HOCKING VALLEY COMMUNITY HOSPITAL

FINANCIAL STATEMENTS

DECEMBER 31, 1999 AND 1998

HOCKING VALLEY COMMUNITY HOSPITAL
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DECEMBER 31, 1999 AND 1998

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

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Columbus, Ohio 43215
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Board of Trustees
Hocking Valley Community Hospital
Logan, Ohio

We have reviewed the Independent Auditor's Report of the Hocking Valley Community Hospital, Hocking County, prepared by Blue & Co., Inc., for the audit period January 1, 1999 through December 31, 1999. 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

June 28, 2000

Blue & Co., LLC
Business Consultants Certified Public Accountants

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) as of December 31, 1999 and 1998, 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, 1999 and 1998, 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 April 5, 2000, 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.

Blue & Co., LLC

April 4, 2000

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HOCKING VALLEY COMMUNITY HOSPITAL
BALANCE SHEETS
DECEMBER 31, 1999 AND 1998

ASSETS

	1999	1998
Current Assets:		
Cash and cash equivalents	$ 1,395,390	$ 638,428
Short-term investments	1,158,412	637,733
Patient accounts receivable, less allowance for doubtful accounts of $804,000 in 1999 and $598,000 in 1998	3,375,829	3,268,981
Inventories	221,259	206,701
Prepaid expenses and other assets	9,572	145,799
Third-party settlements	164,010	-
Total current assets	6,324,472	4,897,642
Assets Whose Use Is Limited:		
Under bond indenture agreement	330,000	330,000
Property, Plant, and Equipment, Net	7,412,179	7,441,037
Other Assets:		
Long-term investments	187,025	364,246
Other receivables	89,676	130,835
Deferred financing costs, net	103,923	45,634
Other	-	104,245
Total other assets	380,624	644,960
Total assets	$ 14,447,275	$ 13,313,639

LIABILITIES AND FUND BALANCE

	1999	1998
Current Liabilities:		
Current portion of capital lease obligations	$ 284,680	$ 266,106
Current portion of long-term debt	250,000	155,000
Accounts payable and accrued expenses	1,405,439	1,619,461
Accrued salaries, wages and employee benefits	896,560	820,326
Third-party settlements	-	51,227
Total current liabilities	2,836,679	2,912,120
Capital Lease Obligations, Less Current Portion	289,443	377,522
Long-Term Debt, Less Current Portion	4,339,018	2,973,512
Total liabilities	7,465,140	6,263,154
Fund Balance	6,982,135	7,050,485
Total liabilities and fund balance	$ 14,447,275	$ 13,313,639

See accompanying notes to financial statements.

HOCKING VALLEY COMMUNITY HOSPITAL
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCE
YEARS ENDED DECEMBER 31, 1999 AND 1998

	1999	1998
Revenues:		
Net patient service revenue	$ 20,604,530	$ 18,200,458
Other operating revenue	119,056	135,221
Total revenues	20,723,586	18,335,679
Operating Expenses:		
Salaries and wages	6,490,612	7,201,260
Employee benefits	1,595,110	1,582,297
Supplies and other	5,147,516	4,095,930
Professional fees and services	4,699,581	3,765,496
Provision for bad debts	1,355,907	1,223,450
Depreciation and amortization	876,744	759,885
Insurance	108,981	111,600
Interest expense	263,477	188,016
Total expenses	20,537,928	18,927,934
Operating Gain (Loss)	185,658	(592,255)
Nonoperating Gains:		
Investment income	39,533	183,078
Other	129,340	151,434
Total nonoperating gains	168,873	334,512
Revenues and Gains Over (Under) Expenses	354,531	(257,743)
Fund Balance, Beginning of Year	7,050,485	8,079,935
Transfers to Affiliates	(422,881)	(771,707)
Fund Balance, End of Year	$ 6,982,135	$ 7,050,485

See accompanying notes to financial statements.

HOCKING VALLEY COMMUNITY HOSPITAL
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 1999 AND 1998

	1999	1998
Cash Flows From Operating Activities and Gains:		
Revenues and gains over (under) expenses	$ 354,531	$ (257,743)
Adjustments to reconcile revenues and gains over (under) expenses to net cash from operating activities and gains:		
Depreciation and amortization	876,744	759,885
Provision for bad debts	1,355,907	1,223,450
Changes in assets and liabilities:		
Patient accounts receivable	(1,462,755)	(667,485)
Inventories, prepaid expenses and other assets	121,669	(142,328)
Accounts payable and accrued expenses, accrued salaries, wages and employee benefits	(137,788)	249,418
Third-party settlements	(215,237)	(62,773)
Net cash from operating activities and gains	893,071	1,102,424
Cash Flows From Noncapital Financing Activities:		
Transfers to affiliates	(422,881)	(771,707)
Cash Flows From Investing Activities:		
Purchase of investments, net	(343,458)	(199,800)
Other assets	40,707	80,910
Other receivables	41,159	430,400
Net cash from investing activities	(261,592)	311,510
Cash Flows From Capital and Related Financing Activities:		
Proceeds from issuance of long-term debt	2,610,000	-
Repayment of long-term debt	(1,149,494)	(305,410)
Repayment of capital lease obligations	(303,684)	(191,424)
Acquisition of property and equipment	(608,458)	(267,033)
Net cash from financing activities	548,364	(763,867)
Net change in cash and cash equivalents	756,962	(121,640)
Cash and Cash Equivalents, Beginning Of Year	638,428	760,068
Cash and Cash Equivalents, End Of Year	$ 1,395,390	$ 638,428
Supplemental Disclosures of Cash Flows Information:		
Cash paid for interest	$ 263,477	$ 188,016
Noncash Investing and Financing Activities:		
Property additions under capital lease agreements	$ 234,179	$ 637,753

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.

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 $893,000 and $690,000 in 1999 and 1998, 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 1999 and 1998, approximately 50% and 52% of the Hospital's total patient revenue was derived from Medicare payments while 12% and 13% was derived from Medicaid in 1999 and 1998, respectively. 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, 1999 and 1998, was $10,589 and $7,040, 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, 1999 and 1998, are as follows:

	1999	1998
Gross patient service revenue	$ 30,494,864	$ 28,893,871
Less third-party allowances	9,890,334	10,693,413
Net patient service revenue	$ 20,604,530	$ 18,200,458

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, 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

	December 31, 1998		
	Cash and Cash Equivalents	Assets Whose Use is Limited	Investments
Financial statements	$ 638,428	$ 330,000	$ 1,001,979
Government securities	-	-	(235,692)
Corporate bonds	-	-	(17,214)
Mutual funds and equities	-	-	(596,465)
Star Ohio	(349,753)	-	-
Merrill Lynch cash management account	(155,950)	-	-
Advest money market account	(21,965)	-	-
Cash on hand	(700)	-	-
GASB Statement No. 3 deposits	$ 110,060	$ 330,000	$ 152,608

3. DEPOSITS AND INVESTMENTS (continued)

Deposits

At December 31, 1999, the carrying amount of the Hospital's bank deposits for all funds is $593,744 as compared to a bank balance of $988,989. The differences in carrying amounts and bank balances are caused by outstanding checks and deposits in-transit. Of the bank balances, $123,210 is covered by Federal insurance programs and $667,393 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, which are neither insured nor registered. Category 2 includes investments, which 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, 1999			
	Category			Carrying
	1	2	3	Amount
Government securities	$ -	$ -	$ 114,632	$ 114,632
Certificates of deposit	-	307,732	-	307,732
Mutual funds and equities	-	-	923,073	923,073
Total	$ -	$ 307,732	$ 1,037,705	$ 1,345,437

HOCKING VALLEY COMMUNITY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1999 AND 1998

4. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consists of the following:

	1999	1998
Land improvements	$ 236,656	$ 138,782
Buildings and improvements	8,415,975	8,187,578
Equipment	6,822,436	6,562,295
Equipment under capital lease obligations	1,179,018	944,839
Total	16,654,085	15,833,494
Less accumulated depreciation	9,241,906	8,392,457
Property, plant and equipment, net	$ 7,412,179	$ 7,441,037

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 1996 and with Medicaid through 1994. The amounts reported in the financial statements represent the estimated settlements outstanding at December 31, 1999 and 1998, which Hospital management believes will approximate final settlements after audit by the respective agencies.

HOCKING VALLEY COMMUNITY HOSPITAL
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 1999 AND 1998

6. LONG-TERM DEBT AND LEASES

Long-term debt consists of the following:

	December 31, 1999	December 31, 1998
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.	$ 690,000	$ 845,000
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.	1,585,000	-
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	-
County Hospital Improvement Bond Anticipation Note, 5.11%, dated May 23, 1997, principal and interest due at maturity on February 1, 1999.	-	950,000
Less bond discount	75,982	31,488
Total	4,589,018	3,128,512
Less current portion	250,000	155,000
Long-term debt, excluding current portion	$ 4,339,018	$ 2,973,512

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, constructing 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 2.5% to 14.9%. They expire at various dates through May 2004 and are collateralized by the equipment leased.

	December 31,	
	1999	1998
Cost of equipment under capital lease	$ 1,179,018	$ 944,839
Accumulated amortization	428,565	211,471
Net carrying amount	$ 750,453	$ 733,368

6. LONG-TERM DEBT AND LEASES (continued)

Minimum payments on these obligations to maturity as of December 31, 1999 follows:

Year:	Debt	Capital Leases	Total
2000	$ 250,000	$ 326,621	$ 576,621
2001	260,000	198,800	458,800
2002	270,000	68,386	338,386
2003	280,000	43,272	323,272
2004	100,000	12,718	112,718
Thereafter	3,505,000	-	3,505,000
Subtotal	4,665,000	649,797	5,314,797
Less interest	-	75,674	75,674
Less bond discount	75,982	-	75,982
Total	4,589,018	574,123	5,163,141
Less current portion	250,000	284,680	534,680
Long-term portion	$ 4,339,018	$ 289,443	$ 4,628,461

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 Hospital and employees contributed at actuarially determined rates for 1999, 13.55% and 8.5%, respectively, of covered employee payroll to PERS. The Hospital's contributions to PERS for the years ended December 31, 1999 and 1998, were $881,658 and $963,226, respectively.

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 1999 and 1998 employer contribution rate of 13.55% used to fund healthcare was 4.2%. 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. Expenditures for OPEB during 1999 were $523,599,349. As of December 31, 1999, the unaudited estimated net assets available for future OPEB payments were $9,870,285,641. The number of benefit recipients eligible for OPEB at December 31, 1999, were 118,062.

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.

As of December 31, 1999, funds on deposit with the Program had a market value of $599,303. Under the terms of the program agreement, these monies remain the property of the Hospital until paid or made available to participants, subject to the claims of the Hospital's general creditors. These amounts are not reflected in the accompanying financial statements. Participating employees are general creditors of the Hospital with no preferential claim to the deferred funds.

10. COMMUNITY HOSPITAL OF OHIO

During 1995, the Hospital, along with thirteen other Ohio hospitals, became a member of and advanced funds to the Community Hospital of Ohio (CHO), an Ohio non-profit corporation, in order to purchase the assets of Licking Memorial Health Plan, a health maintenance organization. The CHO operates in five Ohio communities and commenced its Logan operations in 1996. At December 31, 1999 and 1998, the Hospital has recorded an investment in CHO of approximately $0 and $104,000, respectively, which is included in other assets in the accompanying balance sheets.

The Hospital provides employee health insurance through CHO. During 1999 and 1998, the Hospital paid insurance premiums of approximately $663,000 and $609,000, respectively to CHO. The Hospital is also a provider of health services to CHO. As a provider, the Hospital has entered into a capitated agreement for services rendered to the Hospital's enrollees.

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 are 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, 1999 and 1998, 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, 1999 and 1998, 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 1999 and 1998, the Hospital transferred $422,881 and $771,707 to HVMG. These transfers are reflected in the changes in fund balance.

11. 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 are as follows for the years ending December 31:

2000	$ 75,075
2001	75,075
2002	75,075
2003	75,075
2004	75,075
Thereafter	356,606
Total minimum lease payments	$ 731,981

12. COMMITMENTS AND CONTINGENCIES

In March of 2000, the Hospital entered into a capital lease for computer equipment. The total cost of assets under this lease is $859,203 with a monthly payment of $19,186. The lease has a term of sixty (60) months with an APR of 12.2%.

Blue & Co., LLC
Business Consultants Certified Public Accountants

April 4, 2000

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, 1999, and have issued our report thereon dated April 4, 2000. 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.

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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 April 4, 2000.

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.

Blue & Co., LLC

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

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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.

By: Susan Babbitt

Date: JULY 18, 2000