

MUNICIPAL SECONDARY MARKET DISCLOSURE INFORMATION COVER SHEET

This cover sheet should be sent with all submissions made to the Municipal Securities Rulemaking Board, Nationally Recognized Municipal Securities Information Repositories, and any applicable State Information Depository pursuant to Securities and Exchange Commission rule 15c2-12 or any analogous state statute.

Issuer's and/or Other Obligated Person's Name: Michigan State Hospital Finance Authority (Issuer);
Chelsea Community Hospital (Obligated Person)

CUSIP Numbers (attach additional sheet if necessary):

Nine-digit number(s) to which the information relates: See attached additional sheet

Information relates to **all securities** issued by the issuer having the following six-digit number(s):

Number of pages of attached information: 29 (not including additional cover sheet)

Description of Material Event Notice/Financial Information (Check One):

1. _____ Principal and interest payment delinquencies
2. _____ Non-payment related defaults
3. _____ Unscheduled draws on debt service reserves reflecting financial difficulties
4. _____ Unscheduled draws on credit enhancements reflecting financial difficulties
5. _____ Substitution of credit or liquidity providers, or their failure to perform
6. _____ Adverse tax opinions or events affecting the tax-exempt status of the security
7. _____ Modifications to rights of security holders
8. _____ Bond calls
9. _____ Defeasances
10. _____ Release, substitution or sale of property securing repayment of the securities
11. _____ Rating changes
12. _____ Failure to provide annual financial information as required
13. _____ Other material event notice (specify)
14. Financial information (**not** to be filed with the MSRB): Please check all appropriate boxes

CAFR: a. includes does not include Annual Financial Information

b. Audited? Yes No

Annual Financial Information: Audited? Yes No

Operating Data

Fiscal Period Covered: January 1, 1998 through December 31, 1998 (FY1998)

I hereby represent that I am authorized by the issuer or its agent to distribute this information publicly:

Signature: _____

Name: Shelley J. Aronson

Title: President

Employer: First River Advisory L.L.C.

Address: 398 Thornden Street

City, State, Zip Code: South Orange, NJ 07079

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FIRST RIVER ADVISORY L.L.C.

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SHELLEY J. ARONSON
PRESIDENT

MUNICIPAL SECONDARY MARKET DISCLOSURE INFORMATION COVER SHEET

ISSUER: Michigan State Hospital Finance Authority
OBLIGATED PERSON: Chelsea Community Hospital
SECURITIES: \$24,225,000 Hospital Revenue and Refunding Bonds, Series 1998
PERIOD: Fiscal Year Ended December 31, 1998

Nine-Digit CUSIP Numbers to which the Information Relates

<u>Maturity (May 15)</u>	<u>CUSIP Number</u>
1999	59465EVG5
2000	59465EVH3
2001	59465EVJ9
2002	59465EVK6
2003	59465EVL4
2004	59465EVM2
2005	59465EVN0
2006	59465EVP5
2007	59465EVQ3
2008	59465EVR1
2009	59465EVS9
2012	59465EVV2
2013	59465EVW0
2019	59465EVX8

First River Advisory L.L.C. has been appointed as Dissemination Agent by the Obligated Person pursuant to Section 7 of the Continuing Disclosure Agreement relating to the Securities. First River Advisory L.L.C. hereby represents that it is authorized by the Obligated Person to distribute this information publicly.



by: Shelley J. Aronson
President

**CHELSEA COMMUNITY HOSPITAL
775 SOUTH MAIN STREET
CHELSEA, MI 48118**

OFFICER'S CERTIFICATE

DATED: April 30, 1999


This Officer's Certificate is delivered pursuant to Section 6.6(b)(i) of the Loan Agreement between Chelsea Community Hospital. (the Corporation) and the Michigan State Hospital Finance Authority (the Issuer), dated as of May 15, 1998. All capitalized terms used herein are as defined in the Loan Agreement or in the Trust Indenture between the Issuer and NBD Bank, as Trustee, dated as of May 15, 1998.

In accordance with Section 6.6(a)(i) of the Loan Agreement, attached are audited financial statements for the Fiscal Year ended December 31, 1998, including a balance sheet as of such date and a statement of activities and changes in Net Assets for the Fiscal Year, a statement of cash flows for the Fiscal Year and notes to the financial statements (the Annual Financial Statements). The undersigned certifies that:

1. I am a Vice President of the Corporation and duly authorized to deliver this Officer's Certificate;
2. the Corporation has complied with Section 6.6(b)(i) of the Loan Agreement, for to the best of my knowledge, no Event of Default exists under the Loan Agreement, nor has any event occurred which, with notice and/or passage of time, would constitute such an Event of Default; and
3. the Corporation has complied with Section 6.2(a) of the Loan Agreement by having recorded a Debt Service Coverage Ratio for FY1998 of 2.82, as calculated in the following manner:

***Debt Service Coverage Ratio Calculation
for the Fiscal Year Ended December 31, 1998
Based on Maximum Annual Debt Service Requirements in FY2001***

Increase in Unrestricted Net Assets		1,305,682
Less:	Unrealized Gains on Investments	(639,218)
Plus:	Interest	1,255,340
Plus:	Depreciation	3,443,745
Net Income Available for Debt Service		5,365,549
Maximum Annual Debt Service Requirements		1,899,476
Debt Service Coverage Ratio		2.82



Bruce F. Carty
Vice President-Finance and
Chief Financial Officer

CHELSEA COMMUNITY HOSPITAL

ANNUAL REPORT FOR THE FISCAL YEAR ENDED DECEMBER 31, 1998 (FY1998)

Unless otherwise noted, all data apply to the Fiscal Year Ended December 31, 1998, or are accurate as of December 31, 1998, as appropriate. OS pages refer to the Official Statement relating to the Securities, dated May 30, 1998. The source of all data is the Corporation's records.

VOLUMES, UTILIZATION, MARKET AREAS, COMPETITION AND MEDICAL STAFF FOR EACH SERVICE

MEDICAL/SURGICAL AND ICU/CCU SERVICE

In all cases, occupancy rates are based on Available Beds rather than Licensed Beds.

<i>Historical Inpatient Utilization, Medical/Surgical and ICU/CCU Services [OS Page A-19]</i>						
	<i>Fiscal Years Ended December 31</i>					
	<i>1998</i>	<i>1997</i>	<i>1996</i>	<i>1995</i>	<i>1994</i>	<i>1993</i>
Days in Period	365	365	366	365	365	365
Licensed Beds*	83	83	83	83	83	83
Available Beds	34	34	38	40	40	40
Cases	1,697	1,588	1,512	1,523	1,482	1,462
Patient Days	5,811	5,500	5,251	5,640	5,955	5,674
Average Daily Census	15.9	15.1	14.3	15.5	16.3	15.5
Average LOS	3.4	3.5	3.5	3.7	4.0	3.9
Occupancy Rate (%)	46.8	44.3	37.8	38.6	40.8	38.9

* Includes beds licensed as Medical/Surgical but used for the Head Pain and Rehabilitation Services for which separate licensure is not available

MUNICIPAL SECONDARY MARKET DISCLOSURE

Michigan State Hospital Finance Authority /

Chelsea Community Hospital

Fiscal Year Ended December 31, 1998

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<i>Surgical Cases</i> <i>[OS Page A-19]</i>						
	<i>Fiscal Years Ended December 31</i>					
	<i>1998</i>	<i>1997</i>	<i>1996</i>	<i>1995</i>	<i>1994</i>	<i>1993</i>
Inpatient	755	693	630	672	678	590
Outpatient	2,904	2,947	2,944	2,895	2,595	2,488
Total	3,659	3,640	3,574	3,567	3,273	3,078
Percent Outpatient	79.4%	81.0%	82.4%	81.2%	79.3%	80.8%

MUNICIPAL SECONDARY MARKET DISCLOSURE

Michigan State Hospital Finance Authority /

Chelsea Community Hospital

Fiscal Year Ended December 31, 1998

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MEDICAL STAFF

<i>Medical/Surgical Service Physicians</i> <i>[OS Page A-20]</i>			
<i>Service</i>	<i>Practice Location</i>	<i>Number of Physicians</i>	<i>1998 Gross Revenue Attributable to Referrals (\$000s omitted)</i>
<i>Medicine (by name of group practice, except for solo practitioners):</i>			
Ann Arbor Neurology	Ann Arbor	4	36
Arbor Scio Clinic	Scio Township	1	162
Briarwood Family Practice	Ann Arbor	4	844
Chelsea Area Primary Care	Scio Township	1	888
Chelsea Family Physicians	Chelsea	3	1,559
Chelsea Internal Medicine	Chelsea	3	2,404
Clinton Family Practice	Clinton	1	139
Dexter Village Family Practice	Dexter	7	887
Emergency Medicine	Campus	3	1,806
Internal Medicine Specialists	Chelsea	4	1,860
Lakes Clinic	Pinckney	2	303
Manchester Family Practice	Manchester	2	371
Stockbridge Family Practice	Stockbridge	1	88
Solo Practitioners	Various	3	2,412
UMHS Family Practice	Chelsea	13	2,853
<i>Total Medicine</i>		52	16,612
<i>Surgery (by specialty):</i>			
Anesthesiology		3	548
General Surgery		4	2,133
Gynecology		4	4,392
Ophthalmology		3	1,518
Orthopedic Surgery		4	2,554
Otorhinolaryngology		2	707
Urology		5	1,346
<i>Total Surgery</i>		25	13,198

MUNICIPAL SECONDARY MARKET DISCLOSURE
Michigan State Hospital Finance Authority /
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Fiscal Year Ended December 31, 1998
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HEAD PAIN SERVICE

UTILIZATION

<i>Historical Inpatient Utilization, Head Pain Service</i> <i>[OS Page A-23]</i>						
	<i>Fiscal Years Ended December 31</i>					
	<i>1998</i>	<i>1997</i>	<i>1996</i>	<i>1995</i>	<i>1994</i>	<i>1993</i>
Days in Period	365	365	366	365	365	365
Available Beds	20	20	16	16	16	16
Cases	559	599	561	510	497	449
Patient Days	7,226	7,371	6,651	5,877	4,895	4,651
Average Daily Census	19.8	20.2	18.2	16.1	13.4	12.7
Average LOS	12.9	12.3	11.9	11.5	9.8	10.4
Occupancy Rate (%)	99.0	101.0	113.6	100.6	83.8	79.6
Note: Beds used for this service are licensed as Medical/Surgical beds.						

REHABILITATION SERVICE

UTILIZATION

<i>Historical Inpatient Utilization, Rehabilitation Service</i> <i>[OS Page A-24]</i>						
	<i>Fiscal Years Ended December 31</i>					
	<i>1998</i>	<i>1997</i>	<i>1996</i>	<i>1995</i>	<i>1994</i>	<i>1993</i>
Days in Period	365	365	366	365	365	365
Available Beds	19	21	21	21	21	21
Cases	233	274	270	303	270	275
Patient Days	3,378	4,348	4,456	5,163	4,893	4,844
Average Daily Census	9.3	11.9	12.2	14.1	13.4	13.3
Average LOS	14.5	15.9	16.5	17.0	18.1	17.6
Occupancy Rate (%)	48.7	56.7	58.0	67.4	63.8	63.2
Note: Beds used for this service are licensed as Medical/Surgical beds.						

MUNICIPAL SECONDARY MARKET DISCLOSURE

Michigan State Hospital Finance Authority /

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Fiscal Year Ended December 31, 1998

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<i>Historical Inpatient Ancillary Services Utilization, Rehabilitation Services [OS Page A-25]</i>						
	<i>Fiscal Years Ended December 31</i>					
	<i>1998</i>	<i>1997</i>	<i>1996</i>	<i>1995</i>	<i>1994</i>	<i>1993</i>
Electromyelograms	36	98	84	69	59	81
Psychological Testing	307	99	95	371	658	496
Psychological Treatments	26	0	7	14	38	118
Occupational Therapy (treatments)	14,820	18,767	18,306	20,646	19,406	19,001
Physical Therapy (treatments)	15,698	18,133	18,616	20,937	19,175	18,877
Audiology (procedures)	0	0	5	14	9	21
Speech Therapy (treatments)	6,296	8,300	9,581	10,174	10,186	10,045

MUNICIPAL SECONDARY MARKET DISCLOSURE

Michigan State Hospital Finance Authority /

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Fiscal Year Ended December 31, 1998

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<i>Historical Outpatient Utilization, Rehabilitation Services</i>						
<i>[OS Page A-26]</i>						
	<i>Fiscal Years Ended December 31</i>					
	<i>1998</i>	<i>1997</i>	<i>1996</i>	<i>1995</i>	<i>1994</i>	<i>1993</i>
Electromyelograms	2,308	2,778	2,718	2,400	2,478	2,303
Psychological Testing	1,752	1,529	841	870	784	451
Psychological Treatments	776	1,177	1,399	897	1,225	1,367
Occupational Therapy (treatments)	6,916	5,800	6,047	5,764	6,125	4,862
Physical Therapy (treatments)	48,462	47,048	35,038	45,248	49,714	48,239
Audiology (procedures)	139	324	647	533	531	600
Speech Therapy (treatments)	4,322	2,462	3,448	4,048	4,730	4,497

MUNICIPAL SECONDARY MARKET DISCLOSURE

Michigan State Hospital Finance Authority /

Chelsea Community Hospital

Fiscal Year Ended December 31, 1998

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BEHAVIORAL HEALTH SERVICE

UTILIZATION

<i>Historical Inpatient Utilization, Behavioral Health Services [OS Page A-28]</i>						
	<i>Fiscal Years Ended December 31</i>					
	<i>1998</i>	<i>1997</i>	<i>1996</i>	<i>1995</i>	<i>1994</i>	<i>1993</i>
Days in Period	365	365	366	365	365	365
Licensed Beds	30	30	30	30	30	30
Available Beds	24	30	30	30	30	30
Cases	635	701	691	704	728	674
Patient Days	5,462	5,158	5,610	6,847	8,136	8,478
Average Daily Census	15.0	14.1	15.3	18.8	22.3	23.2
Average LOS	8.6	7.4	8.1	9.7	11.2	12.6
Occupancy Rate (%)	62.4	47.1	51.1	62.5	74.3	77.4

<i>Historical Outpatient Utilization, Behavioral Health Services [OS Page A-28]</i>						
	<i>Fiscal Years Ended December 31</i>					
	<i>1998</i>	<i>1997</i>	<i>1996</i>	<i>1995</i>	<i>1994</i>	<i>1993</i>
Partial Hospitalization (days)	1,269	1,519	1,746	2,172	3,380	3,627
Psychiatric/Substance Abuse Clinic (visits)	7,279	6,605	6,322	6,229	6,403	8,065
Older Adult Recovery Center (days)	1,521	1,529	1,434	1,576	1,918	2,032
Ann Arbor Substance Abuse Center (visits)	7,321	5,800	4,635	4,823	4,338	3,931
Jackson Substance Abuse Center (encounters)	N/A	N/A	N/A	N/A	2,821	3,823

FINANCIAL INFORMATION

SOURCES OF REVENUE

<i>Percentage of Gross Revenue by Payor Category, 1998 [OS Page A-31]</i>	
Private Pay	3.4%
Blue Cross	19.1%
Medicare	38.5%
Medicaid	2.2%
Commercial Insurance	18.1%
Worker's Compensation	3.5%
Care Choices	8.1%
M-Care	6.8%
Other	0.3%
Total	100.0%

<i>Percentages of Gross Patient Service Revenue [OS Page A-32]</i>						
	<i>Fiscal Years Ended December 31</i>					
	<i>1998</i>	<i>1997</i>	<i>1996</i>	<i>1995</i>	<i>1994</i>	<i>1993</i>
Inpatient	47.2%	48.5%	47.8%	52.5%	53.3%	52.5%
Outpatient	52.8%	51.5%	52.2%	47.5%	46.7%	47.5%

MUNICIPAL SECONDARY MARKET DISCLOSURE

Michigan State Hospital Finance Authority /

Chelsea Community Hospital

Fiscal Year Ended December 31, 1998

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<i>Summary of Statements of Operations – Unrestricted</i>						
<i>(\$000s omitted)</i>						
<i>[OS Page A-33]</i>						
	<i>Fiscal Years Ended December 31</i>					
	<i>1998</i>	<i>1997</i>	<i>1996</i>	<i>1995</i>	<i>1994</i>	<i>1993</i>
Net Patient Service Revenue	38,872	38,775	39,409	36,656	35,561	33,576
Other Revenue	<u>4,752</u>	<u>4,025</u>	<u>3,726</u>	<u>3,533</u>	<u>2,458</u>	<u>2,460</u>
Total Revenue and Other Support	43,624	42,800	43,135	40,189	38,019	36,036
Depreciation Expense	3,444	2,848	2,753	2,639	2,529	2,847
Interest Expense	1,255	857	810	369	305	273
Bad Debt Expense	963	1,108	995	859	620	741
Other Operating Expenses	<u>36,909</u>	<u>36,849</u>	<u>37,675</u>	<u>35,032</u>	<u>33,059</u>	<u>31,116</u>
Total Operating Expenses	42,571	41,662	42,233	38,899	36,513	34,977
Revenue over Expenses	1,053	1,138	902	1,290	1,506	1,059
Other Changes in Net Assets	<u>252</u>	<u>89</u>	<u>86</u>	<u>(136)</u>	<u>42</u>	<u>3</u>
Increase in Net Assets	<u>1,306</u>	<u>1,227</u>	<u>988</u>	<u>1,154</u>	<u>1,548</u>	<u>1,062</u>
Net Income Available for Debt Service (EBIDA)	5,366	4,625	4,551	4,162	4,382	4,182
Debt Service Coverage Ratio*	2.82	2.44	2.40	2.19	2.31	2.20

* Based on Maximum Annual Debt Service on the Series 1998 Bonds of \$1,899,476.
 Notes: Some figures may not add due to rounding. Certain FY1997 figures have been changed to conform to the presentation in the audited financial statements relating to FY1998.

MUNICIPAL SECONDARY MARKET DISCLOSURE

Michigan State Hospital Finance Authority /

Chelsea Community Hospital

Fiscal Year Ended December 31, 1998

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BALANCE SHEET SUMMARY

<i>Balance Sheet Summary</i> (<i>\$000s omitted</i>) (<i>[OS Page A-34]</i>)						
	<i>Fiscal Years Ended December 31</i>					
	<i>1998</i>	<i>1997</i>	<i>1996</i>	<i>1995</i>	<i>1994</i>	<i>1993</i>
Cash, Cash Equivalents*	1,901	2,038	2,119	2,667	2,998	47
Net Patient Accounts Receivable	7,086	4,994	4,484	4,726	4,536	5,280
Other Current Assets	<u>4,593</u>	<u>4,781</u>	<u>4,380</u>	<u>3,428</u>	<u>4,487</u>	<u>4,533</u>
Total Current Assets	13,580	11,814	10,983	10,821	12,021	9,860
Investments*	11,467	9,257	6,764	5,566	3,275	3,980
Property and Equipment	28,423	27,106	24,701	23,804	23,345	23,678
Other Non-Current Assets	<u>10,006</u>	<u>7,401</u>	<u>12,149</u>	<u>13,986</u>	<u>2,805</u>	<u>3,761</u>
Total Assets	63,475	55,577	54,596	54,177	41,447	41,279
Current Liabilities	5,839	5,866	5,238	5,215	5,707	6,546
Long-Term Debt	23,256	17,570	18,570	19,570	8,000	9,000
Other Non-Current Liabilities	2,101	1,926	1,878	1,883	1,025	779
Net Assets	<u>32,280</u>	<u>30,215</u>	<u>28,911</u>	<u>27,509</u>	<u>26,714</u>	<u>24,953</u>
Total Liabilities and Net Assets	63,475	55,577	54,596	54,177	41,447	41,279

* Used in "Days' Cash on Hand" calculation
 Note: Some figures may not add due to rounding.

<i>Financial Assets and Days' Cash on Hand</i> (<i>[OS Page A-35]</i>)						
	<i>Fiscal Years Ended December 31</i>					
	<i>1998</i>	<i>1997</i>	<i>1996</i>	<i>1995</i>	<i>1994</i>	<i>1993</i>
Financial Assets (\$000s omitted)	13,368	11,295	8,883	8,223	6,273	4,027
Days' Cash on Hand	125	109	84	85	67	46

Chelsea Community Hospital

**Financial Report
December 31, 1998**

Chelsea Community Hospital

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Independent Auditor's Report

To the Board of Trustees
Chelsea Community Hospital

We have audited the accompanying balance sheet of Chelsea Community Hospital as of December 31, 1998 and 1997 and the related statements of operations, 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 generally accepted auditing standards. 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 Chelsea Community Hospital at December 31, 1998 and 1997 and the results of its operations, changes in net assets and cash flows for the years then ended, in conformity with generally accepted accounting principles.

Plante & Moran, LLP

February 15, 1999



Chelsea Community Hospital

	December 31	
	1998	1997
Assets		
Current Assets		
Cash and cash equivalents	\$ 1,900,667	\$ 2,038,377
Patient accounts receivable - Net of allowance for doubtful accounts of \$1,177,000 in 1998 and \$1,190,000 in 1997	7,085,806	4,994,358
Amounts receivable from third-party payors	1,052,022	1,448,435
Other receivables	837,100	1,048,222
Inventories	795,465	749,122
Prepaid expenses and other	404,310	778,662
Current portion of assets limited as to use (Note 3)	<u>1,504,376</u>	<u>756,974</u>
Total current assets	13,579,746	11,814,150
Assets Limited as to Use - Net of amounts required to meet current obligations (Note 3)	10,564,209	8,266,800
Investment in Affiliate (Note 5)	-	456,466
Investments (Note 3)	9,293,519	7,377,376
Pledges Receivable	1,071,596	-
Property and Equipment - Net (Note 6)	28,423,369	27,105,953
Unamortized Bond Issue Costs	326,810	305,448
Receivable from Affiliate (Note 5)	125,177	125,000
Other	<u>91,000</u>	<u>125,500</u>
Total assets	<u>\$ 63,475,426</u>	<u>\$ 55,576,693</u>

See Notes to Financial Statements.

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Balance Sheet

December 31

	1998	1997
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Liabilities and Net Assets**Current Liabilities**

Current portion of long-term debt (Note 7)	\$ 680,000	\$ 1,000,000
Current portion of deferred rental revenue	39,500	39,500
Amounts due to third-party payors	923,084	349,537
Accounts payable	1,076,944	1,572,043
Accrued liabilities	<u>3,119,200</u>	<u>2,904,719</u>

Total current liabilities 5,838,728 5,865,799

Net Obligation of Affiliate (Note 5) 247,718 -

Professional Liability and Workers' Compensation
(Notes 8 and 9) 1,232,519 1,265,630

Deferred Rental Revenue - Net of current portion 620,479 659,979

Long-term Debt - Net of current portion (Note 7) 23,255,550 17,570,000

Net Assets

Unrestricted	30,167,499	29,476,605
Temporarily restricted (Note 11)	1,879,566	738,680
Permanently restricted	<u>233,367</u>	<u>-</u>

Total net assets 32,280,432 30,215,285

Total liabilities and net assets \$ 63,475,426 \$ 55,576,693

PLANTE & MORAN, LLP

Chelsea Community Hospital

Statement of Operations

	Year Ended December 31	
	1998	1997
Revenue, Gains and Other Support		
Net patient service revenue	\$ 38,872,090	\$ 38,775,189
Other revenue	3,128,703	2,912,431
Investment income	1,246,528	998,916
Contributions	208,661	2,628
Net assets released from restrictions used for operations	168,371	111,081
Total revenue, gains and other support	43,624,353	42,800,245
Expenses		
Salaries	19,577,152	19,378,892
Fringe benefits	4,141,164	4,348,337
Professional fees	2,202,642	2,402,701
Supplies	5,043,929	4,636,437
Purchased services	3,309,512	3,355,957
Utilities	454,329	473,961
Leases	498,523	458,854
Interest	1,255,340	857,076
Insurance	517,995	631,322
Depreciation	3,443,745	2,848,144
Other direct expenses	1,163,295	1,162,237
Bad debts	963,464	1,108,193
Total expenses	42,571,090	41,662,111
Excess of Revenue, Gains and Other Support Over Expenses		
	1,053,263	1,138,134
Change in Net Unrealized Gain on Investments	639,218	306,352
Loss on Investment in Silver Maples of Chelsea (Note 5)	(403,723)	(261,270)
Net Assets Released from Restrictions Used for Purchase of Property and Equipment	16,924	43,418
Increase in Unrestricted Net Assets - Before change in accounting principle and extraordinary loss from extinguishment of debt	1,305,682	1,226,634
Change in Accounting Principle (Note 5)	(300,460)	-
Extraordinary Loss from Extinguishment of Debt (Note 7)	(314,328)	-
Increase in Unrestricted Net Assets	\$ 690,894	\$ 1,226,634

See Notes to Financial Statements.

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PLANTE & MORAN, LLP

Chelsea Community Hospital

Statement of Changes in Net Assets

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net Assets - January 1, 1997	\$ 28,249,971	\$ 660,743	\$ -	\$ 28,910,714
Excess of revenue, gains and other support over expenses	1,138,134	-	-	1,138,134
Change in net unrealized gains on investments	306,352	-	-	306,352
Restricted contributions	-	197,319	-	197,319
Temporarily restricted investment earnings	-	35,117	-	35,117
Loss on investment in Silver Maples	(261,270)	-	-	(261,270)
Net assets released from restrictions used for operations	-	(111,081)	-	(111,081)
Net assets released from restrictions used for purchase of property and equipment	43,418	(43,418)	-	-
Increase in net assets	1,226,634	77,937	-	1,304,571
Net Assets - December 31, 1997	29,476,605	738,680	-	30,215,285
Excess of revenue, gains and other support over expenses	1,053,263	-	-	1,053,263
Restricted contributions	-	1,281,630	233,367	1,514,997
Temporarily restricted investment earnings	-	44,551	-	44,551
Change in net unrealized gains on investments	639,218	-	-	639,218
Loss on investment in Silver Maples	(403,723)	-	-	(403,723)
Net assets released from restrictions used for purchase of property and equipment	16,924	(16,924)	-	-
Net assets released from restrictions used for operations	-	(168,371)	-	(168,371)
Extraordinary loss from extinguishment of debt	(314,328)	-	-	(314,328)
Change in accounting principle	(300,460)	-	-	(300,460)
Increase in net assets	690,894	1,140,886	233,367	2,065,147
Net Assets - December 31, 1998	\$ 30,167,499	\$ 1,879,566	\$ 233,367	\$ 32,280,432

Chelsea Community Hospital

Statement of Cash Flows

	Year Ended December 31	
	1998	1997
Cash Flows from Operating Activities		
Increase in net assets	\$ 2,065,147	\$ 1,304,571
Adjustments to reconcile increase in net assets to net cash from operating activities:		
Depreciation and amortization	3,452,441	2,874,630
Change in unrealized net gains on investments	(639,218)	(306,352)
Provision for bad debts	963,464	1,108,193
(Gain) loss on sale of property and equipment	57,038	(147,959)
Loss on bond refinancing	314,328	-
Equity loss in affiliate	704,183	261,270
(Increase) decrease in assets:		
Patient accounts receivable	(3,054,912)	(1,619,043)
Amounts receivable from third-party payors	396,413	151,565
Other receivables	210,945	(465,563)
Inventories	(46,343)	(72,254)
Prepaid expenses and other	374,352	(42,917)
Pledges receivable	(1,071,596)	-
Increase (decrease) in liabilities:		
Accounts payable	(495,099)	(60,097)
Amounts due to third-party payors	573,547	349,537
Deferred rental revenue	(39,500)	(39,500)
Accrued liabilities	214,481	338,809
Accrued professional liability and workers' compensation	(33,111)	87,220
Net cash provided by operating activities	3,946,560	3,722,110
Cash Flows from Investing Activities		
Purchase of property and equipment	(4,764,027)	(5,354,646)
Proceeds from sale of property and equipment	-	315,054
Net increase in investments	(1,276,925)	(1,914,686)
Net (increase) decrease in assets limited as to use	(3,044,811)	4,151,612
Net cash used in investing activities	(9,085,763)	(2,802,666)
Cash Flows from Financing Activities		
Principal payments on long-term debt	(18,570,000)	(1,000,000)
Proceeds from issuance of bonds	23,926,854	-
Cash payments related to bond issue costs	(355,361)	-
Net cash provided by (used in) financing activities	5,001,493	(1,000,000)
Net Decrease in Cash and Cash Equivalents	(137,710)	(80,556)
Cash and Cash Equivalents - Beginning of year	2,038,377	2,118,933
Cash and Cash Equivalents - End of year	<u>\$ 1,900,667</u>	<u>\$ 2,038,377</u>

See Notes to Financial Statements.

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PLANTE & MORAN, LLP

Chelsea Community Hospital

Notes to Financial Statements December 31, 1998 and 1997

Note 1 - Nature of Organization and Summary of Significant Accounting Policies

Chelsea Community Hospital (the "Hospital"), located in Chelsea, Michigan, operates as a not-for-profit acute and rehabilitative care facility offering inpatient and outpatient health care services to patients in southeastern Michigan. A significant portion of the Hospital's revenue relates to contractual arrangements with Medicare, Blue Cross and Medicaid programs.

Cash and Cash Equivalents - Cash and cash equivalents include investments in highly liquid instruments with a maturity of three months or less, excluding amounts limited as to use by Board designation or other arrangements under trust agreements (see Note 3).

Temporarily Restricted Net Assets - Temporarily restricted net assets reflect assets contributed to the Hospital, the use of which is restricted by the donor.

Permanently Restricted Net Assets - Permanently restricted net assets reflect assets contributed to the Hospital by donors to be maintained by the Hospital in perpetuity, the income from which is available for quality improvement.

Investments - Investments are stated at fair market value for all debt and equity securities. Investment income or loss (including realized gains and losses on investments, interest and dividends) is included in the excess of revenue over expenses unless the income or loss is restricted by donor or law. Unrealized gains and losses on investments are excluded from the excess of revenue over expenses.

Inventories - Inventories, consisting primarily of drugs and medical supplies, are stated at the lower of cost or market, with cost determined substantially on the first-in, first-out basis.

Assets Limited as to Use - Assets limited as to use primarily include assets held by trustees under indenture agreements and self-insurance trust arrangements.

Property and Equipment - Property and equipment are stated at cost or, if donated, at fair market value on the date of receipt. Depreciation of property and equipment is computed using straight-line and accelerated methods over the estimated useful lives of the assets. Costs of maintenance and repairs are charged to expense when incurred.

Bond Issue Costs - Bond issue costs are being amortized over the life of the related bond issue using the interest method.

Chelsea Community Hospital

Notes to Financial Statements December 31, 1998 and 1997

Note 1 - Nature of Organization and Summary of Significant Accounting Policies (Continued)

Deferred Rental Revenue - Deferred rental revenue represents rental payments for the use of land from an unrelated not-for-profit hospital that constructed a medical office building on the property. The lease term is for 20 years and the entire lease has been paid in advance. The lease will be amortized to income using the straight-line method over the term of the lease.

Pension Plan - The Hospital has a contributory, defined contribution pension plan covering all employees pursuant to the pension plan's eligibility criteria.

Professional Liability Insurance - The Hospital accrues the estimated ultimate expense, including litigation and settlement expense, for reported incidents occurring during the year, as well as the estimated cost of those claims that have not been reported to the insurance carrier at year end (see Note 8).

Excess of Revenue Over Expenses - The statement of operations includes excess of revenue over expenses. Changes in unrestricted net assets, which are excluded from excess of revenue over expenses, consistent with industry practice, include unrealized gains and losses on investments and contributions of long-lived assets (including assets acquired using contributions that by donor restriction were to be used for such assets).

Net Patient Service Revenue - Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactively calculated adjustments arising under reimbursement agreements with third-party payors are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

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. Gross revenue foregone to charity care was approximately \$152,000 and \$70,000 in 1998 and 1997, respectively.

Chelsea Community Hospital

Notes to Financial Statements December 31, 1998 and 1997

Note 1 - Nature of Organization and Summary of Significant Accounting Policies (Continued)

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 and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Contributions - The Hospital reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of operations as net assets released from restrictions.

The Hospital reports gifts of land, buildings and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Hospital reports the expirations of donor restrictions when the assets are placed in service.

Tax Status - The Hospital is tax-exempt under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no tax provision is reflected in the financial statements.

Note 2 - Concentration of Credit Risk

The Hospital provides services without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The composition of receivables from patients and third-party payors is as follows:

	1998	1997
Medicare	24%	22%
Medicaid	5	5
Blue Cross	18	19
Other third-party payors	44	42
Patient pay	9	12
Total	<u>100%</u>	<u>100%</u>

Chelsea Community Hospital

Notes to Financial Statements December 31, 1998 and 1997

Note 3 - Investments and Assets Limited as to Use

Investments consist of the following:

	1998	1997
U.S. government securities	\$ 3,675,700	\$ 3,361,514
Corporate bonds	3,228,027	2,440,111
Certificates of deposit	1,139,013	738,680
Mutual funds	603,878	452,439
Common stock	646,901	384,632
	<u> </u>	<u> </u>
Total	<u>\$ 9,293,519</u>	<u>\$ 7,377,376</u>

Assets limited as to use that are required to meet current liabilities are reported as current assets. The composition of assets limited as to use is as follows:

	1998	1997
Funds held in trust under indenture agreement -		
Cash and cash equivalents (Note 7)	\$ 9,641,694	\$ 6,853,973
Less assets required for current liabilities	<u>(1,250,727)</u>	<u>(494,112)</u>
Subtotal	8,390,967	6,359,861
Funds held in trust for professional liability:		
Cash and cash equivalents	13,003	21,131
Debt securities	775,241	710,172
Equity securities	<u>1,584,998</u>	<u>1,347,853</u>
Subtotal	2,373,242	2,079,156
Less assets required for current liabilities	<u>(200,000)</u>	<u>(200,000)</u>
Subtotal	2,173,242	1,879,156
Funds on deposit for workers' compensation -		
Cash and cash equivalents	53,649	90,645
Less assets required for current liabilities	<u>(53,649)</u>	<u>(62,862)</u>
Subtotal	<u>-</u>	<u>27,783</u>
Assets limited as to use	<u>\$ 10,564,209</u>	<u>\$ 8,266,800</u>

Chelsea Community Hospital

Notes to Financial Statements December 31, 1998 and 1997

Note 3 - Investments and Assets Limited as to Use (Continued)

Investment income and gains for assets limited as to use, cash equivalents and other investments are comprised of the following for the years ended December 31, 1998 and 1997:

	<u>1998</u>	<u>1997</u>
Interest and dividends	\$ 1,246,528	\$ 998,916
Unrealized gains on investments	<u>639,218</u>	<u>306,352</u>
Total investment income	<u>\$ 1,885,746</u>	<u>\$ 1,305,268</u>

Note 4 - Contractual Agreements with Third-party Payors

Approximately 75 percent of the Hospital's net patient service revenue is received from Medicare, Medicaid, Blue Cross and Blue Shield of Michigan and various HMOs and PPOs. The Hospital has agreements with these payors that provide for reimbursement to the Hospital at amounts different from its established rates. A summary of the basis of reimbursement follows:

- **Medicare** - Inpatient, acute-care services rendered to Medicare 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. Some outpatient services and outpatient defined capital costs related to Medicare beneficiaries are paid based on a cost reimbursement method. Ambulatory surgery, radiology and laboratory services are reimbursed on an established fee-for-service methodology. Psychiatric, rehabilitation and home health services are paid based on a cost reimbursement method subject to certain limits.
- **Medicaid** - Inpatient, acute-care services rendered to Medicaid program beneficiaries are also paid at prospectively determined rates per discharge. Capital costs relating to Medicaid patients are paid based on a cost reimbursement method. The Hospital is paid for outpatient services on an established fee-for-service methodology. Psychiatric services are paid on a per diem basis and rehabilitation services are paid based on a cost reimbursement method.

Chelsea Community Hospital

Notes to Financial Statements December 31, 1998 and 1997

Note 4 - Contractual Agreements with Third-party Payors (Continued)

- **Traditional Blue Cross** - Inpatient, acute-care services are reimbursed at prospectively determined rates per discharge. These rates are based on the Medicare patient classification system and on Hospital-specific costs limited by a cap specified in the agreement with Blue Cross. Some outpatient services are reimbursed on the lower of cost or charge basis. Outpatient laboratory, ambulatory surgery and radiology services are paid on an established fee-for-service methodology. Psychiatric and rehabilitation services are reimbursed on a per diem basis.
- **Health Maintenance and Preferred Provider Organizations** - Services rendered to HMO and PPO members are paid at predetermined rates or as a percentage of Hospital charges.

Cost report settlements result from the adjustment of interim payments to final reimbursement under these programs, which are subject to audit by fiscal intermediaries. Although these audits may result in some changes in these amounts, they are not expected to have a material effect on the accompanying financial statements.

Note 5 - Investment in Affiliate

The Hospital and United Methodist Retirement Center are equal sponsors in Silver Maples of Chelsea, which is a not-for-profit retirement facility in Chelsea, Michigan. The Hospital recognized a loss from investment in affiliate of \$403,723 during 1998 and \$261,270 during 1997.

The following is a summary of financial position and results of operations of Silver Maples of Chelsea as of December 31, 1998 and 1997, respectively:

	<u>1998</u>	<u>1997</u>
Total assets	\$ 19,166,515	\$ 19,530,405
Total liabilities	<u>19,650,998</u>	<u>18,609,223</u>
Net assets (deficiency in assets)	<u>\$ (484,483)</u>	<u>\$ 921,182</u>
Decrease in net assets	\$ (807,446)	\$ (522,540)
Change in accounting principle	<u>(600,919)</u>	<u>-</u>
Decrease in net assets	<u>\$ (1,408,365)</u>	<u>\$ (522,540)</u>

Chelsea Community Hospital

Notes to Financial Statements December 31, 1998 and 1997

Note 5 - Investment in Affiliate (Continued)

The Hospital has guaranteed one-half of the Limited Obligation Revenue Bonds, Series 1996, related to Silver Maples of Chelsea. As of December 31, 1998 and 1997, debt outstanding totaled \$14,140,000, of which the Hospital is guarantor of \$7,070,000.

At December 31, 1998 and 1997, the Hospital had a long-term receivable of approximately \$125,000 from Silver Maples of Chelsea. The Hospital also had a short-term receivable (included in other receivables on the balance sheet) of approximately \$140,000 in 1997.

Effective January 1, 1998, Silver Maples of Chelsea elected early application of Statement of Position 98-5, *Reporting on the Costs of Start-Up Activities*, to expense start-up activities and organization costs as incurred. The effect of adopting this statement was a one-time charge of \$600,919 in Silver Maples of Chelsea's statement of operations.

Note 6 - Property and Equipment

A summary of property and equipment is as follows:

	1998	1997
Land	\$ 3,558,143	\$ 3,558,143
Land improvements	1,343,550	1,241,223
Buildings and improvements	29,569,213	28,319,265
Equipment	22,300,774	19,701,398
Construction in progress	1,224,859	533,149
Total	57,996,539	53,353,178
Less accumulated depreciation	29,573,170	26,247,225
Net carrying amount	<u>\$ 28,423,369</u>	<u>\$ 27,105,953</u>

Construction in progress consists primarily of costs incurred to renovate the emergency room and surgery suites. Total estimated costs of these projects is approximately \$3,000,000.

Chelsea Community Hospital

Notes to Financial Statements December 31, 1998 and 1997

Note 7 - Long-term Debt

Long-term debt consists of the following:

	<u>1998</u>	<u>1997</u>
Bonds payable:		
Series 1998 bonds payable	\$ 24,225,000	\$ -
Series 1995 bonds payable	-	18,570,000
Less unamortized discount	<u>(289,450)</u>	<u>-</u>
 Total	 23,935,550	 18,570,000
 Less current portion	 <u>680,000</u>	 <u>1,000,000</u>
 Long-term portion	 <u>\$ 23,255,550</u>	 <u>\$ 17,570,000</u>

Series 1998 bonds payable consist of Hospital Revenue and Refunding Bonds issued by the Michigan State Hospital Finance Authority. The bonds consist of serial bonds payable in annual installments ranging from \$680,000 on May 15, 1999 to \$1,340,000 on May 15, 2013, at an interest rate ranging from 4.10 percent to 5.35 percent, term bonds payable in annual installments ranging from \$1,150,000 on May 15, 2010 to \$1,270,000 on May 15, 2012, at an interest rate of 5.0 percent, and term bonds payable in annual installments ranging from \$1,410,000 on May 15, 2014 to \$1,845,000 on May 15, 2019, at an interest rate of 5.375 percent. The bonds are collateralized by the Hospital's present and future gross revenue, accounts and other general intangibles.

In connection with its loan agreement with the Authority, the Hospital has made a covenant, among others, that its net revenue (excess of revenue over expenses, plus depreciation and interest) would equal or exceed 140 percent of maximum annual interest and principal requirements, as defined under the agreement.

Series 1995 bonds payable consisted of Hospital Revenue and Refunding Bonds issued by the Michigan State Hospital Finance Authority. The Series 1995 bonds payable were refunded during 1998, which resulted in an extraordinary loss from extinguishment of debt of \$314,328 as a result of the amortization of bond issue costs.

Chelsea Community Hospital

Notes to Financial Statements December 31, 1998 and 1997

Note 7 - Long-term Debt (Continued)

Minimum principal payments on bonds payable to maturity at December 31, 1998 are as follows:

1999	\$ 680,000
2000	710,000
2001	745,000
2002	775,000
2003	815,000
Thereafter	<u>20,500,000</u>
Total	<u>\$ 24,225,000</u>

A summary of interest cost and investment income on borrowed funds held by the trustee under the bond indenture during the years ended December 31, 1998 and 1997 is as follows:

	<u>1998</u>	<u>1997</u>
Interest cost:		
Capitalized	\$ 9,332	\$ 126,516
Charged to operations	<u>1,141,768</u>	<u>589,463</u>
Total	<u>\$ 1,151,100</u>	<u>\$ 715,979</u>
Investment income:		
Capitalized	\$ 4,181	\$ 73,276
Credited to investment income	<u>564,469</u>	<u>341,406</u>
Total	<u>\$ 568,650</u>	<u>\$ 414,682</u>

Note 8 - Professional Liability Programs

The Hospital is commercially insured for professional liability under a claims-made policy. Under the terms of the policy, the Hospital must pay a deductible toward the cost of litigating or settling any asserted claim. In addition, the Hospital bears the risk of the ultimate costs of any individual claim exceeding the policy limits for claims asserted in the policy year.

Chelsea Community Hospital

Notes to Financial Statements December 31, 1998 and 1997

Note 9 - Workers' Compensation

The Hospital is principally self-insured for workers' compensation claims with related costs being accrued based on a formula developed by management. The Hospital self-insures the first \$300,000 of occurrence-based coverage, with excess insurance coverage provided by a commercial carrier for claims over \$300,000 for each accident.

Note 10 - Retirement Savings Plan

The Hospital sponsors a deferred compensation employees' retirement savings plan covering substantially all of its employees. The Hospital's contribution to the plan was approximately \$528,000 and \$531,000 in 1998 and 1997, respectively.

Note 11 - Temporarily Restricted Net Assets

Temporarily restricted net assets are as follows:

	<u>1998</u>	<u>1997</u>
Funds restricted by donors for continuing support of patients	\$ 401,879	\$ 458,952
Consumer Information Library	41,177	44,170
Diagnostic and Surgery Center construction	-	14,355
Emergency Room renovation	1,119,218	-
Other numerous restrictions	<u>317,292</u>	<u>221,203</u>
Total temporarily restricted net assets	<u>\$ 1,879,566</u>	<u>\$ 738,680</u>

Note 12 - Functional Expenses

The Hospital is an acute and rehabilitative care facility that provides inpatient and outpatient health care services to patients in southeastern Michigan. Expenses related to providing these services are as follows:

	<u>1998</u>	<u>1997</u>
Health care services	\$ 34,896,000	\$ 34,183,000
General and administrative	<u>7,675,000</u>	<u>7,479,000</u>
Total	<u>\$ 42,571,000</u>	<u>\$ 41,662,000</u>

Chelsea Community Hospital

Notes to Financial Statements December 31, 1998 and 1997

Note 13 - Cash Flows

Cash paid during 1998 and 1997 for interest was \$1,018,742 and \$715,979, respectively.