

# 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](http://www.sec.gov/info/municipal/nrmsir.htm) for list of current NRMSIRs and SIDs

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**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:

\_\_\_\_\_ 59465EGJ6 \_\_\_\_\_

\_\_\_\_\_ 59465EGK3 \_\_\_\_\_

\_\_\_\_\_ 59465EGL1 \_\_\_\_\_

\_\_\_\_\_ 59465EGM9 \_\_\_\_\_

\_\_\_\_\_ 59465EGN7 \_\_\_\_\_

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**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.)

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**TYPE OF FILING:**

Electronic (number of pages attached) 34  Paper (number of pages attached) \_\_\_\_\_

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

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# Municipal Secondary Market Disclosure Information Cover Sheet

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**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:

59465CM61

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**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): \_\_\_\_\_

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**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: FY2006, ended September 30, 2006

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

Fiscal Period Covered: FY2006, ended September 30, 2006

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

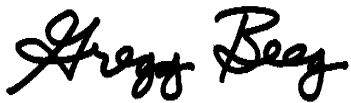
**DATED: JANUARY 26, 2007**

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, 2006.

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.

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



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Gregg Beeg, Vice President of Finance / Operations

# CENTRAL MICHIGAN COMMUNITY HOSPITAL

## ANNUAL REPORT FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2006 (FY2006)

Unless otherwise noted, all data apply to the Fiscal Year Ended September 30, 2006, or are accurate as of September 30, 2006, 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.*

<b>Debt Service Coverage</b> <i>(\$000s omitted, except coverage ratios)</i> <i>[OS Page 19]</i>					
	<b>Fiscal Years Ended September 30</b>				
			<i>Restated</i>		<i>Restated</i>
	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>
Excess of Revenue over Expenses <sup>1</sup>	652	511	2,262	2,623	2,504
Plus: Depreciation and Amortization	3,377	3,024	2,642	2,583	2,893
Plus: Interest	1,349	1,301	1,332	1,386	1,389
Net Revenue of the Corporation	5,379	4,836	6,236	6,593	6,786
Maximum Total Principal and Interest Requirements	3,295	3,299	2,321	2,213	2,181
Debt Service Coverage Ratio (x)	1.63	1.47	2.69	2.98	3.11

<sup>1</sup> Excludes extraordinary items

**FACILITIES AND SERVICES**

<i>Hospital Bed Capacity as of September 30, 2006 [OS Page A-7]</i>		
	<i>Licensed Beds</i>	<i>Staffed Beds</i>
Medical/Surgical	118	66
Obstetrics		17
Psychiatry <sup>1</sup>	19	0
<b>TOTAL</b>	<b>137</b>	<b>83</b>
<sup>1</sup> 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, FY2006 [OS Page A-11]</i>		
<i>Inpatient</i>	<i>Outpatient</i>	<i>Total</i>
\$48,378,726	\$74,130,716	\$122,509,442

**MUNICIPAL SECONDARY MARKET DISCLOSURE**

**Michigan State Hospital Finance Authority / Central Michigan Community Hospital**

**Fiscal Year Ended September 30, 2006**

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<i>Active Staff Specialization</i> <i>[OS Page A-11]</i>					
<i>Internal Medicine</i>		<i>Surgery</i>		<i>Other</i>	
General	6	General Surgery	4	Family Practice	5
Cardiology	1	Gynecologic Surgery	1	Obstetrics/Gynecology	4
Endocrinology	1	Ophthalmology	2	Pediatrics	4
Gastroenterology	1	Oral Surgery	2	Emergency Medicine	3
Hematology/Oncology	1	Orthopedic Surgery	3	Anesthesiology	5
Neurology	1	Otorhinolaryngology	1	Diagnostic Imaging	3
Pulmonology	2	Podiatric Surgery	1	Pathology	2
Rheumatology	1	Urology	2	Radiation Oncology	1
		Vascular Surgery	1		
<b>Total Internal Medicine</b>	<b>14</b>	<b>Total Surgery</b>	<b>17</b>	<b>GRAND TOTAL</b>	<b>58</b>

<i>Characteristics of Employed Physicians</i> <i>[OS Page A-12]</i>	
Number, by Specialty	
Family Practice	3
Internal Medicine	5
Pediatrics	0
Surgery	2
Anesthesiology	5
Emergency Medicine	3
Pathology	2
Total Employed Physicians	20
Percent of Gross Revenue Attributable to Above Physicians	42.0%
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, 2006**

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<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	5	8.6%	3.9%
35 - 44	14	24.1%	34.9%
45 - 54	23	39.7%	40.6%
55 - 64	13	22.4%	12.3%
65 and over	3	5.2%	8.3%
<b>TOTAL</b>	<b>58</b>		
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	44	80.0%
Internal Medicine	47	100.0%
Surgery	52	88.2%
Obstetrics/Gynecology	44	100.0%
Pediatrics	46	100.0%
<b>Total Active Staff</b>	<b>50</b>	<b>89.7%</b>

**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>2006</i>	<i>2005</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>
Days in Period	365	365	366	365	365
Licensed Beds	118	118	118	118	118
Staffed Beds	83	83	62	58	55
Admissions	3,787	3,543	3,537	3,292	3,239
Patient Days <sup>1</sup>	11,624	10,930	10,922	10,156	10,207
Average Daily Census	31.8	29.9	29.8	27.8	28.0
Average Length of Stay	3.1	3.1	3.1	3.1	3.2
Occupancy Rate (%)	38.4	36.1	48.1	48.0	50.8
<sup>1</sup> The FY2004 figure was revised from 10,914; none of the ratios were materially affected					

<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>2006</i>	<i>2005</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>
Days in Period	365	365	366	365	365
Licensed Beds <sup>1</sup>	118	118	118	118	118
Staffed Beds	66	66	50	48	45
Admissions	3,258	3,030	2,967	2,724	2,633
Patient Days <sup>2</sup>	10,468	9,791	9,682	8,879	8,844
Average Daily Census	28.7	26.8	26.5	24.3	24.2
Average Length of Stay	3.2	3.2	3.3	3.3	3.4
Occupancy Rate (%)	43.5	40.6	52.9	50.7	53.8
<sup>1</sup> Includes 17 beds located in a distinct Obstetrics unit which are not separately licensed as such					
<sup>2</sup> The FY2004 figure was revised from 9,674; none of the ratios were materially affected					

**MUNICIPAL SECONDARY MARKET DISCLOSURE**  
**Michigan State Hospital Finance Authority / Central Michigan Community Hospital**  
**Fiscal Year Ended September 30, 2006**  
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<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>2006</i>	<i>2005</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>
Days in Period	365	365	366	365	365
Licensed Beds	Included in Medical/Surgical Licensed Beds				
Staffed Beds	17	17	12	10	10
Admissions	529	513	570	568	606
Patient Days	1,156	1,139	1,240	1,277	1,363
Average Daily Census	3.2	3.1	3.4	3.5	3.7
Average Length of Stay	2.2	2.2	2.2	2.2	2.2
Occupancy Rate (%)	18.6	18.4	28.2	35.0	37.3

<i>Historical Outpatient Utilization, in Visits</i> <i>[OS Page A-19]</i>					
	<i>Fiscal Years Ended September 30</i>				
	<i>2006</i>	<i>2005</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>
Emergency Department	21,531	21,646	19,841	18,695	18,993
ReadyCare	26,563	26,312	24,920	25,322	24,632
Family Care Center <sup>1</sup>	0	0	0	0	0
COMP <sup>2</sup>	10,961	11,079	11,592	11,097	10,859
Employed Physicians <sup>3</sup>	38,349	39,912	33,432	31,269	72,691
Ambulance Runs <sup>4</sup>	0	0	0	0	0
<sup>1</sup> The Corporation discontinued operation of the Family Care Center during FY1998 <sup>2</sup> 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 <sup>3</sup> The figures for FY2003 and FY2002 corrects erroneous data published in the FY2003 and FY2002 Disclosure Reports <sup>4</sup> The operation of the ambulance service was assumed by an organization unrelated to the Corporation prior to FY2000					

**MUNICIPAL SECONDARY MARKET DISCLOSURE**

**Michigan State Hospital Finance Authority / Central Michigan Community Hospital**

**Fiscal Year Ended September 30, 2006**

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<i>Historical Ancillary Services Volumes, <u>Inpatients</u></i>						
<i>[OS Page A-20]</i>						
		<i>Fiscal Years Ended September 30</i>				
<i>Service</i>	<i>Units</i>	<i>2006</i>	<i>2005</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>
Endoscopy	Visits	178	167	120	93	93
Diagnostic Radiology	Procedures	5,435	5,265	4,849	4,501	4,542
Ultrasound	Procedures	1,812	1,497	1,228	870	788
CT Scanning	Procedures	2,032	1,491	1,241	999	880
Nuclear Medicine	Procedures	251	309	520	287	288
Electrocardiography	Visits	2,504	1,898	1,015	919	1,192
Respiratory Therapy	Procedures	23,469	17,564	14,482	15,259	13,952
Physical Therapy	Procedures	5,349	4,754	4,278	3,614	4,423
Laboratory	Tests	71,765	57,585	43,912	40,522	36,688
Pharmacy <sup>1</sup> Weighted Line Items		1,495	1,447	1,468	1,425	1,275
<sup>1</sup> Both Inpatient and Outpatient, which cannot be distinguished. FY2002 – FY2003 figures replace estimates that had been reported in prior FYs' Disclosure Reports						

<i>Historical Ancillary Services Volumes, <u>Outpatients</u></i>						
<i>[OS Page A-21]</i>						
		<i>Fiscal Years Ended September 30</i>				
<i>Service</i>	<i>Units</i>	<i>2006</i>	<i>2005</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>
Endoscopy	Visits	2,261	2,080	2,019	1,835	1,066
Diagnostic Radiology	Procedures	27,614	27,974	26,855	25,199	29,039
Ultrasound	Procedures	8,298	8,017	8,018	7,648	7,316
CT Scanning	Procedures	8,073	5,963	5,179	4,555	3,925
Nuclear Medicine	Procedures	2,754	4,282	4,552	3,823	2,794
Electrocardiography	Visits	4,967	5,288	5,835	5,739	5,464
Respiratory Therapy	Procedures	2,874	3,443	7,211	8,223	7,187
Physical Therapy	Procedures	40,293	38,721	41,375	38,904	42,272
Laboratory	Tests	334,739	333,591	334,296	324,413	270,686

**MUNICIPAL SECONDARY MARKET DISCLOSURE****Michigan State Hospital Finance Authority / Central Michigan Community Hospital  
Fiscal Year Ended September 30, 2006****Page 8**

<i>Historical Surgical Utilization</i> <i>[OS Page A-21]</i>					
	<i>Fiscal Years Ended September 30</i>				
	<i>2006</i>	<i>2005</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>
Inpatient	1,199	1,046	1,127	1,139	1,031
Outpatient	3,168	3,718	4,384	3,983	3,381
<b>TOTAL</b>	<b>4,367</b>	<b>4,764</b>	<b>5,511</b>	<b>5,122</b>	<b>4,412</b>
Percent Outpatient Surgery	72.5	78.0	79.6	77.8	76.6

<i>Historical Home Care Volumes</i> <i>[OS Page A-22]</i>					
	<i>Fiscal Years Ended September 30</i>				
	<i>2006</i>	<i>2005</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>
Skilled Nursing	6,011	5,676	5,795	4,586	4,594
Physical Therapy	3,525	2,865	2,849	2,421	2,167
Occupational Therapy	214	173	128	119	107
Speech Therapy	211	118	104	136	58
Medical Social Worker	36	26	29	59	29
Home Health Aide	1,565	1,352	1,076	856	912
<b>TOTAL</b>	<b>11,562</b>	<b>10,210</b>	<b>9,981</b>	<b>8,177</b>	<b>7,867</b>

**MUNICIPAL SECONDARY MARKET DISCLOSURE**  
**Michigan State Hospital Finance Authority / Central Michigan Community Hospital**  
**Fiscal Year Ended September 30, 2006**  
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**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>2006</i>	<i>2005</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>
<b>Financial Assets</b>	Cash and Cash Equivalents	9,054	7,454	15,143	15,924	13,093
	Debt Service Reserve	2,290	2,209	2,174	2,121	2,275
	Depreciation Funds <sup>1</sup>			1,990	1,564	1,134
	Other Financial Assets <sup>2</sup>	7,988	6,722	2,385	1,711	1,255
	Total Financial Assets <sup>1</sup>			19,307	19,609	16,502
	Total Financial Assets <sup>2</sup>	19,332	16,385	19,702	19,756	16,623
	Days' Cash on Hand <sup>1</sup>			131	141	133
	Days' Cash on Hand <sup>2</sup>	109	101	134	142	134
<sup>1</sup> As published in the FY2004 Disclosure Report, which includes a correction of the FY2004 Days' Cash on Hand calculation and certain corrections from prior FYs' Disclosure Reports <sup>2</sup> As revised to include other financial assets that were Board-designated, but not otherwise restricted						

**MUNICIPAL SECONDARY MARKET DISCLOSURE**

**Michigan State Hospital Finance Authority / Central Michigan Community Hospital**

**Fiscal Year Ended September 30, 2006**

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<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>Restated</i>
	<i>2006</i>	<i>2005</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>
Net Patient Service Revenue	65,168	59,731	55,955	53,119	48,650
Other Operating Revenue	<u>3,652</u>	<u>3,134</u>	<u>2,984</u>	<u>2,724</u>	<u>2,850</u>
Total Operating Revenue	68,820	62,865	58,939	55,844	51,500
Depreciation Expense	3,377	3,024	2,642	2,583	2,893
Interest Expense	1,349	1,301	1,332	1,386	1,389
Other Operating Expenses	<u>63,474</u>	<u>57,864</u>	<u>52,425</u>	<u>49,427</u>	<u>43,804</u>
Total Operating Expenses	68,200	62,189	56,399	53,397	48,086
Operating Income	620	676	2,540	2,447	3,414
Non-Operating Gains (Losses)	<u>32</u>	<u>(164)</u>	<u>(278)</u>	<u>176</u>	<u>(910)</u>
Excess of Revenue over Expenses	<u>652</u>	<u>511</u>	<u>2,262</u>	<u>2,623</u>	<u>2,504</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>2006</i>	<i>2005</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>
Inpatient	32.2%	31.2%	31.8%	30.8%	31.6%
Outpatient	67.8%	68.8%	68.2%	69.2%	68.4%

**MUNICIPAL SECONDARY MARKET DISCLOSURE**  
**Michigan State Hospital Finance Authority / Central Michigan Community Hospital**  
**Fiscal Year Ended September 30, 2006**  
**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>2006</i>	<i>2005</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>
Medicare	38.2%	36.1%	36.3%	35.9%	35.1%
Blue Cross <sup>1</sup>	37.1%	37.9%	39.7%	39.8%	38.0%
Medicaid	10.7%	11.4%	11.1%	10.0%	10.9%
Commercial	10.7%	11.3%	10.1%	11.5%	12.6%
Self Pay	3.3%	3.3%	2.8%	2.8%	3.4%
Note: Columns may not add to 100.0 due to rounding					
<sup>1</sup> Includes Blue Cross Trust					

# CENTRAL MICHIGAN COMMUNITY HOSPITAL INSURANCE POLICIES

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## PROFESSIONAL LIABILITY AND GENERAL LIABILITY

- MHA insurance company
- \$1,000,000 Primary/\$5,000,000 Umbrella
- 01-10338 Primary/01-55338 Umbrella
- Aggregate primary-\$3,000,000
- 7/18/06 – 7/18/07
- \$50,000 all-expense deductible/\$150,000 aggregate
- \$5,000,000 umbrella liability/\$5,000,000 aggregate with \$25,000 retained limit
- Premium \$1,253,269

## DIRECTORS AND OFFICERS

- Travelers Casualty & Surety Company – MHA
- \$5,000,000 limit
- Policy # 024 LB 103073411D
- 3/29/06 – 3/29/07
- Retention Each Loss: 0/0/100,000/100,000
- Section 1: (A) Personal \$ 0
- Section 1: (B.1.) Organization – pay on behalf of person - \$50,000
- Section 1: (B.2.) Organization – pay on behalf of organization \$50,000
- EPL Coverage: Yes
- Third Party Liability: Yes
- Regulatory Action: No
- Entity Coverage: Yes
- Crisis Fund: No
- Premium- \$38,697

## AUTOMOTIVE LIABILITY

- General Agency-Auto Owners
- 96-998-968-00
- 6/1/06- 6/1/07
- Deductible \$250 Comprehensive & Collision (3 VEHICLES)
- Premium \$4,012.67

## FIDUCIARY BOND (Pension ERISA Compliance Bond)

- General Agency – West Bend Mutual Insurance Company
- Policy limit – 10% of the funds up to \$500,000
- Policy # NFL0741455-1
- 8/30/06 - 8/30/2009
- Premium- \$ 460.00

## PROPERTY/BOILER/CRIME-Blanket Property

- Hartford
- 81UUMZU2746
- Blanket Limits: Buildings and Property Combined Limits: \$97,740,646
- Deductible \$10,000 (property damage)
- Deductible \$25,000 (medical devices)
- 4/1/06 – 4/1/07
- Premium \$106,904.00

## WORKERS COMPENSATION (HR)

- State of Michigan Self Insured
- Carrier ID # 80001037
- Service Company ID # A47
- Policy Limit: Statutory

**CENTRAL MICHIGAN COMMUNITY HOSPITAL  
INSURANCE POLICIES**

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- Retention: \$400,000
- 1/01/06 – 1/01/07

NOTARY BOND POLICY – Western Surety Company

- Policy No 14662670N00
- Notary Bond
- 2/15/05-2/15/11
- Premium - \$55.00
- Limits: \$10,000

CRIME/BOND POLICY

- General Agency – Hartford
- Policy Number 81BDDAS0233
- 4/01/06-4/01/07
- Premium: \$4,437
- Employee Theft \$500,000 Deductible \$5,000
- Depositors Forgery \$1,000,000 Deductible \$1,000
- Theft \$5,000 Deductible \$1,000
- Computer Fraud \$5,000,000 Deductible \$5,000

# CENTRAL MICHIGAN COMMUNITY HOSPITAL

1221 South Drive  
Mount Pleasant, MI 48858

## REPORT OF DEPOSITORIES

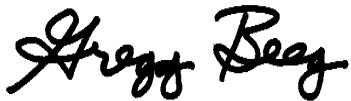
This Report of Depositories is delivered pursuant to Section 10.11(f) of the Loan Agreement dated as of February 1, 1993 between the Michigan State Hospital Finance Authority and Central Michigan Community Hospital (the "Corporation"). The following is a list of financial institutions in which funds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

Isabella Bank & Trust

National City Bank

FirstBank

U.S. Bank



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Gregg Beeg, Vice President of Finance/Operations

# **Central Michigan Community Hospital and Subsidiary**

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**Consolidated Financial Report  
September 30, 2006**

# **Central Michigan Community Hospital and Subsidiary**

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Grand Rapids, MI 49504  
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## Independent Auditor's Report

To the Board of Directors  
Central Michigan Community Hospital  
and Subsidiary

We have audited the accompanying consolidated balance sheet of Central Michigan Community Hospital and Subsidiary as of September 30, 2006 and 2005 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 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 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, 2006 and 2005 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 10, 2006

A member of



A worldwide association of independent accounting firms

# Central Michigan Community Hospital and Subsidiary

## Consolidated Balance Sheet

	September 30, 2006	September 30, 2005
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 9,054,707	\$ 7,454,264
Accounts receivable (Note 2)	5,750,169	5,856,096
Other accounts receivable	1,484,188	1,179,253
Pledges receivable - Current (Note 6)	833,121	1,006,156
Assets held in trust to pay current liabilities (Note 5)	2,556,085	2,572,845
Inventory	1,493,701	1,485,859
Prepaid expenses and other	1,084,296	1,087,676
Total current assets	22,256,267	20,642,149
<b>Property and Equipment</b> (Note 8)	27,432,696	29,517,922
<b>Other Assets</b> (Note 5)	16,692,527	16,122,822
Total assets	<b>\$ 66,381,490</b>	<b>\$ 66,282,893</b>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Current portion of long-term debt (Note 10)	\$ 1,976,867	\$ 1,965,877
Accounts payable	1,450,641	2,316,814
Estimated third-party payor settlements (Note 4)	3,079,199	1,424,691
Accrued liabilities (Note 9)	7,123,676	7,048,620
Total current liabilities	13,630,383	12,756,002
<b>Long-term Debt</b> (Note 10)	19,688,211	21,627,759
Total liabilities	33,318,594	34,383,761
<b>Net Assets</b>		
Unrestricted	29,439,343	27,730,735
Temporarily restricted	3,573,062	4,117,906
Permanently restricted	50,491	50,491
Total net assets	33,062,896	31,899,132
Total liabilities and net assets	<b>\$ 66,381,490</b>	<b>\$ 66,282,893</b>

# Central Michigan Community Hospital and Subsidiary

## Consolidated Statement of Operations

	Year Ended	
	September 30, 2006	September 30, 2005
<b>Unrestricted Revenue, Gains, and Other Support</b>		
Net patient service revenue (Note 14)	\$ 65,168,066	\$ 59,731,260
Other operating revenue	3,652,054	3,133,563
Total unrestricted revenue, gains, and other support	68,820,120	62,864,823
<b>Expenses</b>		
Salaries and wages	30,884,980	28,819,154
Employee benefits and payroll taxes	4,880,202	4,827,921
Operating supplies and expenses	13,919,145	10,992,373
Purchased services and professional fees	3,945,964	5,155,537
Maintenance, repairs, and utilities	4,050,449	3,613,533
Rent	680,378	593,470
Depreciation and amortization	3,377,294	3,024,005
Provision for bad debts	3,085,657	1,875,881
Interest expense	1,349,342	1,300,770
Other	2,026,938	1,986,528
Total expenses (Note 15)	68,200,349	62,189,172
<b>Operating Income</b>	619,771	675,651
<b>Other Income (Loss)</b> (Note 12)	32,412	(164,480)
<b>Excess of Revenue Over Expenses</b>	652,183	511,171
<b>Change in Unrealized Gains and Losses on Investments</b> (Note 5)	116,817	101,967
<b>Net Assets Released from Restriction</b>	939,608	2,675,398
<b>Increase in Unrestricted Net Assets</b>	<b>\$ 1,708,608</b>	<b>\$ 3,288,536</b>

# Central Michigan Community Hospital and Subsidiary

## Consolidated Statement of Changes in Net Assets

	Year Ended September 30	
	2006	2005
<b>Unrestricted Net Assets</b>		
Excess of revenue over expenses	\$ 652,183	\$ 511,171
Change in unrealized gains and losses on investments	116,817	101,967
Net assets released from restriction	939,608	2,675,398
<b>Increase in Unrestricted Net Assets</b>	1,708,608	3,288,536
<b>Temporarily Restricted Net Assets</b>		
Restricted contributions	349,705	1,012,446
Restricted investment income	45,059	12,583
Net assets released from restriction	(939,608)	(2,675,398)
<b>Decrease in Temporarily Restricted Net Assets</b>	(544,844)	(1,650,369)
<b>Increase in Net Assets</b>	1,163,764	1,638,167
<b>Net Assets - Beginning of year</b>	31,899,132	30,260,965
<b>Net Assets - End of year</b>	<b>\$ 33,062,896</b>	<b>\$ 31,899,132</b>

# Central Michigan Community Hospital and Subsidiary

## Consolidated Statement of Cash Flows

	Year Ended	
	September 30, 2006	September 30, 2005
<b>Cash Flows from Operating Activities</b>		
Increase in net assets	\$ 1,163,764	\$ 1,638,167
Adjustments to reconcile increase in net assets to net cash from operating activities:		
Depreciation and amortization	3,377,294	3,024,005
Net change in unrealized net gains and losses on investments	(116,817)	(101,967)
Loss on disposal of equipment	17,391	40,435
Loss in joint venture	379,568	317,444
Restricted contributions and investment earnings	(349,705)	(1,025,029)
Provision for bad debts	3,085,657	1,875,881
Changes in assets and liabilities which provided (used) cash:		
Accounts receivable	(2,979,730)	(3,730,883)
Other accounts receivable	(304,935)	(639,447)
Inventories	(7,842)	(187,374)
Prepaid expenses and other	3,380	(60,739)
Other assets	1,292,797	708,134
Accounts payable	(866,173)	117,585
Accrued liabilities	75,056	517,441
Estimated third-party payor settlements	1,654,508	(237,148)
Net cash provided by operating activities	6,424,213	2,256,505
<b>Cash Flows from Investing Activities</b>		
Purchase of property and equipment	(1,366,695)	(5,741,390)
Proceeds from sale of property and equipment	57,236	20,269
Purchase of assets limited as to use	(5,475,917)	(7,930,045)
Proceeds from assets limited as to use	3,640,470	4,665,710
Investment in joint venture	-	(5,108,908)
Net cash used in investing activities	(3,144,906)	(14,094,364)
<b>Cash Flows from Financing Activities</b>		
Proceeds from issuance of debt obligations	-	4,374,093
Principal payment on long-term debt	(1,928,558)	(1,225,465)
Restricted contributions	349,705	1,025,029
Net increase in funds held by trustee under bond indenture	(100,011)	(25,134)
Net cash (used in) provided by financing activities	(1,678,864)	4,148,523
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	1,600,443	(7,689,336)
<b>Cash and Cash Equivalents - Beginning of year</b>	7,454,264	15,143,600
<b>Cash and Cash Equivalents - End of year</b>	<b>\$ 9,054,707</b>	<b>\$ 7,454,264</b>
<b>Supplemental Cash Flow Information - Cash paid for interest</b>	<b>\$ 1,377,092</b>	<b>\$ 1,326,857</b>

# Central Michigan Community Hospital and Subsidiary

## Notes to Consolidated Financial Statements September 30, 2006 and 2005

### Note I - Nature of Business and Significant Accounting Policies

**Reporting Entity** - Central Michigan Community Hospital and Subsidiary (the "Hospital"), a Michigan not-for-profit corporation, operates a short-term, acute-care facility offering inpatient and outpatient health care, primarily to citizens of 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 and Cash Equivalents** - The Hospital considers all liquid investments 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 or losses on investments are excluded from excess of revenues over expenditures.

**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 doubtful accounts in the period they are determined 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.

# Central Michigan Community Hospital and Subsidiary

## Notes to Consolidated Financial Statements September 30, 2006 and 2005

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

**Inventory** - Inventory is 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 consolidated balance sheet as current assets (see Note 5).

**Investment - Equity Method** - Investment in a joint venture is carried at cost, adjusted for the Hospital's proportionate share of its undistributed earnings or losses.

**Property and Equipment** - Property and equipment acquisitions are recorded at cost. Depreciation is provided over the estimated useful life 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 and contributions of long-lived assets (including assets acquired using contributions, which by donor restriction were to be used for the purpose of acquiring such assets).

**Net Patient Service Revenue** - The Hospital has agreements with third-party payors that provide for payments at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge and episode of care, fee-for-service arrangements, and discounted charges. 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 is subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusions from the Medicare and Medicaid programs.

# Central Michigan Community Hospital and Subsidiary

## Notes to Consolidated Financial Statements September 30, 2006 and 2005

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

**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 Plans** - 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. Required contributions to the plans for the years ended September 30, 2006 and 2005 were approximately \$990,000 and \$908,000, respectively.

**Professional Liability Insurance** - The provision for estimated medical malpractice claims includes estimates of ultimate costs for both reported claims and claims that have been 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 established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as operating revenue.

**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 donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted 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 2006 and 2005.

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

# Central Michigan Community Hospital and Subsidiary

## Notes to Consolidated Financial Statements September 30, 2006 and 2005

### Note 2 - Accounts Receivable

The details of accounts receivable are set forth below:

	<u>2006</u>	<u>2005</u>
Patient accounts receivable	\$ 22,945,351	\$ 20,374,486
Less:		
Allowance of uncollectible accounts	(3,544,004)	(3,108,820)
Allowance for contractual adjustments	<u>(13,651,178)</u>	<u>(11,409,570)</u>
Net accounts receivable	<u>\$ 5,750,169</u>	<u>\$ 5,856,096</u>

The Hospital grants credit without collateral to 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 was as follows:

	<u>Percentage</u>	
	<u>2006</u>	<u>2005</u>
Medicare	30	23
Medicaid	11	15
Blue Cross/Blue Shield of Michigan	22	24
Commercial insurance and HMOs	13	14
Self-pay	<u>24</u>	<u>24</u>
Total	<u>100</u>	<u>100</u>

### Note 3 - Charity Care

The Hospital maintains records to identify and monitor the level of charity care provided. 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:

	<u>2006</u>	<u>2005</u>
Charges forgone, based on established rates	<u>\$ 610,135</u>	<u>\$ 403,285</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 their obligation to the local communities, the Hospital and subsidiary also provide numerous other services that benefit the communities and are generally performed at no charge.

# Central Michigan Community Hospital and Subsidiary

## Notes to Consolidated Financial Statements September 30, 2006 and 2005

### Note 4 - Cost Report Settlements

A significant portion of the Hospital's net patient service revenue is received from the Medicare, Medicaid, and Blue Cross/Blue Shield of Michigan programs. The Hospital has agreements with third-party payors that provide for reimbursement at amounts different from established rates. A summary of the basis of reimbursement with these third-party payors follows:

- **Medicare** - Inpatient, acute-care, and rehabilitation services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system based on clinical, diagnostic, and other factors. Outpatient and home care services related to Medicare beneficiaries are reimbursed 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. Outpatient and physician services are reimbursed 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. Outpatient services are reimbursed on fee for service and percentage of charge basis.

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 \$460,000 and \$950,000 for the years ended September 30, 2006 and 2005, respectively, reflecting amounts received in excess of recorded amounts.

# Central Michigan Community Hospital and Subsidiary

## Notes to Consolidated Financial Statements September 30, 2006 and 2005

### Note 5 - Other Assets

The detail of other assets is summarized in the following schedule:

	<u>2006</u>	<u>2005</u>
Assets limited as to use or temporarily restricted:		
Investments held by trustees under bond indenture	\$ 3,825,588	\$ 3,725,577
By donors for specific purpose	1,133,774	547,901
By board of trustees for future capital expenditures	<u>7,988,377</u>	<u>6,721,997</u>
Total	12,947,739	10,995,475
Less amount for payment of current liabilities	<u>(2,556,085)</u>	<u>(2,572,845)</u>
Net assets limited as to use and permanently or temporarily restricted	10,391,654	8,422,630
Pledges receivable - Long-term portion (Note 6)	1,656,658	2,614,340
Bond issue costs and other - Net	259,562	294,388
Investment in joint venture (Note 7)	<u>4,384,653</u>	<u>4,791,464</u>
Total other assets	<u>\$ 16,692,527</u>	<u>\$ 16,122,822</u>

The amounts for payment of current liabilities represents 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>2006</u>	<u>2005</u>
Money market investments	\$ 4,980,473	\$ 4,143,385
U.S. government obligations	5,522,097	4,289,391
Mutual funds	1,626,425	1,523,687
Corporate bonds	-	298,782
Common stock	<u>818,744</u>	<u>740,230</u>
Total	<u>\$ 12,947,739</u>	<u>\$ 10,995,475</u>

# Central Michigan Community Hospital and Subsidiary

## Notes to Consolidated Financial Statements September 30, 2006 and 2005

### 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, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Investment income in other revenue	\$ 121,363	\$ 62,961
Investment income in other income	640,376	441,292
Restricted investment income	45,059	12,583
Change unrealized gains and losses on investments	116,817	101,967
Total	<u>\$ 923,615</u>	<u>\$ 618,803</u>

### Note 6 - Pledges Receivable

During 2004, the Hospital began a capital campaign for construction of a new cancer center (see Note 7) and renovation of the obstetrics department. As of September 30, 2006, the Hospital had raised approximately \$7,060,000, of which approximately \$3,970,000 had been collected. An allowance has been recorded against pledges receivable for the portion that is estimated to be uncollectible. The details of pledges receivable at September 30, 2006 and 2005 are set below:

	<u>2006</u>	<u>2005</u>
Donations due within one year	\$ 833,121	\$ 1,006,156
Donations due within two years	2,260,098	3,251,335
Gross pledges receivable	3,093,219	4,257,491
Less allowance for uncollectible pledges	603,440	636,995
Total pledges receivable	<u>\$ 2,489,779</u>	<u>\$ 3,620,496</u>

# Central Michigan Community Hospital and Subsidiary

## Notes to Consolidated Financial Statements September 30, 2006 and 2005

### Note 7 - Investment in Joint Venture

During 2005, the Hospital entered into a joint venture for the operation of a radiation oncology program. The Hospital's investment in the joint venture consisted of a newly constructed building and equipment purchased by the Hospital with a cost of approximately \$5.1 million. The joint venture, Central Michigan Community Hospital Radiation Oncology, began operations in September 2005. The Hospital's share of the loss of Central Michigan Community Hospital Radiation Oncology was \$379,568 and \$317,444 for the years ended September 30, 2006 and 2005, respectively.

	<u>2006</u>	<u>2005</u>
Total assets	\$ 5,571,767	\$ 5,703,756
Total liabilities	315,111	-
Net assets	<u>\$ 5,886,878</u>	<u>\$ 5,703,756</u>
Increase (decrease) in net assets	<u>\$ (451,867)</u>	<u>\$ 5,703,756</u>

### Note 8 - Property and Equipment

Cost of property, plant, equipment, and depreciable lives are summarized as follows:

	<u>2006</u>	<u>2005</u>	Depreciable Life - Years
Land and land improvements	\$ 2,996,806	\$ 2,873,213	20
Buildings and building improvements	35,849,219	33,022,658	10-40
Equipment and fixtures	22,835,192	22,657,833	3-10
Construction in progress	<u>343,260</u>	<u>2,688,967</u>	
Total cost	62,024,477	61,242,671	
Accumulated depreciation	<u>(34,591,781)</u>	<u>(31,724,749)</u>	
Net carrying amount	<u>\$ 27,432,696</u>	<u>\$ 29,517,922</u>	

Construction in progress consists primarily of costs incurred for planning and construction costs for various renovations throughout the Hospital, including the Obstetrics department. Total costs to complete the projects are approximately \$2,500,000.

# Central Michigan Community Hospital and Subsidiary

## Notes to Consolidated Financial Statements September 30, 2006 and 2005

### Note 9 - Accrued Liabilities

The details of accrued liabilities at September 30, 2006 and 2005 are as follows:

	<u>2006</u>	<u>2005</u>
Payroll and related items	\$ 1,511,230	\$ 1,739,110
Compensated absences	3,569,591	3,398,862
Accrued interest	1,013,637	853,680
Professional liability claims	450,000	450,000
Accrued interest payable	579,218	606,968
Total accrued liabilities	<u>\$ 7,123,676</u>	<u>\$ 7,048,620</u>

### Note 10 - Long-term Debt

A summary of long-term debt and capital lease obligations at September 30, 2006 and 2005 follows:

	<u>2006</u>	<u>2005</u>
Bonds payable, Series 1996	\$ 16,670,000	\$ 17,015,000
Bonds Payable, Series 1993A	1,955,000	2,535,000
Capital leases	3,625,107	4,665,984
Total	22,250,107	24,215,984
Less amortized discount	585,029	622,348
Less current portion	1,976,867	1,965,877
Long-term portion	<u>\$ 19,688,211</u>	<u>\$ 21,627,759</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 \$365,000 on October 1, 2006 to \$385,000 on October 1, 2007, at an interest rate ranging from 6.10 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, 2006 and 2005

### Note 10 - Long-term Debt (Continued)

Bonds payable, Series 1993A, consist of Hospital Revenue Bonds that were issued by the Michigan State Hospital Finance Authority. The bonds consist of term bonds payable in annual installments ranging from \$615,000 on October 1, 2006 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 payments 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).

Capital lease obligations consist primarily of capital leases entered into for the purchase of equipment, which were subsequently transferred to a joint venture as part of the Hospital's investment in the joint venture (see Note 7). The capital leases require monthly payments of approximately \$90,000, including interest ranging from 6.3 percent to 7.3 percent.

Minimum principal payments on bonds payable and other long-term debt obligations to maturity as of September 30, 2006 are as follows:

	Long-term Debt	Capital Leases Obligations
2007	\$ 980,000	\$ 996,869
2008	1,035,000	941,765
2009	1,100,000	944,797
2010	440,000	741,676
2011	465,000	-
Thereafter	14,605,000	-
	<u>\$ 18,625,000</u>	<u>\$ 3,625,107</u>

### Note 11 - Line of Credit

The Hospital has available a line of credit with a bank for \$2,000,000 at September 30, 2006 and 2005 at a variable interest rate based on the prime rate. As of September 30, 2006 and 2005, 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, 2006 and 2005

### Note 12 - Other Income (Loss)

The details of other income (loss) are shown below:

	<u>2006</u>	<u>2005</u>
Investment income	\$ 640,376	\$ 441,292
Equity loss in joint venture	(379,568)	(317,444)
Other expense	<u>(228,396)</u>	<u>(288,328)</u>
Total other income (loss)	<u>\$ 32,412</u>	<u>\$ (164,480)</u>

### Note 13 - Professional Liability Self-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, 2006 and 2005, the Hospital has accrued \$450,000 for estimated losses in connection with those professional liability claims for which an amount can be reasonably estimated.

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.

### Note 14 - Net Patient Service Revenue

Net patient service revenue consists of the following:

	<u>2006</u>	<u>2005</u>
Routine services and inpatient ancillary	\$ 51,576,222	\$ 44,654,686
Outpatient ancillary services	<u>108,410,302</u>	<u>98,500,943</u>
Total patient revenue	159,986,524	143,155,629
Revenue deductions:		
Current year	95,278,458	84,374,369
Prior year settlements	<u>(460,000)</u>	<u>(950,000)</u>
Total revenue deductions	<u>94,818,458</u>	<u>83,424,369</u>
Net patient service revenue	<u>\$ 65,168,066</u>	<u>\$ 59,731,260</u>

# Central Michigan Community Hospital and Subsidiary

## Notes to Consolidated Financial Statements September 30, 2006 and 2005

### Note 15 - Functional Expenses

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

	<u>2006</u>	<u>2005</u>
Health care services	\$ 50,295,982	\$ 46,019,987
General and administrative	<u>17,904,367</u>	<u>16,169,185</u>
Total	<u>\$ 68,200,349</u>	<u>\$ 62,189,172</u>