

# 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:

59465EGL1

59465EGM9

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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) 40  Paper (number of pages attached) \_\_\_\_\_

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

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

Other Obligated Person's Name (if any): \_\_\_\_\_  
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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: FY2007, ended September 30, 2007

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

Fiscal Period Covered: FY2007, ended September 30, 2007

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, 2008**

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, 2007.

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. The biennial report of an Insurance Consultant, as required by Section 5.1 of the Loan Agreement;
3. The annual insurance report prescribed by Sections 5.1 and 10.11(e) of the Loan Agreement;
4. The annual report of depositories prescribed by Section 10.11(f) of the Loan Agreement; and
5. 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;

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, 2007 (FY2007)

Unless otherwise noted, all data apply to the Fiscal Year Ended September 30, 2007, or are accurate as of September 30, 2007, 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.

<i>Debt Service Coverage</i> <i>(\$000s omitted, except coverage ratios)</i> <i>[OS Page 19]</i>					
	<i>Fiscal Years Ended September 30</i>				
				<i>Restated</i>	
	<i>2007</i>	<i>2006</i>	<i>2005</i>	<i>2004</i>	<i>2003</i>
Excess of Revenue over Expenses <sup>1</sup>	1,447	647	511	2,262	2,623
Plus: Depreciation and Amortization	4,177	3,948	3,024	2,642	2,583
Plus: Interest	1,284	1,349	1,301	1,332	1,386
Net Revenue of the Corporation	6,908	5,944	4,836	6,236	6,593
Maximum Total Principal and Interest Requirements	3,565	3,295	3,299	2,321	2,213
Debt Service Coverage Ratio (x)	1.94	1.80	1.47	2.69	2.98

<sup>1</sup> Excludes extraordinary items

**MUNICIPAL SECONDARY MARKET DISCLOSURE**

**Michigan State Hospital Finance Authority / Central Michigan Community Hospital  
Fiscal Year Ended September 30, 2007**

**Page 2**

**FACILITIES AND SERVICES**

<i>Hospital Bed Capacity as of September 30, 2007 [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.		

**MUNICIPAL SECONDARY MARKET DISCLOSURE**

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

**Fiscal Year Ended September 30, 2007**

**Page 3**

**MEDICAL STAFF**

<i>Corporation Gross Revenue from Physician Admissions, FY2007 [OS Page A-11]</i>		
<i>Inpatient</i>	<i>Outpatient</i>	<i>Total</i>
\$48,566,395	\$72,765,409	\$121,331,804

<i>Active Staff Specialization [OS Page A-11]</i>					
<i>Internal Medicine</i>		<i>Surgery</i>		<i>Other</i>	
General	6	General Surgery	4	Family Practice	4
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	6
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>

**MUNICIPAL SECONDARY MARKET DISCLOSURE**

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

**Fiscal Year Ended September 30, 2007**

**Page 4**

<i>Characteristics of Employed Physicians</i> <i>[OS Page A-12]</i>	
Number, by Specialty	
Family Practice	2
Internal Medicine	5
Pediatrics	0
Surgery	2
Anesthesiology	6
Emergency Medicine	3
Pathology	2
Total Employed Physicians	20
Percent of Gross Revenue Attributable to Above Physicians	44.0%
Note: All physicians are employed by the Corporation	

<i>Age Distribution of the Active Staff</i> <i>[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	4	6.9%	7.6%
35 - 44	13	22.4%	30.2%
45 - 54	22	37.9%	33.2%
55 - 64	16	27.6%	22.1%
65 and over	3	5.2%	6.9%
TOTAL	58		
Notes: The "Percent of Active Staff" column may not add to 100.0% due to rounding.			

**MUNICIPAL SECONDARY MARKET DISCLOSURE**

**Michigan State Hospital Finance Authority / Central Michigan Community Hospital  
Fiscal Year Ended September 30, 2007**

**Page 5**

<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	100.0%
Internal Medicine	48	100.0%
Surgery	53	94.1%
Obstetrics/Gynecology	45	100.0%
Pediatrics	47	100.0%
Total Active Staff	51	91.4%

**HISTORICAL PERFORMANCE MEASURES**

<i>Historical Inpatient Utilization (Occupancy Rates calculated on the basis of Staffed Beds) [OS Page A-17]</i>					
	<i>Fiscal Years Ended September 30</i>				
	<i>2007</i>	<i>2006</i>	<i>2005</i>	<i>2004</i>	<i>2003</i>
Days in Period	365	365	365	366	365
Licensed Beds	118	118	118	118	118
Staffed Beds	83	83	83	62	58
Admissions	3,671	3,787	3,543	3,537	3,292
Patient Days <sup>1</sup>	11,650	11,624	10,930	10,922	10,156
Average Daily Census	31.9	31.8	29.9	29.8	27.8
Average Length of Stay	3.2	3.1	3.1	3.1	3.1
Occupancy Rate (%)	38.5	38.4	36.1	48.1	48.0
<sup>1</sup> The FY2004 figure was revised from 10,914; 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, 2007**  
**Page 6**

<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>2007</i>	<i>2006</i>	<i>2005</i>	<i>2004</i>	<i>2003</i>
Days in Period	365	365	365	366	365
Licensed Beds <sup>1</sup>	118	118	118	118	118
Staffed Beds	66	66	66	50	48
Admissions	3,173	3,258	3,030	2,967	2,724
Patient Days <sup>2</sup>	10,484	10,468	9,791	9,682	8,879
Average Daily Census	28.7	28.7	26.8	26.5	24.3
Average Length of Stay	3.3	3.2	3.2	3.3	3.3
Occupancy Rate (%)	43.5	43.5	40.6	52.9	50.7

<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

<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>2007</i>	<i>2006</i>	<i>2005</i>	<i>2004</i>	<i>2003</i>
Days in Period	365	365	365	366	365
Licensed Beds	Included in Medical/Surgical Licensed Beds				
Staffed Beds	17	17	17	12	10
Admissions	498	529	513	570	568
Patient Days	1,166	1,156	1,139	1,240	1,277
Average Daily Census	3.2	3.2	3.1	3.4	3.5
Average Length of Stay	2.3	2.2	2.2	2.2	2.2
Occupancy Rate (%)	18.8	18.6	18.4	28.2	35.0

**MUNICIPAL SECONDARY MARKET DISCLOSURE**  
**Michigan State Hospital Finance Authority / Central Michigan Community Hospital**  
**Fiscal Year Ended September 30, 2007**  
**Page 7**

<i>Historical Outpatient Utilization, in Visits</i>					
<i>[OS Page A-19]</i>					
	<i>Fiscal Years Ended September 30</i>				
	<i>2007</i>	<i>2006</i>	<i>2005</i>	<i>2004</i>	<i>2003</i>
Emergency Department	21,949	21,531	21,646	19,841	18,695
ReadyCare	26,201	26,563	26,312	24,920	25,322
Family Care Center <sup>1</sup>	0	0	0	0	0
COMP <sup>2</sup>	10,680	10,961	11,079	11,592	11,097
Employed Physicians <sup>3</sup>	35,578	38,349	39,912	33,432	31,269
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  
<sup>3</sup> The figures for FY2003 correct erroneous data published in the FY2003 Disclosure Report  
<sup>4</sup> 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>Fiscal Years Ended September 30</i>				
<i>Service</i>	<i>Units</i>	<i>2007</i>	<i>2006</i>	<i>2005</i>	<i>2004</i>	<i>2003</i>
Endoscopy	Visits	157	178	167	120	93
Diagnostic Radiology	Procedures	5,309	5,435	5,265	4,849	4,501
Ultrasound	Procedures	1,960	1,812	1,497	1,228	870
CT Scanning	Procedures	2,169	2,032	1,491	1,241	999
Nuclear Medicine	Procedures	166	251	309	520	287
Electrocardiography	Visits	2,291	2,504	1,898	1,015	919
Respiratory Therapy	Procedures	20,230	23,469	17,564	14,482	15,259
Physical Therapy	Procedures	4,292	5,349	4,754	4,278	3,614
Laboratory	Tests	75,257	71,765	57,585	43,912	40,522
Pharmacy <sup>1</sup> Weighted Line Items		1,522	1,495	1,447	1,468	1,425

<sup>1</sup> Both Inpatient and Outpatient, which cannot be distinguished. The FY2003 figure replaces the estimate 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, 2007**

**Page 8**

<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>2007</i>	<i>2006</i>	<i>2005</i>	<i>2004</i>	<i>2003</i>
Endoscopy	Visits	2,291	2,261	2,080	2,019	1,835
Diagnostic Radiology	Procedures	26,171	27,614	27,974	26,855	25,199
Ultrasound	Procedures	8,214	8,298	8,017	8,018	7,648
CT Scanning	Procedures	7,983	8,073	5,963	5,179	4,555
Nuclear Medicine	Procedures	2,879	2,754	4,282	4,552	3,823
Electrocardiography	Visits	5,242	4,967	5,288	5,835	5,739
Respiratory Therapy	Procedures	1,834	2,874	3,443	7,211	8,223
Physical Therapy	Procedures	37,998	40,293	38,721	41,375	38,904
Laboratory	Tests	331,919	334,739	333,591	334,296	324,413

<i>Historical Surgical Utilization</i>						
<i>[OS Page A-21]</i>						
		<i>Fiscal Years Ended September 30</i>				
		<i>2007</i>	<i>2006</i>	<i>2005</i>	<i>2004</i>	<i>2003</i>
Inpatient		1,226	1,199	1,046	1,127	1,139
Outpatient		3,040	3,168	3,718	4,384	3,983
TOTAL		4,266	4,367	4,764	5,511	5,122
Percent Outpatient Surgery		71.3	72.5	78.0	79.6	77.8

**MUNICIPAL SECONDARY MARKET DISCLOSURE**  
**Michigan State Hospital Finance Authority / Central Michigan Community Hospital**  
**Fiscal Year Ended September 30, 2007**  
**Page 9**

<i>Historical Home Care Volumes</i>					
<i>[OS Page A-22]</i>					
	<i>Fiscal Years Ended September 30</i>				
	<i>2007</i>	<i>2006</i>	<i>2005</i>	<i>2004</i>	<i>2003</i>
Skilled Nursing	6,088	6,011	5,676	5,795	4,586
Physical Therapy	4,063	3,525	2,865	2,849	2,421
Occupational Therapy	185	214	173	128	119
Speech Therapy	209	211	118	104	136
Medical Social Worker	86	36	26	29	59
Home Health Aide	1,451	1,565	1,352	1,076	856
<b>TOTAL</b>	<b>12,082</b>	<b>11,562</b>	<b>10,210</b>	<b>9,981</b>	<b>8,177</b>

**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>2007</i>	<i>2006</i>	<i>2005</i>	<i>2004</i>	<i>2003</i>
<b>Financial Assets</b>	Cash and Cash Equivalents	13,821	9,630	7,454	15,143	15,924
	Debt Service Reserve	2,365	2,290	2,209	2,174	2,121
	Depreciation Funds <sup>1</sup>				1,990	1,564
	Other Financial Assets <sup>2</sup>	9,041	7,984	6,722	2,385	1,711
	Total Financial Assets <sup>1</sup>				19,307	19,609
	Total Financial Assets <sup>2</sup>	25,227	19,904	16,385	19,702	19,756
	Days' Cash on Hand <sup>1</sup>				131	141
	Days' Cash on Hand <sup>2</sup>	135	111	101	134	142
<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, 2007**

**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>Restated</i>	
	<i>2007</i>	<i>2006</i>	<i>2005</i>	<i>2004</i>	<i>2003</i>
Net Patient Service Revenue	68,668	66,005	59,731	55,955	53,119
Other Operating Revenue	<u>3,854</u>	<u>3,652</u>	<u>3,134</u>	<u>2,984</u>	<u>2,724</u>
Total Operating Revenue	72,522	69,657	62,865	58,939	55,844
Depreciation Expense	4,177	3,948	3,024	2,642	2,583
Interest Expense	1,284	1,349	1,301	1,332	1,386
Other Operating Expenses	<u>66,740</u>	<u>64,207</u>	<u>57,864</u>	<u>52,425</u>	<u>49,427</u>
Total Operating Expenses	72,201	69,504	62,189	56,399	53,397
Operating Income	321	153	676	2,540	2,447
Non-Operating Gains (Losses)	<u>1,126</u>	<u>495</u>	<u>(164)</u>	<u>(278)</u>	<u>176</u>
Excess of Revenue over Expenses	<u>1,447</u>	<u>647</u>	<u>511</u>	<u>2,262</u>	<u>2,623</u>

<i>Percentages of Gross Patient Revenue by Service</i>					
<i>[OS Page A-28]</i>					
	<i>Fiscal Years Ended September 30</i>				
	<i>2007</i>	<i>2006</i>	<i>2005</i>	<i>2004</i>	<i>2003</i>
Inpatient	32.1%	31.8%	31.2%	31.8%	30.8%
Outpatient	67.9%	68.2%	68.8%	68.2%	69.2%
Note: The figures for FY2006 correct erroneous data published in the FY2006 Disclosure Report					

**MUNICIPAL SECONDARY MARKET DISCLOSURE**

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

**Fiscal Year Ended September 30, 2007**

**Page 11**

<i>Corporation Payor Mix, by Gross Revenue</i> <i>[OS Page A-28]</i>					
	<i>Fiscal Years Ended September 30</i>				
<i>Payor</i>	<i>2007</i>	<i>2006</i>	<i>2005</i>	<i>2004</i>	<i>2003</i>
Medicare	37.7%	38.2%	36.1%	36.3%	35.9%
Blue Cross <sup>1</sup>	37.6%	37.1%	37.9%	39.7%	39.8%
Medicaid	10.8%	10.7%	11.4%	11.1%	10.0%
Commercial	10.2%	10.7%	11.3%	10.1%	11.5%
Self Pay	3.7%	3.3%	3.3%	2.8%	2.8%

Note: Columns may not add to 100.0 due to rounding  
<sup>1</sup> Includes Blue Cross Trust

January 10, 2008

Central Michigan Community Hospital  
1221 South Drive  
Mt Pleasant MI 48858

Dear Joyce Schaffer:

RE: Central Michigan Community Hospital  
Property Insurance Program

We have been asked to provide a brief summary of the insurance coverages afforded under the property insurance policy for Central Michigan Community Hospital.

The following is as a summary and should not be interpreted as a full and comprehensive insurance review. For specific information about the property policy, refer to the contract itself for all terms and conditions.

Central Michigan Community Hospital (CMCH) has a property insurance policy written by the Hartford Insurance Group. Hartford's AM Best Rating is A+ (excellent). The policy number is 81 UUM ZU2746. The policy term is April 1, 2007 to April 1, 2008.

The Named Insured is as follows:

Central Michigan Community Hospital, Meridian Ventures, Central Michigan Community Hospital dba Central Clinics, Central Michigan Community Hospital dba Central Michigan Home Care, Central Michigan Community Hospital Radiation Oncology

The property limits are \$100,591,500. These are the building and contents limits that are blanketed amongst all locations. The policy is written on an agreed value basis. A summary of insurance showing the locations and the rating amount of coverage is provided in exhibit 1. Business Income and Extra Expense is provided for \$49,926,632. A \$25,000 deductible applies.

The following are some highlights of the Hartford policy enhancements:

- Accounts Receivable \$250,000
- Brands and Labels \$50,000
- Building Glass Repairs Included in Building Limit
- Business Travel & Sales Rep Samples \$50,000
- Claim Expenses \$50,000
- Contract Penalties \$50,000
- Debris Removal (Additional Amount) \$50,000
- Electronic Vandalism Included in Applicable Business Personal Property Limit
- Employee Personal Effects \$50,000
- Exhibitions \$50,000
- Fine Arts \$50,000
- Fire Department Service Charge \$50,000
- Fire Device Recharge \$50,000
- Fungus, Wet Rot, Dry Rot, Bacteria And Virus – Limited Coverage (at each Premises in any on policy year) \$50,000
- Newly Acquired Property
  - Buildings \$1,000,000
  - Business Personal Property \$500,000
- Non Owned Trailers \$50,000
- Ordinance or Law Coverage (Demolition & Increased Cost of Construction) Lesser of 25% of Building Value or \$500,000
- Ordinance or Law Coverage (Value of the Undamaged Building) Included in Building Limit
- Pollutant and Contaminants Cleanup \$50,000 (At Each Scheduled Premises in Any One Policy Year)
- Underground Water Seepage \$25,000
- Unnamed Premises:
  - At All Unnamed Premises In Any One Occurrence \$100,000
  - Buildings \$50,000
  - Business Personal Property (Including Stock) At Any One Installation \$25,000

- Utility Services \$10,000  
Including Overhead Transmission Lines
- Combined Additional Protection Lessor of 25% of the  
Total Scheduled Premises  
Building and Business  
Personal Property  
Limits of Insurance or  
\$250,000

Thank you for the opportunity to review these insurance policies. If you have any questions or need any additional information, please feel free to let me know.

Sincerely,

*John Olson*

John Olson CPCU, LIC  
Vice President  
General Agency Company

**CENTRAL MICHIGAN COMMUNITY HOSPITAL  
INSURANCE POLICIES**

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**PROFESSIONAL LIABILITY AND GENERAL LIABILITY**

- MHA insurance company (MHAIC)/FinCor Holdings
- Policy Limits \$1,000,000/3,000,000
- Umbrella Limits \$5,000,000/\$5,000,000
- 01-10338 Primary/01-55338 Umbrella
- Aggregate primary-\$3,000,000
- 7/18/07 – 7/18/08
- \$50,000 all-expense deductible/\$150,000 aggregate
- \$5,000,000 umbrella liability/\$5,000,000 aggregate with \$25,000 retained limit
- Premium \$1,133,037

**DIRECTORS , OFFICERS & TRUSTEES LIABILITY**

- Travelers Casualty & Surety Company of America – MHAIC/FinCor Holdings
- \$5,000,000 limit
- Policy # 103073411D
- 3/29/07 – 3/29/08
- 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
- Punitive Damage: No
- Entity Coverage: Yes
- Crisis Fund: No
- Premium- \$35,885

**AUTOMOTIVE LIABILITY**

- General Agency-Auto Owners
- 96-998-968-00
- 6/1/07- 6/1/08
- Deductible \$250 Comprehensive & Collision (3 VEHICLES)
- Premium \$3832.05

**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-Blanket Property**

- Hartford
- 81UUMZU2746
- Limits: Bldgs and Business Personal Property Combined Limits: \$100,591,500
- Deductible \$25,000 (property damage)
- 4/1/07 – 4/1/08
- Premium \$86,039.00

**WORKERS COMPENSATION (HR)**

- State of Michigan Self Insured
- Name of Insurer: Safety National Casualty Corporation
- Policy ID # SP-1G59-MI

**CENTRAL MICHIGAN COMMUNITY HOSPITAL  
INSURANCE POLICIES**

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- Policy Limit: Statutory
- Employers' Liability \$1,000,000 per occurrence
- 1/01/07 – 1/01/08

**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
- 4/01/07-4/01/08
- Premium: \$4547.00
- Employee Theft \$10,000 Deductible \$5000
- Depositors Forgery \$500,000 Deductible \$1000
- Theft \$5000 Deductible \$1000
- Computer Fraud \$5000,000 Deductible \$5000

# CENTRAL MICHIGAN COMMUNITY HOSPITAL

1221 South Drive  
Mount Pleasant, MI 48858

## REPORT OF DEPOSITORIES

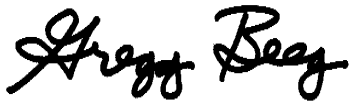
This Report of Depositories is delivered pursuant to Section 10.11(f) of the Loan Agreement dated as of February 1, 1993 between the Michigan State Hospital Finance Authority and Central Michigan Community Hospital (the "Corporation"). The following is a list of financial institutions in which funds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

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**Consolidated Financial Report  
with Additional Information  
September 30, 2007**

# Central Michigan Community Hospital and Subsidiaries

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## Contents

<b>Report Letter</b>	1
<b>Consolidated Financial Statements</b>	
Balance Sheet	2
Statement of Operations	3
Statement of Changes in Net Assets	4
Statement of Cash Flows	5
Notes to Consolidated Financial Statements	6-16
<b>Additional Information</b>	17
<b>Report Letter</b>	18
Consolidating Balance Sheet	19
Consolidating Statement of Operations	20



**Plante & Moran, PLLC**  
Bridgewater Place  
Suite 600  
333 Bridge St. N.W.  
Grand Rapids, MI 49504  
Tel: 616.774.8221  
Fax: 616.774.0702  
plantemoran.com

## Independent Auditor's Report

To the Board of Directors  
Central Michigan Community Hospital  
and Subsidiaries

We have audited the accompanying consolidated balance sheet of Central Michigan Community Hospital and Subsidiaries as of September 30, 2007 and 2006 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 consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated 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 Subsidiaries at September 30, 2007 and 2006 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*

December 5, 2007

# Central Michigan Community Hospital and Subsidiaries

## Consolidated Balance Sheet

	September 30, 2007	September 30, 2006
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 13,820,991	\$ 9,629,833
Accounts receivable (Note 2)	6,750,235	6,082,384
Other accounts receivable	1,417,027	1,817,188
Pledges receivable - Current (Note 6)	1,458,831	833,121
Assets held in trust to pay current liabilities (Note 5)	2,858,139	2,556,085
Inventory	1,623,928	1,493,701
Prepaid expenses and other	1,109,776	1,146,006
Total current assets	29,038,927	23,558,318
<b>Property and Equipment - Net (Note 7)</b>	32,011,602	31,702,412
<b>Other Assets - Net of current portion (Note 5)</b>	14,765,216	12,307,874
Total assets	<b>\$ 75,815,745</b>	<b>\$ 67,568,604</b>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Current portion of long-term debt (Note 9)	\$ 2,308,504	\$ 1,976,867
Accounts payable	1,647,541	1,765,752
Estimated third-party payor settlements	6,707,159	3,079,199
Accrued liabilities (Note 8)	7,644,692	7,123,676
Total current liabilities	18,307,896	13,945,494
<b>Long-term Debt - Net of current portion (Note 9)</b>	19,214,840	19,688,211
<b>Minority Interest in Consolidated Subsidiary</b>	722,569	872,003
Total liabilities	38,245,305	34,505,708
<b>Net Assets</b>		
Unrestricted	31,756,779	29,434,576
Temporarily restricted	5,763,140	3,577,829
Permanently restricted	50,521	50,491
Total net assets	37,570,440	33,062,896
Total liabilities and net assets	<b>\$ 75,815,745</b>	<b>\$ 67,568,604</b>

# Central Michigan Community Hospital and Subsidiaries

## Consolidated Statement of Operations

	Year Ended	
	September 30, 2007	September 30, 2006
<b>Unrestricted Revenue, Gains, and Other Support</b>		
Net patient service revenue (Note 13)	\$ 68,667,503	\$ 66,004,648
Other operating revenue	3,854,103	3,652,054
Total unrestricted revenue, gains, and other support	72,521,606	69,656,702
<b>Expenses</b>		
Salaries and wages	32,468,463	31,200,539
Employee benefits and payroll taxes	5,582,088	4,939,077
Operating supplies and expenses	13,518,578	13,968,483
Purchased services and professional fees	3,749,339	4,091,113
Maintenance, repairs, and utilities	4,071,350	4,106,681
Rent	785,324	680,378
Depreciation and amortization	4,177,401	3,947,559
Provision for bad debts	3,729,118	3,085,657
Interest expense	1,283,519	1,349,342
Other	2,835,438	2,135,086
Total expenses (Note 14)	72,200,618	69,503,915
<b>Operating Income</b>	320,988	152,787
<b>Other Income</b> (Note 11)	1,126,328	494,629
<b>Excess of Revenue Over Expenses</b>	1,447,316	647,416
<b>Distribution to Minority Member of CMCHRO</b>	(82,200)	-
<b>Change in Unrealized Gains and Losses on Investments</b> (Note 5)	371,067	116,817
<b>Net Assets Released from Restriction</b>	586,020	939,608
<b>Increase in Unrestricted Net Assets</b>	<b>\$ 2,322,203</b>	<b>\$ 1,703,841</b>

# Central Michigan Community Hospital and Subsidiaries

## Consolidated Statement of Changes in Net Assets

	Year Ended September 30	
	2007	2006
<b>Unrestricted Net Assets</b>		
Excess of revenue over expenses	\$ 1,447,316	\$ 647,416
Change in unrealized gains and losses on investments	371,067	116,817
Distribution to minority member of CMCHRO	(82,200)	-
Net assets released from restriction	586,020	939,608
<b>Increase in Unrestricted Net Assets</b>	2,322,203	1,703,841
<b>Temporarily Restricted Net Assets</b>		
Restricted contributions	2,694,925	354,472
Restricted investment income	76,406	45,059
Net assets released from restriction	(586,020)	(939,608)
<b>Increase (Decrease) in Temporarily Restricted Net Assets</b>	2,185,311	(540,077)
<b>Increase in Permanently Restricted Net Assets - Restricted contribution</b>	30	-
<b>Increase in Net Assets</b>	4,507,544	1,163,764
<b>Net Assets - Beginning of year</b>	33,062,896	31,899,132
<b>Net Assets - End of year</b>	<b>\$ 37,570,440</b>	<b>\$ 33,062,896</b>

# Central Michigan Community Hospital and Subsidiaries

## Consolidated Statement of Cash Flows

	Year Ended	
	September 30, 2007	September 30, 2006
<b>Cash Flows from Operating Activities</b>		
Increase in net assets	\$ 4,507,544	\$ 1,163,764
Adjustments to reconcile increase in net assets to net cash from operating activities:		
Depreciation and amortization	4,177,401	3,947,559
Net change in unrealized net gains and losses on investments	(371,067)	(116,817)
Loss on disposal of equipment	20,585	17,391
Minority interest in loss of subsidiary	(149,434)	(72,299)
Restricted contributions and investment earnings	(2,694,955)	(354,472)
Provision for bad debts	3,729,118	3,085,657
Changes in assets and liabilities which provided (used) cash:		
Accounts receivable	(4,396,969)	(3,284,551)
Other accounts receivable	400,161	28,065
Inventories	(130,227)	(7,842)
Prepaid expenses and other	36,230	(58,330)
Other assets	(441,976)	1,265,554
Accounts payable	(118,211)	(348,671)
Accrued liabilities	521,016	75,056
Estimated third-party payor settlements	3,627,960	1,654,508
Net cash provided by operating activities	8,717,176	6,994,572
<b>Cash Flows from Investing Activities</b>		
Purchase of property and equipment	(2,673,325)	(1,366,695)
Proceeds from sale of property and equipment	51,231	57,236
Purchase of assets limited as to use	(5,153,768)	(5,475,917)
Proceeds from assets limited as to use	2,735,421	3,640,470
Net cash used in investing activities	(5,040,441)	(3,144,906)
<b>Cash Flows from Financing Activities</b>		
Principal payment on long-term debt	(2,026,816)	(1,928,558)
Restricted contributions	2,694,955	354,472
Net increase in funds held by trustee under bond indenture	(153,716)	(100,011)
Net cash provided by (used in) financing activities	514,423	(1,674,097)
<b>Net Increase in Cash and Cash Equivalents</b>	4,191,158	2,175,569
<b>Cash and Cash Equivalents - Beginning of year</b>	9,629,833	7,454,264
<b>Cash and Cash Equivalents - End of year</b>	<b>\$ 13,820,991</b>	<b>\$ 9,629,833</b>
<b>Supplemental Cash Flow Information</b>		
Cash paid for interest	\$ 1,313,102	\$ 1,377,092
Equipment obtained via capital lease	1,885,082	-

# Central Michigan Community Hospital and Subsidiaries

## Notes to Consolidated Financial Statements September 30, 2007 and 2006

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

**Reporting Entity** - Central Michigan Community Hospital and Subsidiaries (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 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. Central Michigan Community Hospital Radiation Oncology (CMCHRO), a Michigan not-for-profit corporation, is a majority-owned subsidiary of the Hospital, which operates a radiation oncology facility.

**Principles of Consolidation** - The accompanying consolidated financial statements include the accounts of Central Michigan Community Hospital, its wholly owned subsidiary (MV) and its majority-owned subsidiary (CMCHRO). 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.

# Central Michigan Community Hospital and Subsidiaries

## Notes to Consolidated Financial Statements September 30, 2007 and 2006

### **Note I - 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 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.

**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).

**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).

# Central Michigan Community Hospital and Subsidiaries

## Notes to Consolidated Financial Statements September 30, 2007 and 2006

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

**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.

**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, 2007 and 2006 were approximately \$984,000 and \$990,000, 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.

# Central Michigan Community Hospital and Subsidiaries

## Notes to Consolidated Financial Statements September 30, 2007 and 2006

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

**Tax Status** - Central Michigan Community Hospital and Central Michigan Community Hospital Radiation Oncology are nonprofit 501(c)(3), tax-exempt organizations; accordingly, no tax provisions are reflected in the consolidated financial statements. Meridian Ventures, Inc. is subject to income tax, but had minimal operations in 2007 and 2006.

**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.

### Note 2 - Accounts Receivable

The details of accounts receivable are set forth below:

	<u>2007</u>	<u>2006</u>
Patient accounts receivable	\$ 23,274,334	\$ 24,466,644
Less:		
Allowance for uncollectible accounts	(3,744,069)	(3,544,004)
Allowance for contractual adjustments	<u>(12,780,030)</u>	<u>(14,840,256)</u>
Net accounts receivable	<u>\$ 6,750,235</u>	<u>\$ 6,082,384</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>2007</u>	<u>2006</u>
Medicare	27	30
Medicaid	12	11
Blue Cross/Blue Shield of Michigan	21	22
Commercial insurance and HMOs	12	13
Self-pay	<u>28</u>	<u>24</u>
Total	<u>100</u>	<u>100</u>

# Central Michigan Community Hospital and Subsidiaries

## Notes to Consolidated Financial Statements September 30, 2007 and 2006

### 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>2007</u>	<u>2006</u>
Charges forgone, based on established rates	\$ 613,819	\$ 610,135

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.

### Note 4 - Cost Report Settlements

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. 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. Inpatient psychiatric and substance abuse services are reimbursed at cost subject to a per-case limit. Outpatient and home care services related to Medicare beneficiaries are reimbursed based on a prospectively determined amount per episode of care.
- **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 a fee-for-service and percentage of charge basis.

# Central Michigan Community Hospital and Subsidiaries

## Notes to Consolidated Financial Statements September 30, 2007 and 2006

### Note 4 - Cost Report Settlements (Continued)

Cost report settlements result from the adjustment of interim payments to final reimbursement under these programs, which are subject to audit by fiscal intermediaries. Cost report settlements increased net patient service revenue by approximately \$2,700,000 and \$460,000 for the years ended September 30, 2007 and 2006, respectively, reflecting amounts received in excess of recorded amounts.

### Note 5 - Other Assets

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

	<u>2007</u>	<u>2006</u>
Assets limited as to use or temporarily restricted:		
Investments held by trustees under bond indenture	\$ 3,979,304	\$ 3,825,588
By donors for specific purpose	2,716,702	1,138,541
By board of trustees for future capital expenditures	<u>9,041,147</u>	<u>7,983,610</u>
Total	15,737,153	12,947,739
Less amount for payment of current liabilities	<u>(2,858,139)</u>	<u>(2,556,085)</u>
Net assets limited as to use and permanently or temporarily restricted	12,879,014	10,391,654
Pledges receivable - Long-term portion (Note 6)	1,622,347	1,656,658
Bond issue costs and other - Net	<u>263,855</u>	<u>259,562</u>
Total other assets	<u>\$ 14,765,216</u>	<u>\$ 12,307,874</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>2007</u>	<u>2006</u>
Money market investments	\$ 6,647,156	\$ 4,980,473
U.S. government obligations	6,237,882	5,522,097
Mutual funds	2,243,065	1,626,425
Common stock	<u>609,050</u>	<u>818,744</u>
Total	<u>\$ 15,737,153</u>	<u>\$ 12,947,739</u>

# Central Michigan Community Hospital and Subsidiaries

## Notes to Consolidated Financial Statements September 30, 2007 and 2006

### 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, 2007 and 2006:

	2007	2006
Investment income in other revenue	\$ 129,310	\$ 121,363
Investment income in other income	1,083,007	640,376
Restricted investment income	76,406	45,059
Change in unrealized gains and losses on investments	371,067	116,817
Total	<u>\$ 1,659,790</u>	<u>\$ 923,615</u>

### Note 6 - Pledges Receivable

The Hospital has various capital campaigns in progress, including a renovation of the obstetrics department and renovation of the heating and air conditioning unit for the Hospital. An allowance has been recorded against pledges receivable for the portion that is estimated to be uncollectible and the pledges have been adjusted to the present value. The details of pledges receivable at September 30, 2007 and 2006 are set below:

	2007	2006
Donations due within one year	\$ 1,458,831	\$ 833,121
Donations due within two years	2,205,607	2,260,098
Total pledges receivable	3,664,438	3,093,219
Less allowance for uncollectible pledges	583,260	603,440
Total pledges receivable	<u>\$ 3,081,178</u>	<u>\$ 2,489,779</u>

### Note 7 - Property and Equipment

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

	2007	2006	Depreciable Life - Years
Land and land improvements	\$ 3,016,460	\$ 3,016,460	20
Buildings and building improvements	38,194,752	38,115,004	10-40
Equipment and fixtures	27,481,803	25,631,418	3-10
Construction in progress	2,240,421	343,260	-
Total cost	70,933,436	67,106,142	
Accumulated depreciation	<u>(38,921,834)</u>	<u>(35,403,730)</u>	
Net carrying amount	<u>\$ 32,011,602</u>	<u>\$ 31,702,412</u>	

# Central Michigan Community Hospital and Subsidiaries

## Notes to Consolidated Financial Statements September 30, 2007 and 2006

### Note 7 - Property and Equipment (Continued)

Construction in progress consists primarily of costs incurred for planning and construction costs for various renovations throughout the Hospital, including the obstetrics and cardiology departments. Total costs to complete the projects are approximately \$5,600,000.

### Note 8 - Accrued Liabilities

The details of accrued liabilities at September 30, 2007 and 2006 are as follows:

	<u>2007</u>	<u>2006</u>
Payroll and related items	\$ 1,686,323	\$ 1,511,230
Compensated absences	3,793,331	3,569,591
Other employee benefits	1,233,919	1,013,637
Professional liability claims	381,484	450,000
Accrued interest payable	<u>549,635</u>	<u>579,218</u>
Total accrued liabilities	<u>\$ 7,644,692</u>	<u>\$ 7,123,676</u>

### Note 9 - Long-term Debt

A summary of long-term debt and capital lease obligations at September 30, 2007 and 2006 is as follows:

	<u>2007</u>	<u>2006</u>
Bonds payable, Series 1996	\$ 16,305,000	\$ 16,670,000
Bonds payable, Series 1993A	1,340,000	1,955,000
Capital leases	<u>4,427,656</u>	<u>3,625,107</u>
Total	22,072,656	22,250,107
Less amortized discount	549,312	585,029
Less current portion	<u>2,308,504</u>	<u>1,976,867</u>
Long-term portion	<u>\$ 19,214,840</u>	<u>\$ 19,688,211</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 \$385,000 on October 1, 2007 to \$410,000 on October 1, 2008 at an interest rate of 6.20 percent and term bonds payable in annual installments ranging from \$440,000 on October 1, 2009 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 Subsidiaries

## Notes to Consolidated Financial Statements September 30, 2007 and 2006

### Note 9 - 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 \$650,000 on October 1, 2007 to \$690,000 on October 1, 2008, at an interest rate of 6.00 percent. The Hospital has pledged substantially all deposits, 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 \$122,000, including interest ranging from 6.3 percent to 7.44 percent.

Minimum principal payments on bonds payable and other long-term debt obligations to maturity as of September 30, 2007 are as follows:

<u>Years Ending September 30</u>	<u>Long-term Debt</u>	<u>Capital Leases Obligations</u>
2008	\$ 1,035,000	\$ 1,464,611
2009	1,100,000	1,438,049
2010	440,000	1,201,358
2011	465,000	444,864
2012	495,000	332,335
Thereafter	<u>14,110,000</u>	<u>2,498</u>
Total	17,645,000	4,883,715
Less amount representing interest under capital lease obligations	<u>-</u>	<u>(456,059)</u>
Total debt and present value of minimum lease payments	<u>\$ 17,645,000</u>	<u>\$ 4,427,656</u>

# Central Michigan Community Hospital and Subsidiaries

## Notes to Consolidated Financial Statements September 30, 2007 and 2006

### Note 10 - Line of Credit

The Hospital has available a line of credit with a bank for \$2,000,000 at September 30, 2007 and 2006 at a variable interest rate based on the prime rate. As of September 30, 2007 and 2006, the Hospital did not have any outstanding borrowings on the line of credit.

### Note 11 - Other Income (Expense)

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

	<u>2007</u>	<u>2006</u>
Investment income	\$ 1,083,007	\$ 640,376
Minority interest in income of consolidated subsidiary	149,434	67,532
Other expense	<u>(106,113)</u>	<u>(213,279)</u>
Net other income	<u>\$ 1,126,328</u>	<u>\$ 494,629</u>

### Note 12 - 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, 2007 and 2006, the Hospital has accrued \$381,000 and \$450,000, respectively, 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.

# Central Michigan Community Hospital and Subsidiaries

## Notes to Consolidated Financial Statements September 30, 2007 and 2006

### Note 13 - Net Patient Service Revenue

Net patient service revenue consists of the following:

	<u>2007</u>	<u>2006</u>
Routine services and inpatient ancillary	\$ 51,951,721	\$ 51,589,110
Outpatient ancillary services	<u>109,652,059</u>	<u>110,422,526</u>
Total patient revenue	161,603,780	162,011,636
Revenue deductions:		
Current year	95,636,277	96,466,988
Prior year settlements	<u>(2,700,000)</u>	<u>(460,000)</u>
Total revenue deductions	<u>92,936,277</u>	<u>96,006,988</u>
Net patient service revenue	<u>\$ 68,667,503</u>	<u>\$ 66,004,648</u>

### Note 14 - Functional Expenses

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

	<u>2007</u>	<u>2006</u>
Healthcare services	\$ 52,499,951	\$ 51,217,975
General and administrative	<u>19,700,667</u>	<u>18,285,940</u>
Total	<u>\$ 72,200,618</u>	<u>\$ 69,503,915</u>

## **Additional Information**

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**Plante & Moran, PLLC**  
Bridgewater Place  
Suite 600  
333 Bridge St. N.W.  
Grand Rapids, MI 49504  
Tel: 616.774.8221  
Fax: 616.774.0702  
plantemoran.com

To the Board of Directors  
Central Michigan Community Hospital  
and Subsidiaries

We have audited the consolidated financial statements of Central Michigan Community Hospital and Subsidiaries as of September 30, 2007 and 2006. Our audits were made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information in the accompanying schedules is presented for the purpose of additional analysis of the consolidated financial statements rather than to present the financial position and results of operations of the individual organizations and is not a required part of the basic consolidated financial statements. The consolidating information has been subjected to the procedures applied in the audits of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

*Plante & Moran, PLLC*

December 5, 2007

# Central Michigan Community Hospital and Subsidiaries

## Consolidating Balance Sheet September 30, 2007

	Central Michigan Community Hospital	Central Michigan Community Hospital Radiation Oncology	Meridian Ventures, Inc.	Eliminating Entries	Total
<b>Assets</b>					
<b>Current Assets</b>					
Cash and cash equivalents	\$ 13,285,378	\$ 535,613	\$ -	\$ -	\$ 13,820,991
Accounts receivable	6,432,449	317,786	-	-	6,750,235
Other accounts receivable	1,551,749	-	33,853	(168,575)	1,417,027
Pledges receivable - Current	1,458,831	-	-	-	1,458,831
Assets held in trust to pay current liabilities	2,858,139	-	-	-	2,858,139
Inventory	1,623,928	-	-	-	1,623,928
Prepaid expenses and other	1,048,066	61,710	-	-	1,109,776
Total current assets	28,258,540	915,109	33,853	(168,575)	29,038,927
<b>Property and Equipment - Net</b>	28,386,085	3,625,517	-	-	32,011,602
<b>Other Assets - Net of current portion</b>	18,470,625	-	-	(3,705,409)	14,765,216
Total assets	<b>\$ 75,115,250</b>	<b>\$ 4,540,626</b>	<b>\$ 33,853</b>	<b>\$ (3,873,984)</b>	<b>\$ 75,815,745</b>
<b>Liabilities and Net Assets</b>					
<b>Current Liabilities</b>					
Current portion of long-term debt	\$ 2,308,504	\$ -	\$ -	\$ -	\$ 2,308,504
Accounts payable	1,669,615	146,501	-	(168,575)	1,647,541
Estimated third-party payor settlements	6,707,159	-	-	-	6,707,159
Accrued liabilities	7,644,692	-	-	-	7,644,692
Total current liabilities	18,329,970	146,501	-	(168,575)	18,307,896
<b>Long-term Debt - Net of current portion</b>	19,214,840	-	-	-	19,214,840
<b>Minority Interest in Consolidated Subsidiary</b>	-	-	-	722,569	722,569
Total liabilities	37,544,810	146,501	-	553,994	38,245,305
<b>Net Assets</b>					
Unrestricted	31,772,560	4,378,344	33,853	(4,427,978)	31,756,779
Temporarily restricted	5,747,359	15,781	-	-	5,763,140
Permanently restricted	50,521	-	-	-	50,521
Total net assets	37,570,440	4,394,125	33,853	(4,427,978)	37,570,440
Total liabilities and net assets	<b>\$ 75,115,250</b>	<b>\$ 4,540,626</b>	<b>\$ 33,853</b>	<b>\$ (3,873,984)</b>	<b>\$ 75,815,745</b>

# Central Michigan Community Hospital and Subsidiaries

## Consolidating Statement of Operations Year Ended September 30, 2007

	Central Michigan Community Hospital	Central Michigan Community Hospital Radiation Oncology	Meridian Ventures, Inc.	Eliminating Entries	Totals
<b>Unrestricted Revenue, Gains, and Other Support</b>					
Net patient service revenue	\$ 67,388,362	\$ 1,279,141	\$ -	\$ -	\$ 68,667,503
Other operating revenue	<u>3,838,263</u>	<u>15,840</u>	<u>-</u>	<u>-</u>	<u>3,854,103</u>
Total unrestricted revenue, gains, and other support	71,226,625	1,294,981	-	-	72,521,606
<b>Expenses</b>					
Salaries and wages	31,964,997	503,466	-	-	32,468,463
Employee benefits and payroll taxes	5,475,755	106,333	-	-	5,582,088
Operating supplies and expenses	13,492,997	25,581	-	-	13,518,578
Purchased services and professional fees	3,579,457	169,882	-	-	3,749,339
Maintenance, repairs and utilities	3,888,412	182,938	-	-	4,071,350
Rent	785,324	-	-	-	785,324
Depreciation and amortization	3,519,257	658,144	-	-	4,177,401
Provision for bad debts	3,729,118	-	-	-	3,729,118
Interest expense	1,283,519	-	-	-	1,283,519
Other	<u>2,783,198</u>	<u>52,215</u>	<u>25</u>	<u>-</u>	<u>2,835,438</u>
Total expenses	<u>70,502,034</u>	<u>1,698,559</u>	<u>25</u>	<u>-</u>	<u>72,200,618</u>
<b>Operating Income (Loss)</b>	724,591	(403,578)	(25)	-	320,988
<b>Other Income</b>	<u>651,539</u>	<u>30,033</u>	<u>-</u>	<u>444,756</u>	<u>1,126,328</u>
<b>Excess of Revenue Over (Under) Expenses</b>	1,376,130	(373,545)	(25)	444,756	1,447,316
<b>Distribution to Members</b>	-	(500,000)	-	417,800	(82,200)
<b>Change in Unrealized Gains and Losses on Investments</b>	371,067	-	-	-	371,067
<b>Net Assets Released from Restriction</b>	<u>586,020</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>586,020</u>
<b>Increase (Decrease) in Unrestricted Net Assets</b>	<u>\$ 2,333,217</u>	<u>\$ (873,545)</u>	<u>\$ (25)</u>	<u>\$ 862,556</u>	<u>\$ 2,322,203</u>