

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, whether the filing is voluntary or made pursuant to Securities and Exchange Commission rule 15c2-12 or any analogous state statute.

See www.sec.gov/info/municipal/nrmsir.htm for list of current NRMSIRs and SIDs

IF THIS FILING RELATES TO A SINGLE BOND ISSUE:

Provide name of bond issue exactly as it appears on the cover of the Official Statement
(please include name of state where issuer is located):

_____ \$18,935,000 _____

_____ Michigan State Hospital Finance Authority _____

_____ Hospital Revenue Bonds, Series 1996 _____

_____ Central Michigan Community Hospital _____

Provide nine-digit CUSIP* numbers if available, to which the information relates:

_____ 59465EGH0 _____

_____ 59465EGJ6 _____

_____ 59465EGK3 _____

_____ 59465EGL1 _____

_____ 59465EGM9 _____

_____ 59465EGN7 _____

IF THIS FILING RELATES TO ALL SECURITIES ISSUED BY THE ISSUER OR ALL SECURITIES OF A SPECIFIC CREDIT OR ISSUED UNDER A SINGLE INDENTURE:

Issuer's Name (please include name of state where Issuer is located): _____

Other Obligated Person's Name (if any): _____
(Exactly as it appears on the Official Statement Cover)

Provide six-digit CUSIP* number(s), if available, of Issuer: _____

*(Contact CUSIP's Municipal Disclosure Assistance Line at 212.438.6518 for assistance with obtaining the proper CUSIP numbers.)

TYPE OF FILING:

Electronic (number of pages attached) 35 Paper (number of pages attached) _____

If information is also available on the Internet, give URL: www.firstriver.com _____

Municipal Secondary Market Disclosure Information Cover Sheet

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See www.sec.gov/info/municipal/nrmsir.htm for list of current NRMSIRs and SIDs

IF THIS FILING RELATES TO A SINGLE BOND ISSUE:

Provide name of bond issue exactly as it appears on the cover of the Official Statement
(please include name of state where issuer is located):

\$7,510,000

Michigan State Hospital Finance Authority

Hospital Revenue Refunding Bonds, Series 1993

Central Michigan Community Hospital

Provide nine-digit CUSIP* numbers if available, to which the information relates:

59465CM46

59465CM61

IF THIS FILING RELATES TO ALL SECURITIES ISSUED BY THE ISSUER OR ALL SECURITIES OF A SPECIFIC CREDIT OR ISSUED UNDER A SINGLE INDENTURE:

Issuer's Name (please include name of state where Issuer is located): _____

Other Obligated Person's Name (if any): _____
(Exactly as it appears on the Official Statement Cover)

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TYPE OF FILING:

Electronic (number of pages attached) 35 Paper (number of pages attached) _____

If information is also available on the Internet, give URL: www.firstriver.com

WHAT TYPE OF INFORMATION ARE YOU PROVIDING? (Check all that apply)

A. Annual Financial Information and Operating Data pursuant to Rule 15c2-12
(Financial information and operating data should not be filed with the MSRB.)

Fiscal Period Covered: Fiscal Year Ended September 30, 2004 (FY2004)

B. Audited Financial Statements or CAFR pursuant to Rule 15c2-12

Fiscal Period Covered: Fiscal Year Ended September 30, 2004 (FY2004)

C. Notice of a Material Event pursuant to Rule 15c2-12 (Check as appropriate)

- | | |
|--|--|
| 1. <input type="checkbox"/> Principal and interest payment delinquencies | 6. <input type="checkbox"/> Adverse tax opinions or events affecting the tax-exempt status of the security |
| 2. <input type="checkbox"/> Non-payment related defaults | 7. <input type="checkbox"/> Modifications to the rights of security holders |
| 3. <input type="checkbox"/> Unscheduled draws on debt service reserves reflecting financial difficulties | 8. <input type="checkbox"/> Bond calls |
| 4. <input type="checkbox"/> Unscheduled draws on credit enhancements reflecting financial difficulties | 9. <input type="checkbox"/> Defeasances |
| 5. <input type="checkbox"/> Substitution of credit or liquidity providers, or their failure to perform | 10. <input type="checkbox"/> Release, substitution, or sale of property securing repayment of the securities |
| | 11. <input type="checkbox"/> Rating changes |

D. Notice of Failure to Provide Annual Financial Information as Required

E. Quarterly or Monthly Financial Information and Operating Data
(Financial information and operating data should not be filed with the MSRB.)

Period Covered: _____

F. Other Secondary Market Information (Specify): _____

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

Issuer Contact:

Name _____ Title _____
Employer _____
Address _____ City _____ State _____ Zip Code _____
Telephone _____ Fax _____
Email Address _____ Issuer Web Site Address _____

Dissemination Agent Contact, if any:

Name Shelley J. Aronson Title President
Employer First River Advisory L.L.C.
Address 2640 Override Drive City Ann Arbor State MI Zip Code 48104
Telephone (734) 761-3624 Fax (734) 761-3614
Email Address aronson@firstriver.com Relationship to Issuer Dissemination Agent

Obligor Contact, if any:

Name Gregg M. Beeg Title Vice President of Finance/Operations
Employer Central Michigan Community Hospital
Address 1221 South Drive City Mount Pleasant State MI Zip Code 48858
Telephone (989) 772-6720 Fax (989) 772-1150
Email Address gbeeg@cmch.org Obligor Web Site Address www.cmch.org

Investor Relations Contact, if any:

Name _____ Title _____
Telephone _____ Email Address _____

CENTRAL MICHIGAN COMMUNITY HOSPITAL

1221 South Drive
Mount Pleasant, MI 48858

OFFICER'S CERTIFICATE

DATED: JANUARY 31, 2005

Pursuant to Section 10.11(d) of the Loan Agreement dated as of February 1, 1993 between the Michigan State Hospital Finance Authority and Central Michigan Community Hospital, the undersigned hereby certifies that the Corporation has complied with the "rate covenant" contained in Section 4.5 of such Loan Agreement with respect to its Fiscal Year ended September 30, 2004.

Included in this Municipal Secondary Market Disclosure filing are the following documents:

1. The Annual Report referred to in the Continuing Disclosure Agreement dated as of June 11, 1996, in accordance with Rule 15c2-12 of the Securities Exchange Commission;
2. Audited financial statements prepared in accordance with GAAP (as defined in the Continuing Disclosure Agreement) by an Accountant, in compliance with Sections 10.11(a), 10.11(b) and 10.11(c) of the Loan Agreement, which financial statements include the letter by the Accountant required by such Section 10.11;
3. The annual insurance report prescribed by Sections 5.1 and 10.11(e) of the Loan Agreement; and
4. The annual report of depositories prescribed by Section 10.11(f) of the Loan Agreement.

A biennial report of an Insurance Consultant, as required by Section 5.1 of the Loan Agreement, was filed in connection with the FY2003 annual continuing disclosure report, and is not required this FY.

The Corporation hereby appoints First River Advisory L.L.C. as the Dissemination Agent pursuant to Section 7 of the Continuing Disclosure Agreement.



Gregg Beeg, Vice President of Finance / Operations

CENTRAL MICHIGAN COMMUNITY HOSPITAL

ANNUAL REPORT FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2004 (FY2004)

Unless otherwise noted, all data apply to the Fiscal Year Ended September 30, 2004, or are accurate as of September 30, 2004, as appropriate. OS pages refer to the Official Statement relating to the Securities, dated May 31, 1996. The source of all data is the Corporation's records.

Financial data relating to FY2002 reflect the restated comparative financial statements for FY2002 that are contained in the FY2003 audited financial statements. As discussed in Note 1, the restatement was necessitated by the merger of Central Michigan Healthcare System, Inc. into the Corporation as of October 1, 2002.

Debt Service Coverage <i>(\$000s omitted, except coverage ratios)</i> [OS Page 19]					
	Fiscal Years Ended September 30				
			<i>Restated</i>		
	2004	2003	2002	2001	2000
Excess of Revenue over Expenses ²	2,262	2,623	2,504	590	64
Plus: Depreciation and Amortization	2,642	2,583	2,893	3,013	3,310
Plus: Interest	1,332	1,386	1,389	1,430	1,465
Net Revenue of the Corporation	6,236	6,593	6,786	5,034	4,839
Maximum Total Principal and Interest Requirements	2,321	2,213	2,181	2,119	2,119
Debt Service Coverage Ratio (x)	2.69	2.98	3.11	2.38	2.28
¹ Certain FY1999 figures published in the FY1999 Disclosure Report have been reclassified in a manner consistent with the FY2000 audited financial statements ² Excludes extraordinary items					

FACILITIES AND SERVICES

<i>Hospital Bed Capacity as of September 30, 2004 [OS Page A-7]</i>		
	<i>Licensed Beds</i>	<i>Staffed Beds</i>
Medical/Surgical	118	50
Obstetrics		12
Psychiatry ¹	19	0
TOTAL	137	62
¹ The Psychiatric unit was closed on September 30, 2000, though the Corporation continues to hold the license for the beds.		

MEDICAL STAFF

<i>Corporation Gross Revenue from Physician Admissions, FY2004 [OS Page A-11]</i>		
<i>Inpatient</i>	<i>Outpatient</i>	<i>Total</i>
\$42,854,604	\$67,087,257	\$109,941,861

MUNICIPAL SECONDARY MARKET DISCLOSURE

Michigan State Hospital Finance Authority / Central Michigan Community Hospital

Fiscal Year Ended September 30, 2004

Page 3

<i>Active Staff Specialization</i> <i>[OS Page A-11]</i>					
<i>Internal Medicine</i>		<i>Surgery</i>		<i>Other</i>	
General	5	General Surgery	3	Family Practice	6
Cardiology	2	Colorectal Surgery	1	Obstetrics/Gynecology	5
Endocrinology	1	Gynecologic Surgery	1	Pediatrics	3
Gastroenterology	1	Ophthalmology	2	Emergency Medicine	5
Hematology/Oncology	1	Oral Surgery	1	Anesthesiology	4
Neurology	1	Orthopedic Surgery	2	Diagnostic Imaging	5
Pulmonology	1	Otorhinolaryngology	1	Pathology	2
Rheumatology	1	Podiatric Surgery	1	Physiatry/Pain Managem't	1
		Urology	1		
		Vascular Surgery	1		
Total Internal Medicine	13	Total Surgery	14	GRAND TOTAL	58

<i>Characteristics of Employed Physicians</i> <i>[OS Page A-12]</i>	
Number, by Specialty	
Family Practice	3
Internal Medicine	4
Pediatrics	0
Surgery	2
Emergency Medicine	5
Pathology	2
Total Employed Physicians	16
Percent of Gross Revenue Attributable to Above Physicians	37.1%
Note: All physicians are employed by the Corporation	

MUNICIPAL SECONDARY MARKET DISCLOSURE

**Michigan State Hospital Finance Authority / Central Michigan Community Hospital
Fiscal Year Ended September 30, 2004**

Page 4

<i>Age Distribution of the Active Staff [OS Page A-12]</i>			
<i>Age Range</i>	<i>Number of Physicians</i>	<i>Percent of Active Staff</i>	<i>Percent of Gross Revenue</i>
34 and under	1	1.7%	0.4%
35 - 44	19	32.8%	35.7%
45 - 54	24	41.4%	43.0%
55 - 64	13	22.4%	17.9%
65 and over	1	1.7%	2.9%
TOTAL	58		
Notes: The "Percent of Active Staff" column may not add to 100.0% due to rounding.			

<i>Active Staff Physicians, by Major Specialty [OS Page A-13]</i>		
	<i>Median Age</i>	<i>Percent Board Certified or Eligible</i>
Family Practice	43	83.3%
Internal Medicine	48	100.0%
Surgery	52	85.7%
Obstetrics/Gynecology	46	100.0%
Pediatrics	38	100.0%
Total Active Staff	48	89.7%

HISTORICAL PERFORMANCE MEASURES

<i>Historical Inpatient Utilization</i> <i>(Occupancy Rates calculated on the basis of Staffed Beds)</i> <i>[OS Page A-17]</i>					
	<i>Fiscal Years Ended September 30</i>				
	<i>2004</i>	<i>2003</i>	<i>2002</i>	<i>2001</i>	<i>2000</i>
Days in Period	366	365	365	365	366
Licensed Beds	118	118	118	118	151
Staffed Beds	62	58	55	58	70
Admissions	3,537	3,292	3,239	3,351	3,703
Patient Days	10,914	10,156	10,207	10,537	12,533
Average Daily Census	29.8	27.8	28.0	28.9	34.2
Average Length of Stay	3.1	3.1	3.2	3.1	3.4
Occupancy Rate (%)	48.1	48.0	50.8	49.8	48.9

<i>Historical Inpatient Medical/Surgical Utilization</i> <i>(Occupancy Rates calculated on the basis of Staffed Beds)</i> <i>[OS Page A-18]</i>					
	<i>Fiscal Years Ended September 30</i>				
	<i>2004</i>	<i>2003</i>	<i>2002</i>	<i>2001</i>	<i>2000</i>
Days in Period	366	365	365	365	366
Licensed Beds ¹	118	118	118	118	118
Staffed Beds	50	48	45	48	40
Admissions	2,967	2,724	2,633	2,721	2,627
Patient Days	9,674	8,879	8,844	9,172	8,968
Average Daily Census	26.4	24.3	24.2	25.1	24.5
Average Length of Stay	3.3	3.3	3.4	3.4	3.4
Occupancy Rate (%)	52.9	50.7	53.8	52.4	61.3

¹ Includes 12 beds located in a distinct Obstetrics unit which are not separately licensed as such

MUNICIPAL SECONDARY MARKET DISCLOSURE

Michigan State Hospital Finance Authority / Central Michigan Community Hospital

Fiscal Year Ended September 30, 2004

Page 6

<i>Historical Inpatient Obstetrics Utilization</i> <i>(Occupancy Rates calculated on the basis of Staffed Beds)</i> <i>[OS Page A-18]</i>					
	<i>Fiscal Years Ended September 30</i>				
	<i>2004</i>	<i>2003</i>	<i>2002</i>	<i>2001</i>	<i>2000</i>
Days in Period	366	365	365	365	366
Licensed Beds	Included in Medical/Surgical Licensed Beds				
Staffed Beds	12	10	10	10	10
Admissions	570	568	606	630	646
Patient Days	1,240	1,277	1,363	1,365	1,450
Average Daily Census	3.4	3.5	3.7	3.7	4.0
Average Length of Stay	2.2	2.2	2.2	2.2	2.2
Occupancy Rate (%)	28.2	35.0	37.3	37.4	39.6

<i>Historical Inpatient Psychiatry Utilization</i> <i>(Occupancy Rates calculated on the basis of Staffed Beds)</i> <i>[OS Page A-19]</i>					
	<i>Fiscal Years Ended September 30</i>				
	<i>2004</i>	<i>2003</i>	<i>2002</i>	<i>2001</i>	<i>2000</i>
Days in Period	366	365	365	365	366
Licensed Beds	19	19	19	19	33
Staffed Beds	0	0	0	0	20
Admissions	0	0	0	0	430
Patient Days	0	0	0	0	2,115
Average Daily Census	0.0	0.0	0.0	0.0	5.8
Average Length of Stay	0.0	0.0	0.0	0.0	4.9
Occupancy Rate (%)	0.0	0.0	0.0	0.0	28.9
Note: The Psychiatric unit was closed on September 30, 2000					

MUNICIPAL SECONDARY MARKET DISCLOSURE

**Michigan State Hospital Finance Authority / Central Michigan Community Hospital
Fiscal Year Ended September 30, 2004**

Page 7

<i>Historical Outpatient Utilization, in Visits</i> <i>[OS Page A-19]</i>					
	<i>Fiscal Years Ended September 30</i>				
	<i>2004</i>	<i>2003</i>	<i>2002</i>	<i>2001</i>	<i>2000</i>
Emergency Department	19,841	18,695	18,993	18,588	19,560
ReadyCare	24,920	25,322	24,632	23,254	12,948
Family Care Center ¹	0	0	0	0	0
COMP ²	11,592	11,097	10,859	0	0
Employed Physicians ³	33,432	31,269	72,691	0	0
Ambulance Runs ⁴	0	0	0	0	0
¹ The Corporation discontinued operation of the Family Care Center during FY1998 ² COMP Services were transferred to an affiliate in FY1998; the Corporation resumed operation of this service in FY2002. The figure for FY2002 corrects erroneous data published in the FY2002 Disclosure Report ³ The figures for FY2003 and FY2002 corrects erroneous data published in the FY2003 and FY2002 Disclosure Reports ⁴ The operation of the ambulance service was assumed by an organization unrelated to the Corporation prior to FY2000					

<i>Historical Ancillary Services Volumes, Inpatients</i> <i>[OS Page A-20]</i>						
<i>Service</i>	<i>Units</i>	<i>Fiscal Years Ended September 30</i>				
		<i>2004</i>	<i>2003</i>	<i>2002</i>	<i>2001</i>	<i>2000</i>
Endoscopy	Visits	120	93	93	73	104
Diagnostic Radiology	Procedures	4,849	4,501	4,542	3,984	4,149
Ultrasound	Procedures	1,228	870	788	725	777
CT Scanning	Procedures	1,241	999	880	738	765
Nuclear Medicine	Procedures	520	287	288	352	364
Electrocardiography	Visits	1,015	919	1,192	1,633	1,419
Respiratory Therapy	Procedures	14,482	15,259	13,952	13,435	17,616
Physical Therapy	Procedures	4,278	3,614	4,423	8,273	6,790
Laboratory	Tests	43,912	40,522	36,688	42,124	43,850
Pharmacy ¹ Weighted Line Items		1,468	1,425	1,275	1,277	1,237
¹ Both Inpatient and Outpatient, which cannot be distinguished. FY2000 – FY2003 figures replace estimates that had been reported in prior FYs' Disclosure Reports						

MUNICIPAL SECONDARY MARKET DISCLOSURE

Michigan State Hospital Finance Authority / Central Michigan Community Hospital

Fiscal Year Ended September 30, 2004

Page 8

<i>Historical Ancillary Services Volumes, <u>Outpatients</u></i>						
<i>[OS Page A-21]</i>						
<i>Service</i>	<i>Units</i>	<i>Fiscal Years Ended September 30</i>				
		<i>2004</i>	<i>2003</i>	<i>2002</i>	<i>2001</i>	<i>2000</i>
Endoscopy	Visits	2,019	1,835	1,066	1,083	1,220
Diagnostic Radiology	Procedures	26,855	25,199	29,039	24,035	22,409
Ultrasound	Procedures	8,018	7,648	7,316	6,793	6,771
CT Scanning	Procedures	5,179	4,555	3,925	4,067	3,574
Nuclear Medicine	Procedures	4,552	3,823	2,794	4,110	3,834
Electrocardiography	Visits	5,835	5,739	5,464	4,853	4,737
Respiratory Therapy	Procedures	7,211	8,223	7,187	4,368	7,891
Physical Therapy	Procedures	41,375	38,904	42,272	54,382	56,326
Laboratory	Tests	334,296	324,413	270,686	276,283	282,131

<i>Historical Surgical Utilization</i>					
<i>[OS Page A-21]</i>					
	<i>Fiscal Years Ended September 30</i>				
	<i>2004</i>	<i>2003</i>	<i>2002</i>	<i>2001</i>	<i>2000</i>
Inpatient	1,127	1,139	1,031	1,098	1,007
Outpatient	4,384	3,983	3,381	3,424	3,416
TOTAL	5,511	5,122	4,412	4,522	4,423
Percent Outpatient Surgery	79.6	77.8	76.6	75.7	77.2

MUNICIPAL SECONDARY MARKET DISCLOSURE
Michigan State Hospital Finance Authority / Central Michigan Community Hospital
Fiscal Year Ended September 30, 2004
Page 9

<i>Historical Home Care Volumes</i> <i>[OS Page A-22]</i>					
	<i>Fiscal Years Ended September 30</i>				
	<i>2004</i>	<i>2003</i>	<i>2002</i>	<i>2001</i>	<i>2000</i>
Skilled Nursing	5,795	4,586	4,594	4,183	5,527
Physical Therapy	2,849	2,421	2,167	2,149	2,540
Occupational Therapy	128	119	107	106	93
Speech Therapy	104	136	58	78	59
Medical Social Worker	29	59	29	58	14
Home Health Aide	1,076	856	912	593	1,031
TOTAL	9,981	8,177	7,867	7,167	9,264

FINANCIAL PERFORMANCE

<i>Balance Sheet Measures</i> <i>(\$000s Omitted Except for Days' Cash on Hand Figures)</i> <i>[OS Page A-25]</i>						
		<i>Fiscal Years Ended September 30</i>				
				<i>Restated</i>		
		<i>2004</i>	<i>2003</i>	<i>2002</i>	<i>2001</i>	<i>2000</i>
Financial Assets	Cash and Cash Equivalents	15,143	15,924	13,093	8,820	2,346
	Debt Service Reserve	2,174	2,121	2,275	2,242	2,817
	Depreciation Funds ¹	1,990	1,564	1,134	811	622
	Total Financial Assets ¹	19,307	19,609	16,502	11,873	5,785
	Days' Cash on Hand ¹	142	141	133	118	57
¹ The figure for FY2002 corrects erroneous data published in the FY2002 Disclosure Report						

MUNICIPAL SECONDARY MARKET DISCLOSURE

Michigan State Hospital Finance Authority / Central Michigan Community Hospital

Fiscal Year Ended September 30, 2004

Page 10

<i>Summary of Revenues and Expenses of the Corporation</i>					
<i>(\$000s omitted)</i>					
<i>[OS Page A-27]</i>					
	<i>Fiscal Years Ended September 30</i>				
			<i>Restated</i>		
	<i>2004</i>	<i>2003</i>	<i>2002</i>	<i>2001</i>	<i>2000</i>
Net Patient Service Revenue	55,944	53,119	48,650	38,793	37,157
Other Operating Revenue	<u>2,980</u>	<u>2,724</u>	<u>2,850</u>	<u>2,219</u>	<u>2,223</u>
Total Operating Revenue	58,924	55,844	51,500	41,012	39,380
Depreciation Expense	2,642	2,583	2,893	3,013	3,310
Interest Expense	1,332	1,386	1,389	1,430	1,465
Other Operating Expenses	<u>52,425</u>	<u>49,427</u>	<u>43,804</u>	<u>35,386</u>	<u>35,398</u>
Total Operating Expenses	56,399	53,397	48,086	39,829	40,173
Excess (Deficiency) of Operating Revenue over Expenses	2,525	2,447	3,414	1,183	(793)
Non-Operating Gains (Losses)	<u>(263)</u>	<u>176</u>	<u>(910)</u>	<u>(593)</u>	<u>857</u>
Excess of Revenue over Expenses	<u>2,262</u>	<u>2,623</u>	<u>2,504</u>	<u>590</u>	<u>64</u>

<i>Percentages of Gross Patient Revenue by Service</i>					
<i>[OS Page A-28]</i>					
	<i>Fiscal Years Ended September 30</i>				
			<i>Restated</i>		
	<i>2004</i>	<i>2003</i>	<i>2002</i>	<i>2001</i>	<i>2000</i>
Inpatient	31.8%	30.8%	31.6%	34.2%	35.3%
Outpatient	68.2%	69.2%	68.4%	65.8%	64.7%

MUNICIPAL SECONDARY MARKET DISCLOSURE
Michigan State Hospital Finance Authority / Central Michigan Community Hospital
Fiscal Year Ended September 30, 2004
Page 11

<i>Corporation Payor Mix, by Gross Revenue</i> <i>[OS Page A-28]</i>					
<i>Fiscal Years Ended September 30</i>					
			<i>Restated</i>		
<i>Payor</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>	<i>2001</i>	<i>2000</i>
Medicare	36.3%	35.9%	35.1%	36.9%	36.2%
Blue Cross ¹	39.7%	39.8%	38.0%	37.6%	37.4%
Medicaid	11.1%	10.0%	10.9%	9.2%	9.7%
Commercial	10.1%	11.5%	12.6%	12.9%	13.1%
Self Pay	2.8%	2.8%	3.4%	3.4%	3.7%
Note: Columns may not add to 100.0 due to rounding					
¹ Includes Blue Cross Trust					

CENTRAL MICHIGAN COMMUNITY HOSPITAL

1221 South Drive
Mount Pleasant, MI 48858

INSURANCE REPORT

This Insurance Report is delivered pursuant to Sections 5.1 and 10.11(e) of the Loan Agreement dated as of February 1, 1993 between the Michigan State Hospital Finance Authority and Central Michigan Community Hospital (the Loan Agreement). The following is a list of insurance policies, together with certain characteristics thereof:

PROFESSIONAL AND GENERAL LIABILITY

Carrier: MHA Insurance Company
Coverage Limits: \$1,000,000 (Primary)
\$3,000,000 (Aggregate Primary)
\$5,000,000 (Umbrella)
Deductibles: \$50,000 / \$25,000 (Retention Umbrella)
Policy Numbers: 01-10338 (Primary) / 01-55338 (Umbrella)
Policy Term: 7/18/04 - 7/18/05

DIRECTORS AND OFFICERS

Carrier: Travelers Casualty and Surety Company of America
Coverage Limit: \$5,000,000
Deductibles: Section 1: (A) Personal \$0
Section 1: (B1) Organization - pay on behalf of person - \$50,000
Section 1: (B2) Organization - pay on behalf of organization - \$50,000
Policy Number: 024 LB 103073411B
Policy Term: 3/29/04 - 3/29/05

AUTOMOTIVE LIABILITY

Carrier: Auto Owners Insurance
Coverage Limits: \$1,000,000
Deductibles: \$250 (Comprehensive) / \$250 (Collision)
Policy Number: 96-998-968-00
Policy Term: 6/1/04 - 6/1/05

FIDUCIARY BOND

Carrier: Hanover Insurance Company
Coverage Limits: \$200,000
Deductible: \$1,000
Policy Number: LHH-1670783
Policy Term: 8/30/03 - 8/30/06

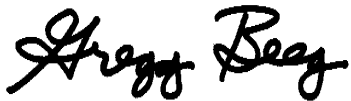
BLANKET PROPERTY (including Boiler and Machinery)

Carrier: Chubb Group of Insurance Companies
Coverage Limits: Building and Contents: \$88,918,000; Business Interruption: \$42,545,262
Deductible: \$10,000
Policy Number: 3579-42-47MBO
Policy Term: 4/1/04 - 4/1/05

WORKERS COMPENSATION

Carrier: MHA Insurance Company
Coverage Limit: \$1,000,000
Retention: \$0
Policy Numbers: WC04-01-19600-MI
Policy Term: 1/1/04 - 1/1/05

A biennial report of an Insurance Consultant, as required by Section 5.1 of the Loan Agreement, was filed in connection with the FY2003 annual continuing disclosure report, and is not required this FY.



Gregg Beeg, Vice President of Finance/Operations

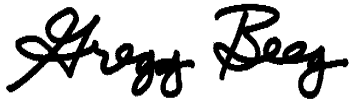
CENTRAL MICHIGAN COMMUNITY HOSPITAL

1221 South Drive
Mount Pleasant, MI 48858

REPORT OF DEPOSITORIES

This Report of Depositories is delivered pursuant to Section 10.11(f) of the Loan Agreement dated as of February 1, 1993 between the Michigan State Hospital Finance Authority and Central Michigan Community Hospital (the "Corporation"). The following is a list of financial institutions in which funds and accounts of the Corporation are maintained:

Isabella Bank & Trust
National City Bank
FirstBank
U.S. Bank



Gregg Beeg, Vice President of Finance/Operations

Central Michigan Community Hospital and Subsidiary

**Consolidated Financial Report
September 30, 2004**

Central Michigan Community Hospital and Subsidiary

Contents

Report Letter	1
Consolidated Financial Statements	
Balance Sheet	2
Statement of Operations	3
Statement of Changes in Net Assets	4
Statement of Cash Flows	5
Notes to Consolidated Financial Statements	6-18



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Independent Auditor's Report

To the Board of Directors
Central Michigan Community Hospital

We have audited the accompanying consolidated balance sheet of Central Michigan Community Hospital and subsidiary as of September 30, 2004 and 2003 and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Central Michigan Community Hospital and subsidiary at September 30, 2004 and 2003 and the consolidated results of their operations, changes in net assets, and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Plante & Moran, PLLC

November 12, 2004

Central Michigan Community Hospital and Subsidiary

Consolidated Balance Sheet

	September 30	
	2004	2003
Assets		
Current Assets		
Cash	\$ 15,143,600	\$ 15,924,378
Patient accounts receivable - Net (Note 2)	4,005,013	5,095,833
Other accounts receivable	443,098	338,160
Inventories	1,298,485	1,146,622
Prepaid expenses and other	1,119,726	858,696
Assets held in trust to pay current liabilities (Note 5)	1,823,019	1,482,175
Total current assets	23,832,941	24,845,864
Other Assets (Note 5)	10,404,038	4,782,842
Property and Equipment - Net (Note 6)	26,861,241	24,989,135
Total assets	<u><u>\$ 61,098,220</u></u>	<u><u>\$ 54,617,841</u></u>
Liabilities and Net Assets		
Current Liabilities		
Current portion of long-term debt - Net of current portion (Note 8)	\$ 1,064,264	\$ 907,750
Accounts payable	2,199,229	2,369,608
Accrued liabilities (Note 7)	6,531,179	6,018,667
Cost report settlements payable (Note 4)	1,661,839	3,236,252
Total current liabilities	11,456,511	12,532,277
Long-term Debt - Net of current portion (Note 8)	19,380,744	19,918,566
Total liabilities	30,837,255	32,450,843
Net Assets		
Unrestricted	24,442,199	21,581,227
Temporarily restricted	5,768,275	535,286
Permanently restricted	50,491	50,485
Total net assets	30,260,965	22,166,998
Total liabilities and net assets	<u><u>\$ 61,098,220</u></u>	<u><u>\$ 54,617,841</u></u>

Central Michigan Community Hospital and Subsidiary

Consolidated Statement of Operations

	Year Ended September 30	
	2004	2003
Unrestricted Revenue, Gains, and Other Support		
Net patient service revenue (Note 13)	\$ 55,943,674	\$ 53,119,355
Other operating revenue	<u>2,979,981</u>	<u>2,724,470</u>
Total unrestricted revenue, gains, and other support	58,923,655	55,843,825
Operating Expenses		
Nursing services	14,375,845	13,355,465
Ancillary services	19,527,312	18,480,746
General services	5,249,225	4,767,661
Fiscal, administrative, and other services	11,353,257	11,168,917
Depreciation and amortization	2,641,632	2,583,438
Provision for bad debts	1,918,895	1,654,512
Interest	<u>1,332,465</u>	<u>1,386,332</u>
Total operating expenses (Note 14)	<u>56,398,631</u>	<u>53,397,071</u>
Operating Income	2,525,024	2,446,754
Other Income (Expense) (Note 10)	<u>(263,110)</u>	<u>176,407</u>
Excess of Revenue Over Expenses	2,261,914	2,623,161
Assets Released from Restrictions	624,585	154,105
Change in Unrealized Gains and Losses on Investments (Note 5)	<u>(25,527)</u>	<u>(27,686)</u>
Increase in Unrestricted Net Assets	<u>\$ 2,860,972</u>	<u>\$ 2,749,580</u>

Central Michigan Community Hospital and Subsidiary

Consolidated Statement of Changes in Net Assets

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net Assets - September 30, 2002	\$ 18,831,647	\$ 427,484	\$ 50,433	\$ 19,309,564
Excess of revenue over expenses	2,623,161	-	-	2,623,161
Change in unrealized gains and losses on investments	(27,686)	-	-	(27,686)
Investment earnings on restricted assets	-	10,087	-	10,087
Restricted contributions	-	251,820	52	251,872
Assets released from restrictions	154,105	(154,105)	-	-
Increase in net assets	<u>2,749,580</u>	<u>107,802</u>	<u>52</u>	<u>2,857,434</u>
Net Assets - September 30, 2003	21,581,227	535,286	50,485	22,166,998
Excess of revenue over expenses	2,261,914	-	-	2,261,914
Change in unrealized gains and losses on investments	(25,527)	-	-	(25,527)
Investment earnings on restricted assets	-	4,795	-	4,795
Restricted contributions	-	5,852,779	6	5,852,785
Assets released from restrictions	624,585	(624,585)	-	-
Increase in net assets	<u>2,860,972</u>	<u>5,232,989</u>	<u>6</u>	<u>8,093,967</u>
Net Assets - September 30, 2004	<u>\$24,442,199</u>	<u>\$ 5,768,275</u>	<u>\$ 50,491</u>	<u>\$30,260,965</u>

Central Michigan Community Hospital and Subsidiary

Consolidated Statement of Cash Flows

	Year Ended September 30	
	2004	2003
Cash Flows from Operating Activities		
Cash received from patients and third-party payors	\$ 56,180,312	\$ 52,857,513
Cash paid to suppliers and employees	(50,873,656)	(46,566,207)
Interest received	337,680	347,343
Donations received	16,819	16,819
Interest paid	(1,356,585)	(1,408,543)
Net cash provided by operating activities (Note 12)	4,304,570	5,246,925
Cash Flows from Investing Activities		
Purchase of property and equipment	(4,526,307)	(2,018,407)
Proceeds from property disposals	1,915	640,881
Net change in assets limited as to use by the Board and restricted cash	(1,631,360)	(592,306)
Net cash used in investing activities	(6,155,752)	(1,969,832)
Cash Flows from Financing Activities		
Principal payments on long-term debt	(936,342)	(859,387)
Proceeds from issuance of long-term debt	515,450	-
Net (increase) decrease in funds held by trustee under bond indenture	(65,745)	151,250
Restricted contributions and interest	1,557,041	261,959
Net cash provided by (used in) financing activities	1,070,404	(446,178)
Net Increase (Decrease) in Cash	(780,778)	2,830,915
Cash - Beginning of year	<u>15,924,378</u>	<u>13,093,463</u>
Cash - End of year	<u>\$ 15,143,600</u>	<u>\$ 15,924,378</u>

Central Michigan Community Hospital and Subsidiary

Notes to Consolidated Financial Statements September 30, 2004 and 2003

Note 1 - Nature of Business and Significant Accounting Policies

Reporting Entity - Central Michigan Community Hospital (the "Hospital"), a Michigan nonprofit corporation, operates a short-term, acute-care facility offering inpatient and outpatient health care, and home health services primarily to citizens of the Isabella County, Michigan area. Meridian Ventures, Inc. (MV), a taxable corporation, is a wholly owned subsidiary of the Hospital. MV has had minimal operations to date.

Principles of Consolidation - The accompanying consolidated financial statements include the accounts of Central Michigan Community Hospital and its wholly owned subsidiary, Meridian Ventures, Inc. Intercompany transactions and balances have been eliminated in consolidation.

Temporarily and Permanently Restricted Net Assets - Temporarily and permanently restricted net assets are those whose use by the Hospital has been limited by donors to a specific time period or purpose.

Temporarily restricted net assets and the income earned on the assets are restricted by donors for the purchase of equipment and facility renovations. Interest earned on permanently restricted net assets is restricted by donors for the purchase of radiology equipment.

Cash Equivalents - The Hospital considers all liquid investments purchased with an original maturity of three months or less to be cash equivalents, except for amounts included in restricted assets and other assets (see Note 5).

Investments - Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the consolidated balance sheet. Investment income or loss (including realized gains and losses on investments, interest, and dividends) is included in excess of revenue over expenses unless the income or loss is restricted by donor or law. Changes in unrealized gains and losses on investments are excluded from excess of revenue over expenses.

Central Michigan Community Hospital and Subsidiary

Notes to Consolidated Financial Statements September 30, 2004 and 2003

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

Accounts Receivable - Accounts receivable for patients, insurance companies, and governmental agencies are based on gross charges. An allowance for uncollectible accounts is established on an aggregate basis by using historical loss rate factors applied to unpaid accounts based on aging. Loss rate factors are based on historical loss experience and adjusted for economic conditions and other trends affecting the Hospital's ability to collect outstanding amounts. Uncollectible amounts are written off against the allowance for uncollectible accounts in the period they are deemed to be uncollectible. The allowance for contractual adjustments and interim payment advances is based on expected payment rates from payors based on current reimbursement methodologies. This amount also includes amounts received as interim payments against unpaid claims by certain payors.

Inventories - Inventories are stated at the lower of cost, determined on a first-in, first-out basis, or market.

Assets Limited as to Use - Assets limited as to use primarily include assets held by trustees under indenture agreements and designated assets set aside by the Board of Directors for future capital improvements over which the Board retains control and may at its discretion subsequently use for other purposes. Amounts required to meet current liabilities of the Hospital have been reclassified in the balance sheet as current assets (see Note 5).

Property and Equipment - Property and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful lives of each class of depreciable asset and is computed using the straight-line method. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

Excess of Revenue Over Expenses - The consolidated statement of operations includes excess of revenue over expenses. Changes in unrestricted net assets that are excluded from excess of revenue over expenses, consistent with industry practice, include changes in unrealized gains and losses on investments, permanent transfers of assets to and from affiliates for other than goods and services, and contributions of long-lived assets (including assets acquired using contributions, which by donor restrictions were to be used for the purpose of acquiring such assets).

Central Michigan Community Hospital and Subsidiary

Notes to Consolidated Financial Statements September 30, 2004 and 2003

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

Net Patient Service Revenue - The Hospital and subsidiary have agreements with third-party payors that provide for payments at amounts different from established rates. Payment arrangements include prospectively determined rates per discharge and episode of care, reimbursed costs, fee-for-service arrangements, discounted charges, and per-diem payments. 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. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Management believes that it is in compliance with all applicable laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs.

Bond Discount and Issue Costs - Bond discount and issue costs are amortized on the interest method over the life of the related debt issue.

Retirement Plan - The Hospital has defined contribution plans covering substantially all employees. Pension expense for the defined contribution plans is based on the amount of contribution approved by the Board of Directors. Contributions to the plans for the years ended September 30, 2004 and 2003 were approximately \$552,000 and \$443,000, respectively.

Professional Liability Insurance - The provision for estimated medical malpractice claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported.

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 operating revenue (see Note 3).

Central Michigan Community Hospital and Subsidiary

Notes to Consolidated Financial Statements September 30, 2004 and 2003

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

Donor-Restricted Gifts - Contributions are reported as either temporarily or permanently 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 as unrestricted net assets and reported in the statement of operations as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying consolidated financial statements.

Tax Status - Central Michigan Community Hospital is a nonprofit 501(c)(3), tax-exempt organization; accordingly, no tax provision is reflected in the consolidated financial statements. Meridian Ventures, Inc. is subject to income tax but had minimal operations in 2004 and 2003.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

Note 2 - Accounts Receivable

A summary of accounts receivable is as follows:

	<u>2004</u>	<u>2003</u>
Patient accounts receivable	\$ 17,926,933	\$ 16,560,805
Less:		
Allowance for doubtful accounts	(2,757,576)	(2,789,101)
Allowance for contractual adjustments	<u>(11,164,344)</u>	<u>(8,675,871)</u>
Total patient accounts receivable	<u>\$ 4,005,013</u>	<u>\$ 5,095,833</u>

Central Michigan Community Hospital and Subsidiary

Notes to Consolidated Financial Statements September 30, 2004 and 2003

Note 2 - Accounts Receivable (Continued)

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

	2004	2003
	(Percent)	
Medicare	17.9	17.0
Medicaid	11.7	15.1
Blue Cross/Blue Shield of Michigan	19.0	17.8
Commercial insurance	18.0	17.1
Patients	33.4	33.0
Total	<u>100.0</u>	<u>100.0</u>

Note 3 - Charity Care

The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges forgone for services and supplies rendered under its charity care policy. The following information measures the level of charity care provided:

	2004	2003
Charges forgone, based on established rates	<u>\$ 262,233</u>	<u>\$ 255,258</u>

In addition, under arrangements with various governmental insurance programs, the Hospital provides significant care to the local indigent population for which reimbursement for services rendered is generally less than the cost of providing such services. As part of its obligation to the local communities, the Hospital also provides numerous other services that benefit the communities, which are generally performed at no charge.

Central Michigan Community Hospital and Subsidiary

Notes to Consolidated Financial Statements September 30, 2004 and 2003

Note 4 - Cost Report Settlements

Approximately 73 percent of the Hospital's net patient service revenue is received from Medicare, Medicaid, and Blue Cross/Blue Shield of Michigan programs. 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 is as 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. Outpatient and home care services related to Medicare beneficiaries are paid based on a prospectively determined amount per episode.
- **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 on a cost-reimbursement method. The Hospital is reimbursed for outpatient and home care services on an established fee-for-service methodology.
- **Blue Cross/Blue Shield of Michigan** - Inpatient, acute-care services are reimbursed at prospectively determined rates per discharge. These rates are based on a Medicare patient classification system and on Hospital-specific costs limited by a cap specified in the agreement with Blue Cross/Blue Shield of Michigan. Outpatient services are reimbursed based primarily on a fee-for-service methodology.

Cost report settlements result from the adjustment of interim payments to final reimbursement under these programs, which is subject to audit by fiscal intermediaries. Cost report settlements increased net patient service revenue by approximately \$2,700,000 and \$1,000,000 for the years ended September 30, 2004 and 2003, respectively, reflecting reimbursement received in excess of recorded amounts.

Central Michigan Community Hospital and Subsidiary

Notes to Consolidated Financial Statements September 30, 2004 and 2003

Note 5 - Other Assets

The details of other assets are given below:

	<u>2004</u>	<u>2003</u>
Assets limited as to use or temporarily restricted		
Investments held by trustee under bond indenture	\$ 3,700,443	\$ 3,634,698
By donors for specific purposes	1,518,227	585,771
By Board of Directors for future capital improvements	<u>2,385,369</u>	<u>1,711,992</u>
Subtotal	7,604,039	5,932,461
Less amounts for payment of current liabilities	<u>(1,823,019)</u>	<u>(1,482,175)</u>
Total assets limited as to use	5,781,020	4,450,286
Pledges receivable	4,300,539	-
Bond issue costs and other - Net	<u>322,479</u>	<u>332,556</u>
Total other assets	<u>\$ 10,404,038</u>	<u>\$ 4,782,842</u>

The amounts for payment of current liabilities represent amounts held by the trustee for the principal portion and accrued interest to be paid during the subsequent year.

Investments, including restricted assets, consist of the following:

	<u>2004</u>	<u>2003</u>
Money market investments	\$ 6,022,754	\$ 4,811,639
U.S. government obligations	<u>1,581,285</u>	<u>1,120,822</u>
Total	<u>\$ 7,604,039</u>	<u>\$ 5,932,461</u>

Central Michigan Community Hospital and Subsidiary

Notes to Consolidated Financial Statements September 30, 2004 and 2003

Note 5 - Other Assets (Continued)

Investment income on assets limited as to use, cash equivalents, and other investments are comprised of the following for the years ended September 30, 2004 and 2003:

	2004	2003
Interest income in other revenue	\$ 50,815	\$ 61,267
Interest income in other income	286,865	286,076
Change in unrealized gains and losses on investments	<u>(25,527)</u>	<u>(27,686)</u>
Total investment income	<u>\$ 312,153</u>	<u>\$ 319,657</u>

Note 6 - Property and Equipment

The cost of property and equipment and depreciable lives are summarized as follows:

	2004	2003	Depreciable Life - Years
Land and land improvements	\$ 2,853,884	\$ 2,682,123	20
Buildings and building improvements	31,051,195	29,563,575	10-40
Equipment and fixtures	19,684,643	19,403,593	3-10
Construction in progress	<u>2,770,994</u>	<u>1,230,403</u>	-
Total cost	56,360,716	52,879,694	
Less accumulated depreciation	<u>(29,499,475)</u>	<u>(27,890,559)</u>	
Net carrying amount	<u>\$ 26,861,241</u>	<u>\$ 24,989,135</u>	

Depreciation expense for the years ended September 30, 2004 and 2003 amounted to approximately \$2,635,000 and \$2,560,000, respectively.

Construction in progress consists primarily of costs incurred for construction of a cancer center and various renovations throughout the Hospital. Total costs to complete the projects are approximately \$2,030,000. The Hospital is also planning a renovation of the obstetrics department. The obstetrics and cancer center projects are being financed with internal funds and donor contributions (see Note 5).

Central Michigan Community Hospital and Subsidiary

Notes to Consolidated Financial Statements September 30, 2004 and 2003

Note 7 - Accrued Liabilities

The details of accrued liabilities are given below:

	2004	2003
Payroll and related items	\$ 1,389,573	\$ 980,233
Compensated absences	3,141,846	2,871,356
Other employee benefits	816,705	869,903
Professional liability claims (Note 11)	550,000	640,000
Accrued interest payable	633,055	657,175
Total accrued liabilities	<u>\$ 6,531,179</u>	<u>\$ 6,018,667</u>

Note 8 - Long-term Debt

Long-term debt consists of the following:

	2004	2003
Bonds payable, Series 1996	\$ 17,340,000	\$ 17,645,000
Bonds payable, Series 1993A	3,085,000	3,605,000
Less unamortized discount	<u>(661,286)</u>	<u>(700,870)</u>
Subtotal	19,763,714	20,549,130
Other	<u>681,294</u>	<u>277,186</u>
Subtotal	20,445,008	20,826,316
Less current portion	<u>(1,064,264)</u>	<u>(907,750)</u>
Long-term debt	<u>\$ 19,380,744</u>	<u>\$ 19,918,566</u>

Bonds payable, Series 1996, consist of Hospital Revenue Bonds that were issued by the Michigan State Hospital Finance Authority (the "Authority"). The bonds consist of serial bonds, payable in annual installments ranging from \$325,000 on October 1, 2004 to \$385,000 on October 1, 2007, at an interest rate ranging from 5.90 percent to 6.20 percent, and term bonds payable in annual installments ranging from \$410,000 on October 1, 2008 to \$1,350,000 on October 1, 2027, at an interest rate of 6.25 percent. The Hospital has pledged all future accounts, contract rights, chattel paper, instruments, documents, and general intangibles as described in the security agreement.

Central Michigan Community Hospital and Subsidiary

Notes to Consolidated Financial Statements September 30, 2004 and 2003

Note 8 - Long-term Debt (Continued)

Bonds payable, Series 1993A, consist of Hospital Revenue Refunding Bonds that were issued by the Michigan State Hospital Finance Authority. The bonds consist of serial bonds, payable in an annual installment of \$550,000 on October 1, 2004, at an interest rate of 6.00 percent, and term bonds payable in annual installments ranging from \$580,000 on October 1, 2005 to \$690,000 on October 1, 2008, at an interest rate of 6.00 percent. The Hospital has pledged substantially all deposits and investments and other assets for the payment of the bonds as described in the security agreement.

In connection with its loan agreement with the Authority, the Hospital has made a covenant relative to minimum debt service requirements and has agreed to maintain specified insurance coverage among other covenants. The Hospital is required to maintain certain deposits with a trustee. Such deposits are included in assets limited as to use (see Note 5).

Minimum principal payments on bonds payable and other long-term debt obligations to maturity as of September 30, 2004 are as follows:

2005	\$ 1,064,264
2006	1,118,774
2007	1,103,039
2008	1,136,344
2009	1,173,873
Thereafter	<u>15,510,000</u>
Subtotal	21,106,294
Less unamortized discount	<u>(661,286)</u>
Total	<u>\$ 20,445,008</u>

Note 9 - Line of Credit

The Hospital has available a line of credit with a bank for \$2,000,000 at September 30, 2004 and 2003, at a variable interest rate based on prime rate. As of September 30, 2004 and 2003, the Hospital did not have any outstanding borrowings on the line of credit.

Central Michigan Community Hospital and Subsidiary

Notes to Consolidated Financial Statements September 30, 2004 and 2003

Note 10 - Other Income (Expense)

The detail of other income (expense) is presented below:

	2004	2003
Investment income:		
Funded depreciation	\$ 16,941	\$ 14,214
General	<u>269,924</u>	<u>271,862</u>
Total investment income	286,865	286,076
Expense - Other expense	<u>(549,975)</u>	<u>(109,669)</u>
Total other income (expense)	<u>\$ (263,110)</u>	<u>\$ 176,407</u>

Note 11 - Professional Liability Insurance

The Hospital is insured against potential professional liability claims under a claims-made policy, whereby only the claims reported to the insurance carrier during the policy period are covered regardless of when the incident giving rise to the claim occurred. 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.

At September 30, 2004 and 2003, the Hospital has accrued \$550,000 and \$640,000, respectively, for estimated losses in connection with those professional liability claims for which an amount can be reasonably estimated (see Note 7).

Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during the claims-made term, but reported subsequently, will be uninsured.

Central Michigan Community Hospital and Subsidiary

Notes to Consolidated Financial Statements September 30, 2004 and 2003

Note 12 - Cash Flows

A reconciliation of the increase in net assets to net cash flows provided by operating activities is as follows:

	2004	2003
Increase in net assets	\$ 8,093,967	\$ 2,857,434
Adjustments to reconcile increase in net assets to net cash from operating activities:		
Depreciation and amortization	2,641,632	2,583,438
Loss on disposal of equipment	70,391	45,538
Provision for bad debts	1,918,895	1,654,512
Change in net unrealized gains and losses on investments	25,527	27,686
Restricted contributions and investment earnings	(5,857,580)	(261,959)
(Increase) decrease in assets:		
Patient accounts receivable	(828,075)	(3,157,979)
Other accounts receivable	(104,938)	241,354
Inventories	(151,863)	(12,709)
Prepaid expenses and other	(261,030)	(196,866)
Other assets	(10,076)	(9,881)
Increase (decrease) in liabilities:		
Accounts payable	(170,379)	942,677
Accrued liabilities	512,512	772,451
Cost report settlements payable	(1,574,413)	(238,771)
Net cash provided by operating activities	<u>\$ 4,304,570</u>	<u>\$ 5,246,925</u>

There were no significant noncash financing or investing activities for the years ended September 30, 2004 and 2003.

Central Michigan Community Hospital and Subsidiary

Notes to Consolidated Financial Statements September 30, 2004 and 2003

Note 13 - Net Patient Service Revenue

The detail of net patient service revenue is shown below:

	<u>2004</u>	<u>2003</u>
Patient service revenue:		
Routine and inpatient ancillary	\$ 42,330,735	\$ 37,946,953
Outpatient ancillary	<u>90,719,946</u>	<u>85,192,919</u>
Total patient service revenue	133,050,681	123,139,872
Revenue deductions:		
Current year	79,807,007	71,020,517
Prior year settlements	<u>(2,700,000)</u>	<u>(1,000,000)</u>
Total revenue deductions	<u>77,107,007</u>	<u>70,020,517</u>
Net patient service revenue	<u>\$ 55,943,674</u>	<u>\$ 53,119,355</u>

The reduction in revenue deductions for prior year settlements results from the reimbursement on final settlement of cost reports in excess of amounts estimated by the Hospital.

Note 14 - Functional Expenses

The Hospital and subsidiary provide general health care services to residents within their geographic locations. Expenses related to providing these services are as follows:

	<u>2004</u>	<u>2003</u>
Health care services	\$ 43,720,677	\$ 40,913,239
General and administrative	<u>12,677,954</u>	<u>12,483,832</u>
Total functional expenses	<u>\$ 56,398,631</u>	<u>\$ 53,397,071</u>