,873
Revenues and gains over expenses	511,188	354,531
Fund balance, beginning of year	6,982,135	7,050,485
Transfers to affiliates	(290,143)	(422,881)
Fund balance, end of year	$ 7,203,180	$ 6,982,135

See accompanying notes to financial statements.

HOCKING VALLEY COMMUNITY HOSPITAL
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2000 AND 1999

	2000	1999
Cash flows from operating activites and gains:		
Revenues and gains over expenses	$ 511,188	$ 354,531
Adjustments to reconcile revenues and gains over (under) expenses to net cash from operating activities and gains:		
Depreciation and amortization	965,276	876,744
Provision for bad debts	1,601,682	1,355,907
Changes in assets and liabilities:		
Patient accounts receivable	(2,405,025)	(1,462,755)
Inventories, prepaid expenses and other assets	80,904	121,669
Accounts payable and accrued expenses, accrued salaries, wages and employee benefits	560,097	(137,788)
Third-party settlements	252,727	(215,237)
Net cash from operating activities and gains	1,566,849	893,071
Cash flows from noncapital financing activities:		
Transfers to affiliates	(290,143)	(422,881)
Cash flows from investing activities:		
Purchase of investments, net	(71,873)	(343,458)
Other assets	-	40,707
Other receivables	53,775	41,159
Net cash from investing activities	(18,098)	(261,592)
Cash flows from capital and related financing activities:		
Proceeds from issuance of long-term debt	-	2,610,000
Repayment of long-term debt	(246,201)	(1,149,494)
Repayment of capital lease obligations	(389,036)	(303,684)
Acquisition of property and equipment	(676,490)	(608,458)
Net cash from financing activities	(1,311,727)	548,364
Net change in cash and cash equivalents	(53,119)	756,962
Cash and cash equivalents, beginning of year	1,395,390	638,428
Cash and cash equivalents, end of year	$ 1,342,271	$ 1,395,390
Supplemental disclosures of cash flow information:		
Cash paid for interest	$ 329,010	$ 263,477
Noncash investing and financing activities:		
Property additions under capital lease agreements	$ 1,158,497	$ 234,179

See accompanying notes to financial statements.

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 and a 30-bed skilled nursing 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.

Basis of Presentation

The financial statements have been presented in conformity with generally accepted accounting principles as recommended in the Audit Guide (Audits of Providers of Health Care Services) published by the American Institute of Certified Public Accountants. The significant accounting policies conform to Generally Accepted Accounting Principles (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.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

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. As a part of previous financing related to its current hospital facilities, the Hospital received grants from the Hill-Burton Agency of the Federal government. Attached to the grants are certain restrictions requiring the Hospital to provide an annual amount of uncompensated care to indigent patients. 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 approximately $745,000, and $893,000, in 2000 and 1999, 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 2000 and 1999, approximately 50% of the Hospital's total patient revenue was derived from Medicare payments while 12% was derived from Medicaid. The remaining revenue was derived primarily from commercial insurance payments and individual self-payments.

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.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2000 and 1999, was $11,905 and $10,589, 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)

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.

2. NET PATIENT SERVICE REVENUE

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

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

- Certain other costs applicable to the Medicare and Medicaid programs, primarily depreciation and other defined capital costs, skilled nursing costs and certain outpatient costs for the Medicare program, and outpatient costs for the Medicaid program 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.

Gross patient service revenue and the allowances to reconcile to net patient service revenue for the years ended December 31, 2000 and 1999, are as follows:

	2000	1999
Gross patient service revenue	$ 32,369,128	$ 30,494,864
Less third-party allowances	11,395,484	9,890,334
Net patient service revenue	$ 20,973,644	$ 20,604,530

3. DEPOSITS AND INVESTMENTS

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

	December 31, 2000		
	Cash and Cash Equivalents	Assets Whose Use is Limited	Investments
Financial statements	$ 1,342,271	$ 330,000	$ 1,417,310
Government securities	-	-	(154,113)
Mutual funds and equities	-	-	(958,413)
Star Ohio	(107,661)	-	-
Merrill Lynch cash management account	(41,626)	-	-
Advest money market account	(884,752)	-	-
Cash on hand	(750)	-	-
GASB Statement No. 3 deposits	$ 307,482	$ 330,000	$ 304,784

	December 31, 1999		
	Cash and Cash Equivalents	Assets Whose Use is Limited	Investments
Financial statements	$ 1,395,390	$ 330,000	$ 1,345,437
Government securities	-	-	(114,632)
Mutual funds and equities	-	-	(923,073)
Star Ohio	(281,381)	-	-
Merrill Lynch cash management account	(58,641)	-	-
Advest money market account	(1,098,656)	-	-
Cash on hand	(700)	-	-
GASB Statement No. 3 deposits	$ (43,988)	$ 330,000	$ 307,732

3. DEPOSITS AND INVESTMENTS (continued)

Deposits

At December 31, 1999, the carrying amount of the Hospital's bank deposits for all funds is $942,266 as compared to a bank balance of $1,021,495. The differences in carrying amounts and bank balances are caused by outstanding checks and deposits in-transit. Of the bank balances, $123,375 is covered by Federal insurance programs and $898,120 is collateralized with securities held by the financial institution or by its trust department or agent but not in the Hospital's name.

Investments

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

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

	December 31, 2000			
		Category		Carrying
	1	2	3	Amount
Government securities	$ -	$ -	$ 154,113	$ 154,113
Money market	-	1,034,039	-	1,034,039
Mututal funds and equities	-	-	958,413	958,413
Total	$ -	$ 1,034,039	$ 1,112,526	$ 2,146,565

4. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consists of the following:

	2000	1999
Land improvements	$ 239,180	$ 236,656
Buildings and improvements	8,883,923	8,415,975
Equipment	7,050,936	6,822,436
Equipment under capital lease obligations	2,315,034	1,179,018
Total	18,489,073	16,654,085
Less accumulated depreciation	10,205,867	9,241,906
Property, plant and equipment, net	$ 8,283,206	$ 7,412,179

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 1997 and with Medicaid through 1995. The amounts reported in the financial statements represent the estimated settlements outstanding at December 31, 2000 and 1999, which Hospital management believes will approximate final settlements after audit by the respective agencies.

6. LONG-TERM DEBT AND LEASES

Long-term debt consists of the following:

	December 31 2000	December 31 1999
County Hospital Refunding and Improvement Bonds, dated July 15, 1993		
Serial bonds, rates ranging from 3.95% to 4.8%, principal due each December 1 through 2003, ranging from $150,000 to $185,000, with interest due each June 1 and December 1.	$ 530,000	$ 690,000
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.	1,075,000	1,075,000
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.	290,000	290,000
County Hospital Improvement Bonds, dated March 3, 1999		
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.	1,495,000	1,585,000
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.	1,025,000	1,025,000
Less bond discount	72,183	75,982
Total	4,342,817	4,589,018
Less current portion	260,000	250,000
Long-term debt, excluding current portion	$ 4,082,817	$ 4,339,018

6. LONG-TERM DEBT AND LEASES (continued)

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.

In 1997, the Hospital received $950,000 in proceeds from the issuance of a County Hospital Improvement Bond Anticipation Note, which were used to construct a behavioral health unit. This Note was repaid through the 1999 County Hospital Improvement Bond.

In 1999, the Hospital received $2,610,000 in proceeds from the issuance of Hocking County Hospital Improvement Bonds. The proceeds of the bonds were used to retire the $950,000 County Hospital Improvement Bond Anticipation Note, construct a purchasing facility and various other remodeling projects.

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 5.1% to 12.1%. They expire at various dates through May 2004 and are collateralized by the equipment leased.

	December 31	
	2000	1999
Cost of equipment under capital lease	$ 2,315,034	$ 1,179,018
Accumulated amortization	539,279	428,565
Net carrying amount	$ 1,775,755	$ 750,453

6. LONG-TERM DEBT AND LEASES (continued)

Minimum payments on these obligations to maturity as of December 31, 2000 follows:

	Debt	Capital Leases	Total
Year:			
2001	$ 260,000	$ 495,600	$ 755,600
2002	270,000	374,970	644,970
2003	280,000	348,059	628,059
2004	100,000	314,046	414,046
2005	105,000	128,568	233,568
Thereafter	3,400,000	15,745	3,415,745
Subtotal	4,415,000	1,676,988	6,091,988
Less interest	-	333,404	333,404
Less bond discount	72,183	-	72,183
Total	4,342,817	1,343,584	5,686,401
Less current portion	260,000	373,723	633,723
Long-term portion	$ 4,082,817	$ 969,861	$ 5,052,678

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) 466-2085 or (800) 222-PERS (7377).

7. PENSION PLAN (continued)

Funding Policy

The required, actuarially-determined contribution rates for the Hospital and for employees are 10.84% and 8.5%, respectively. The Hospital's contributions, representing 100% of employer contributions, for the last three years follows:

Year	Contribution
2000	$ 781,737
1999	881,636
1998	963,226

PERS also provides post-retirement healthcare coverage to age and service retireants 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 2000 and 1999 employer contribution rate of 10.84% used to fund healthcare was 4.3%. 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. The number of benefit recipients eligible for OPEB at December 31, 2000, was 401,339.

8. 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.

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. 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. During the years ended December 31, 2000 and 1999, the Foundation did not make significant contributions to the Hospital.

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, 2000 and 1999, 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 2000 and 1999, the Hospital transferred $290,143 and $442,881 to HVMG. These transfers are reflected in the changes in fund balance.

10. RELATED PARTIES (continued)

On September 24, 1999 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:

2001	$	75,075
2002		75,075
2003		75,075
2004		75,075
2005		75,075
Thereafter		281,531
Total minimum lease payments	$	656,906

11. COMMITMENTS AND CONTINGENCIES

Subsequent to December 31, 2000 the Hospital committed to construction contracts to construct and renovate certain surgery and laboratory projects totaling approximately $2.7 million. The Hospital also entered into a capital lease for equipment totaling $399,000.

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

Board of Trustees
HOCKING VALLEY COMMUNITY HOSPITAL
Logan, Ohio

We have audited the financial statements of Hocking Valley Community Hospital (the Hospital), as of and for the year ended December 31, 2000, and have issued our report thereon dated March 30, 2001. We conducted our audit in accordance with generally accepted auditing standards 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.

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.

We noted other matters involving the internal control over financial reporting that we have reported to the management of the Hospital in a separate letter dated March 30, 2001.

This report is intended solely for the information of the audit committee and Hospital management and is not intended to be and should not be used by anyone other than these specified parties.

Blue & Co., LLC

March 30, 2001

STATE OF OHIO
OFFICE OF THE AUDITOR
JIM PETRO, AUDITOR OF STATE

88 East Broad Street
P.O. Box 1140
Columbus, Ohio 43216-1140

Telephone 614-466-4514
800-282-0370

Facsimile 614-466-4490

HOCKING VALLEY COMMUNITY HOSPITAL

HOCKING COUNTY

CLERK'S CERTIFICATION

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

Susan Babbitt

CLERK OF THE BUREAU

CERTIFIED
AUGUST 16, 2001