

Municipal Secondary Market Disclosure Information Cover Sheet

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

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

IF THIS FILING RELATES TO A SINGLE BOND ISSUE:

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

\$11,775,000

Michigan State Hospital Finance Authority

Hospital Revenue Bonds, Series 2005A

Hills and Dales General Hospital Obligated Group

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

59465HCD6

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

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

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

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

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

TYPE OF FILING:

Electronic (number of pages attached) 34 Paper (number of pages attached) _____

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

Municipal Secondary Market Disclosure Information Cover Sheet

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

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

IF THIS FILING RELATES TO A SINGLE BOND ISSUE:

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

\$1,775,000

County of Tuscola Hospital Finance Authority

Hospital Revenue Refunding Bonds, Series 2006A

Hills and Dales General Hospital Obligated Group

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

900777AA1

900777AB9

900777AC7

900777AD5

900777AE3

900777AF0

900777AG8

900777AH6

900777AJ2

900777AK9

900777AL7

900777AM5

900777AN3

900777AP8

900777AQ6

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

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

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

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

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

TYPE OF FILING:

Electronic (number of pages attached) 34 Paper (number of pages attached) _____

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

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

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

Fiscal Period Covered: October 2006 – September 2007 (FY2007)

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

Fiscal Period Covered: October 2006 – September 2007 (FY2007)

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 Michael J. Falatko Title President and Chief Executive Officer
Employer Hills & Dales General Hospital
Address 4675 Hill Street City Cass City State MI Zip Code 48726
Telephone (989) 912-6240 Fax (989) 872-3820
Email Address mfalatko@hillsanddales.com Obligor Web Site Address www.hillsanddales.com

Investor Relations Contact, if any:

Name _____ Title _____
Telephone _____ Email Address _____

HILLS & DALES GENERAL HOSPITAL OBLIGATED GROUP
4675 HILL STREET
CASS CITY, MI 48726

OFFICER'S CERTIFICATE

DATED: February 1, 2008

This Officer's Certificate is delivered pursuant to:

- Section and 5.10(b)(iii) of the Loan Agreement between Hills & Dales General Hospital (the Corporation) and the Michigan State Hospital Finance Authority (the State Issuer), dated as of December 15, 2005 (the 2005 Loan Agreement), delivered in connection with the Issuer's Hospital Revenue Bonds, Series 2005A (the Series 2005A Bonds);
- Section and 3.07(b)(iii) of the Trust Indenture the Corporation and Wells Fargo Bank, N.A. as Trustee, dated as of December 15, 2005 (the 2005 Taxable Indenture), delivered in connection with the Corporation's Taxable Hospital Revenue Refunding Bonds, Series 2005 (the Series 2005 Taxable Bonds); and
- Section 5.10(b)(iii) of the Loan Agreement between the Corporation and the County of Tuscola Hospital Finance Authority (the County Issuer), dated as of January 25, 2006 (the 2006 Loan Agreement), delivered in connection with the Issuer's Hospital Revenue Refunding Bonds, Series 2006A (the Series 2006A Bonds).

All capitalized terms used herein are as defined in the documents cited above, or in a Master Indenture and Security Agreement between the Corporation and Wells Fargo Bank, N.A. as Master Trustee, dated as of December 15, 2005, or in other documents delivered in connection with the Series 2005A Bonds, the Series 2005 Taxable Bonds or the Series 2006A Bonds.

Pursuant to Section 5.10(b)(i) of the 2005 Loan Agreement, Section 3.07(b)(i) of the 2005 Taxable Indenture, and Section 5.10(b)(i) of the 2006 Loan Agreement, attached are audited financial statements for the Most Recent Fiscal Year ended September 30, 2007 (the Audited Financial Statements).

Pursuant to Section 5.10(b)(ii) of the 2005 Loan Agreement, Section 3.07(b)(ii) of the 2005 Taxable Indenture, and Section 5.10(b)(ii) of the 2006 Loan Agreement, attached are updates of certain financial and statistical data which were contained in Appendix A to the Private Placement Memorandum dated December 20, 2005, relating to the Series 2005A Bonds for the Most Recent Fiscal Year ended September 30, 2007.

Pursuant to Section 5.10(b)(iii) of the 2005 Loan Agreement, Section 3.07(b)(iii) of the 2005 Taxable Indenture, and Section 5.10(b)(iii) of the 2006 Loan Agreement, the undersigned certifies that:

1. I am the Chief Financial Officer of the Corporation and duly authorized to deliver this Officer's Certificate;
2. the Obligated Group is in compliance with the Debt Service Coverage Ratio financial covenant, as required by Section 501(b)(ii) of the Master Indenture, with respect to the Fiscal Year ended September 30, 2007, the calculation for which follows:

<i>Debt Service Coverage Ratio Calculation Fiscal Year Ended September 30, 2007 Per Section 5.01(b)(ii) of the Master Indenture (\$000s omitted, except for the Debt Service Coverage Ratio)</i>		
	Excess of Revenue over Expenses	20
	Plus: Depreciation and Amortization Expense	1,063
	Plus: Interest Expense	443
NIADS	Net Income Available for Debt Service	1,526
MADS	Maximum Annual Debt Service Requirements	1,138
NIADS ÷ MADS	Debt Service Coverage Ratio	1.34
	Required Level	1.20

3. the Obligated Group is in compliance with the Days Cash on Hand financial covenant specified in Sections 5.01(e) of the Master Indenture, scheduled to be measured as of the September 30, 2006 Test Date with respect to Daily Operating Expenses for the twelve-month period then ended, the calculation for which follows:

<p align="center"><i>Days Cash on Hand Calculation at the September 30, 2007 Test Date Per Section 5.01(e) of the Master Indenture (\$000s omitted, except for Days Cash on Hand)</i></p>		
	Non-restricted Cash	1,003
	Plus: Funded Depreciation and Unrestricted Investments	734
	Minus: Short-Term Indebtedness	(225)
FA	Financial Assets	1,512
	Operating Expenses	18,939
	Minus Depreciation	(1,063)
DOE	Daily Operating Expenses	49
FA ÷ DOE	Days Cash on Hand	31
	Required Level on the Test Date	30

4. the Obligated Group is in compliance with the trade accounts payable financial covenant, as required by Section 501(d) of the Master Indenture, the calculation for which follows:

<p align="center"><i>Average Age of Trade Accounts Payable, FY2007 Master Indenture §501(d)</i></p>		
Trade Accounts Payable at FYE2007	AP	1,005,216
Average Daily Trade Accounts Payable during FY2007	ADAP	23,719
Average Age of Trade Accounts Payable (days)	AP / ADAP	42.4

5. no Events of Default under the Master Indenture, the 2005 Loan Agreement, the 2005 Taxable Indenture, the 2006 Loan Agreement or any other document relating to the Series 2005A Bonds, the Series 2005 Taxable Bonds or the Series 2006A Bonds have occurred or are continuing.

In addition, pursuant to Section 5.10(b)(iv) of the 2005 Loan Agreement, Section 3.07(b)(iv) of the 2005 Taxable Indenture, and Section 5.10(b)(iv) of the 2006 Loan Agreement, management offered comments on the Obligated Group's financial condition and other matters via the quarterly continuing disclosure report relating to FY2007Q4. The next such comments will be included with the quarterly continuing disclosure report relating to FY2008Q1.

On January 28, 2008, David J. Oehring resigned his position as Chief Financial Officer of the Corporation to pursue new career opportunities. Michael J. Falatko, the Corporation's President and Chief Executive Officer, has assumed his duties in the interim. The Corporation has begun a search to replace Mr. Oehring, a process which is expected to be accomplished within the next three to six months.

A handwritten signature in black ink that reads "Michael J. Falatko". The signature is written in a cursive, flowing style.

Michael J. Falatko, President and Chief Executive Officer

HILLS & DALES GENERAL HOSPITAL
UPDATES OF FINANCIAL AND STATISTICAL DATA
MOST RECENT FISCAL YEAR ENDED SEPTEMBER 30, 2007

IN COMPLIANCE WITH
SECTION 5.10(B)(II) OF THE 2005 LOAN AGREEMENT
SECTION 3.07(B)(II) OF THE 2005 TAXABLE INDENTURE
SECTION 5.10(B)(II) OF THE 2006 LOAN AGREEMENT

<i>Historical Acute Care Utilization</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	25	25	25	31	47
Staffed Beds	25	25	25	31	47
Admissions	687	628	761	702	722
Patient Days	1,906	1,636	2,068	1,853	2,183
Average Daily Census	5.2	4.5	5.7	5.1	6.0
Average Length of Stay	2.8	2.6	2.7	2.6	3.0
Occupancy Rate ¹ (%)	20.9	17.9	22.7	16.6	12.7
¹ Based on Staffed Beds					

<i>Historical Outpatient Services Volumes</i>					
	<i>Fiscal Years Ended September 30</i>				
	<i>2007</i>	<i>2006</i>	<i>2005</i>	<i>2004</i>	<i>2003</i>
Emergency room visits	4,933	5,153	5,251	4,831	4,116
Home Care visits	12,440	11,358	13,046	11,212	7,846
Employed physician practice visits	16,927	18,678	20,704	18,269	15,299

MUNICIPAL SECONDARY MARKET DISCLOSURE
Hills & Dales General Hospital Obligated Group
Fiscal Year Ended September 30, 2007
Page 2

<i>Historical Ancillary Services Volumes Provided to Inpatients</i>					
	<i>Fiscal Years Ended September 30</i>				
	<i>2007</i>	<i>2006</i>	<i>2005</i>	<i>2004</i>	<i>2003</i>
Laboratory procedures	39,023	34,781	39,419	38,311	46,016
Radiology procedures	577	550	687	565	551
CT scan procedures	148	168	224	175	153
Ultrasound procedures	240	191	249	123	114
Nuclear medicine procedures	18	10	15	9	21
Respiratory procedures	13,517	12,376	16,871	13,021	14,685
Electrocardiograms	1,103	1,036	1,358	1,014	1,140

<i>Historical Ancillary Services Volumes Provided to Outpatients</i>					
	<i>Fiscal Years Ended September 30</i>				
	<i>2007</i>	<i>2006</i>	<i>2005</i>	<i>2004</i>	<i>2003</i>
Laboratory procedures	174,417	182,999	187,411	204,554	226,043
Radiology procedures	7,313	7,442	8,014	8,271	8,178
CT scan procedures	2,307	1,576	1,833	1,804	1,403
Ultrasound procedures	2,006	1,764	1,939	1,776	1,428
Nuclear medicine procedures	599	581	708	769	601
Respiratory procedures	12,605	12,544	11,943	10,795	9,064
Electrocardiograms	1,220	1,245	1,131	1,062	1,050
Electroencephalograms	139	132	119	99	132

MUNICIPAL SECONDARY MARKET DISCLOSURE
Hills & Dales General Hospital Obligated Group
Fiscal Year Ended September 30, 2007
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<i>Historical Outpatient Therapy Volumes</i>					
	<i>Fiscal Years Ended September 30</i>				
	<i>2007</i>	<i>2006</i>	<i>2005</i>	<i>2004</i>	<i>2003</i>
Physical Therapy procedures:					
Cass City	3,578	3,920	3,573	4,867	4,450
Caro	6,831	6,856	5,010	5,482	5,988
Total Physical Therapy	10,409	10,776	8,583	10,349	10,438
Occupational Therapy procedures:					
Cass City	403	607	507	758	707
Caro	250	563	422	913	745
Total Occupational Therapy	653	1,170	929	1,671	1,452
Speech Therapy procedures:					
Cass City	27	2	73	78	6
Caro	58	10	1	16	0
Total Speech Therapy	85	12	74	94	6

<i>Historical Surgery Volumes</i>					
	<i>Fiscal Years Ended September 30</i>				
	<i>2007</i>	<i>2006</i>	<i>2005</i>	<i>2004</i>	<i>2003</i>
Inpatient procedures	156	187	260	187	217
Outpatient procedures	1,164	1,186	1,273	1,205	1,012
Total procedures	1,320	1,373	1,533	1,392	1,229
Percentage Outpatient	88.2%	86.4%	83.0%	86.6%	82.3%

MUNICIPAL SECONDARY MARKET DISCLOSURE
Hills & Dales General Hospital Obligated Group
Fiscal Year Ended September 30, 2007
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<i>Payor Mix by Gross Revenue</i>					
	<i>Fiscal Years Ended September 30</i>				
	<i>2007</i>	<i>2006</i>	<i>2005</i>	<i>2004</i>	<i>2003</i>
Medicare	44.8%	44.0%	45.9%	42.0%	38.7%
Medicaid	11.8%	12.3%	12.8%	11.8%	10.6%
Blue Cross	27.8%	27.7%	26.9%	27.2%	29.3%
PPOM ¹	4.9%	6.2%	4.9%	4.7%	4.8%
Commercial	5.5%	4.8%	5.3%	8.6%	10.9%
Self-Pay	0.2%	0.4%	0.2%	1.6%	2.4%
Other	5.0%	4.6%	4.0%	4.3%	3.3%
Totals	100.0%	100.0%	100.0%	100.0%	100.0%
¹ PPOM is a for-profit PPO product offered by Aetna Inc. ("Aetna"). Aetna acquired PPOM, along with other managed care products, from HMS Healthcare on July 18, 2005.					

The tables entitled "Balance Sheet Summary" and Summary of Statement of Operations" are included in the audited financial statements.

Hills & Dales General Hospital Obligated Group

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

Hills & Dales General Hospital Obligated Group

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Independent Auditor's Report

To the Board of Directors
Hills & Dales General Hospital Obligated Group

We have audited the accompanying special purpose combined balance sheet of Hills & Dales General Hospital Obligated Group (as defined in the Master Indenture dated December 15, 2005, between Hills & Dales General Hospital Obligated Group and Wells Fargo Bank, N.A., as trustee) as of September 30, 2007 and 2006 and the related special purpose combined statements of operations, changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Obligated Group's management. Our responsibility is to express an opinion on these 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.

As described in Note I, the special purpose financial statements were prepared in accordance with the accounting requirements set forth in Section 501 of the Master Indenture and are not intended to be a presentation in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the special purpose combined financial statements of Hills & Dales General Hospital Obligated Group as of and for the years ended September 30, 2007 and 2006 are fairly presented, in all material respects, on the basis of accounting described in Note I.

This report is intended solely for the information and use of the board of directors, the management of Hills & Dales General Hospital Obligated Group, the trustee under the Master Indenture, and bondholders and is not intended to be, and should not be, used by anyone other than these specified parties.

Plante & Moran, PLLC

November 30, 2007

Hills & Dales General Hospital Obligated Group

Combined Balance Sheet

	September 30, 2007	September 30, 2006
Assets		
Current Assets		
Cash and cash equivalents	\$ 1,002,733	\$ 1,322,731
Accounts receivable (Note 2)	2,877,999	2,341,023
Current portion of assets limited as to use (Note 4)	1,150,045	1,771,474
Prepaid expenses and other	94,129	112,231
Inventory	359,517	343,973
	<u>5,484,423</u>	<u>5,891,432</u>
Total current assets	5,484,423	5,891,432
Assets Limited as to Use - Net of current portion (Note 4)	1,568,104	4,589,414
Investments in Marketable Securities (Note 5)	733,875	669,702
Property and Equipment - Net (Note 6)	15,395,018	12,647,863
Other Assets	456,773	470,776
	<u>456,773</u>	<u>470,776</u>
Total assets	<u>\$ 23,638,193</u>	<u>\$ 24,269,187</u>
Liabilities and Net Assets		
Current Liabilities		
Note payable (Note 7)	\$ 225,000	\$ -
Current portion of long-term debt (Note 8)	253,868	379,091
Accounts payable	1,005,216	805,095
Estimated third-party payor settlements (Note 3)	745,231	993,759
Construction and retainage payable	355,232	645,489
Accrued liabilities (Note 10)	1,708,404	1,879,394
	<u>4,292,951</u>	<u>4,702,828</u>
Total current liabilities	4,292,951	4,702,828
Long-term Debt - Net of current portion (Note 8)	<u>14,248,720</u>	<u>14,525,326</u>
Total liabilities	18,541,671	19,228,154
Net Assets - Unrestricted	<u>5,096,522</u>	<u>5,041,033</u>
Total liabilities and net assets	<u>\$ 23,638,193</u>	<u>\$ 24,269,187</u>

Hills & Dales General Hospital Obligated Group

Combined Statement of Operations

	Year Ended	
	September 30, 2007	September 30, 2006
Unrestricted Revenue, Gains, and Other Support		
Net patient service revenue (Note 13)	\$ 17,748,717	\$ 15,778,838
Other	696,848	556,996
Total unrestricted revenue, gains, and other support	18,445,565	16,335,834
Expenses		
Salaries and wages	8,740,245	8,649,482
Employee benefits and payroll taxes	2,549,386	2,422,118
Operating supplies and expenses	4,209,077	3,754,089
Purchased services	1,085,911	712,808
Insurance	246,854	282,293
Depreciation and amortization	1,062,862	808,244
Provision for bad debts	601,272	528,392
Interest expense	442,996	215,400
Total expenses (Note 16)	18,938,603	17,372,826
Operating Loss	(493,038)	(1,036,992)
Other Income - Net (Note 12)	513,364	138,693
Excess of Revenue Over (Under) Expenses	20,326	(898,299)
Change in Unrealized Gains and Losses on Investments	35,163	(10,838)
Increase (Decrease) in Unrestricted Net Assets	\$ 55,489	\$ (909,137)

Hills & Dales General Hospital Obligated Group

Combined Statement of Changes in Net Assets

	Year Ended September 30	
	2007	2006
Increase (Decrease) in Unrestricted Net Assets	\$ 20,326	\$ (898,299)
Change in Unrealized Gains and Losses on Investments	35,163	(10,838)
Net Assets - Beginning of year	<u>5,041,033</u>	<u>5,950,170</u>
Net Assets - End of year	<u>\$ 5,096,522</u>	<u>\$ 5,041,033</u>

Hills & Dales General Hospital Obligated Group

Combined Statement of Cash Flows

	Year Ended	
	September 30, 2007	September 30, 2006
Cash Flows from Operating Activities		
Increase (decrease) in net assets	\$ 55,489	\$ (909,137)
Adjustments to reconcile increase (decrease) in net assets to net cash from operating activities:		
Depreciation and amortization	1,062,862	808,244
Realized gains on investments	(13,264)	-
Loss on disposal of equipment	-	5,804
Provision for bad debts	601,272	528,392
Changes in assets and liabilities that (used) provided cash:		
Accounts receivable	(1,138,248)	(15,908)
Prepaid expenses and other	18,102	(8,063)
Inventory	(15,544)	(23,737)
Other assets	14,003	-
Accounts payable	200,121	440,401
Accrued liabilities	(170,990)	136,174
Estimated third-party payor settlements	(248,528)	675,002
Net cash provided by operating activities	365,275	1,637,172
Cash Flows from Investing Activities		
Purchase of property and equipment	(4,093,545)	(5,673,203)
Proceeds from sale of property and equipment	-	2,323
Purchase of investments	(118,246)	-
Proceeds from sale of investments	60,608	-
Net change in assets limited as to use	3,642,739	(6,207,895)
Net cash used in investing activities	(508,444)	(11,878,775)
Cash Flows from Financing Activities		
Proceeds from debt obligations	-	18,349,653
Principal payment on debt obligations	(401,829)	(7,153,136)
Payment of bond financing costs	-	(357,600)
Proceeds from note payable	225,000	-
Net cash (used in) provided by financing activities	(176,829)	10,838,917
Net (Decrease) Increase in Cash and Cash Equivalents	(319,998)	597,314
Cash and Cash Equivalents - Beginning of year	1,322,731	725,417
Cash and Cash Equivalents - End of year	\$ 1,002,733	\$ 1,322,731
Supplemental Cash Flow Information		
Cash paid for interest, including amounts capitalized of \$463,641 and \$651,305 for the years ended September 30, 2007 and 2006, respectively.	\$ 959,538	\$ 459,604
Construction, retainage, and interest payable (property and equipment additions)	355,232	976,661

Hills & Dales General Hospital Obligated Group

Notes to Combined Financial Statements September 30, 2007 and 2006

Note I - Nature of Business and Significant Accounting Policies

Basis of Accounting - The accompanying combined financial statements have been prepared on a basis of accounting as required by Section 501 of the Master Indenture between Wells Fargo Bank, N.A., as trustee, and Hills & Dales General Hospital Obligated Group. The basis differs from accounting principles generally accepted in the United States of America in that it only includes the accounts of entities that comprise Hills & Dales General Hospital Obligated Group as defined below.

Reporting Entity and Corporate Structure - Hills & Dales General Hospital Obligated Group (the "Obligated Group") as defined by the Master Indenture dated December 15, 2005 includes the accounts of Hills & Dales Healthcare Corporation (the "Corporation") and Hills & Dales General Hospital, Inc. (the "Hospital"). All material intercompany balances and transactions have been eliminated.

Hills & Dales General Hospital, Inc., located in Cass City, Michigan, is a not-for-profit acute-care hospital. The Hospital is a subsidiary of Hills & Dales Healthcare Corporation, whose principal activity is to provide support for the Hospital and other related healthcare organizations. Each entity operates independently with its own board and management. The Hospital provides inpatient, outpatient, home care, and emergency services to residents of the Thumb Area of Michigan.

Cash and Cash Equivalents - The Obligated Group considers all liquid investments purchased with an original maturity of three months or less to be cash equivalents.

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 Obligated Group's ability to collect outstanding amounts. Uncollectible amounts are written off against the allowance for uncollectible 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 using 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 (generally determined on the first-in, first-out method), or market.

Assets Limited as to Use - Assets limited as to use include assets held by a trustee under bond indenture for future capital improvements and debt service requirements.

Hills & Dales General Hospital Obligated Group

Notes to Combined Financial Statements September 30, 2007 and 2006

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

Property and Equipment - Property and equipment acquisitions are recorded at cost. Donations of property and equipment are recorded at fair market value at the date of donation. Depreciation is computed on the straight-line basis over the estimated useful lives of the assets. Costs of maintenance and repairs are charged to expense when incurred.

Bond Issue Costs - Bond issue costs totaling \$341,952, net of accumulated amortization of \$38,625, included in other assets are being amortized using the interest method over the term of related debt.

Excess of Revenue Over (Under) Expenses - The combined statement of operations includes excess of revenue over (under) expenses. Changes in unrestricted net assets, which are excluded from excess of revenue over (under) expenses, consistent with industry practice, include net assets released from restrictions for the acquisition of long-lived assets, permanent transfers of assets to and from affiliates for other than goods and services, and changes in unrealized gains and losses on investments.

Operating and Nonoperating Activities - The Obligated Group's primary mission is to meet the healthcare needs of its local market area through a broad range of general and specialized healthcare services including inpatient acute-care, outpatient, and other healthcare services. Activities directly associated with the furtherance of this purpose are considered to be operating activities. Other activities that result in gains or losses unrelated to the Obligated Group's primary mission are considered to be nonoperating and are reported in other income, consisting primarily of investment income.

Net Patient Service Revenue - A significant portion of the Obligated Group's net patient service revenue is receivable under contractual agreements with Medicare, Medicaid, and Blue Cross/Blue Shield of Michigan. These agreements provide payments at amounts different from its established rates. 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 and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs.

Hills & Dales General Hospital Obligated Group

Notes to Combined Financial Statements September 30, 2007 and 2006

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

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

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

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

Charity Care - The Obligated Group provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Obligated Group does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. Charity care amounts are not significant.

Tax Status - All entities comprising the Obligated Group are tax exempt under the Internal Revenue Code and, accordingly, no tax provision is reflected in the combined financial statements.

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.

Hills & Dales General Hospital Obligated Group

Notes to Combined Financial Statements September 30, 2007 and 2006

Note 2 - Accounts Receivable

The details of accounts receivable are set forth as follows:

	2007	2006
Patient accounts receivable	\$ 5,071,486	\$ 4,433,939
Less allowance for uncollectible accounts	(520,000)	(520,000)
Less allowance for contractual adjustments and interim payment advances	(2,075,320)	(1,953,270)
Total patient accounts receivable	2,476,166	1,960,669
Other receivables	401,833	380,354
Total accounts receivable	\$ 2,877,999	\$ 2,341,023

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

	Percentage	
	2007	2006
Medicare	40	44
Medicaid	9	8
Blue Cross/Blue Shield of Michigan	16	14
Commercial insurance	18	16
Patients	17	18
Total	100	100

Note 3 - Cost Report Settlements

The Obligated Group has agreements with various payors that provide for reimbursement to the Obligated Group at amounts different from its established rates. A summary of the basis of reimbursement with significant third-party payors is as follows:

- **Medicare** - The Obligated Group is designated as a critical access hospital under the Medicare regulations. Critical access hospitals receive cost reimbursement for all acute care inpatient and outpatient services.

Hills & Dales General Hospital Obligated Group

Notes to Combined Financial Statements September 30, 2007 and 2006

Note 3 - Cost Report Settlements (Continued)

- **Medicaid** - Inpatient, acute-care services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. Inpatient capital costs relating to Medicaid patients are paid on a cost reimbursement method. Outpatient services are reimbursed on an established fee-for-service methodology or ambulatory payment classification system.
- **Blue Cross/Blue Shield of Michigan** - Services rendered to Blue Cross subscribers are reimbursed at charges subject to a limitation on the annual rate of increase.

Cost report settlements result from the adjustment of interim payments to final reimbursement under these programs, which is subject to audit by fiscal intermediaries. These audits may result in some changes to estimated cost report settlements and will be adjusted in future periods as final settlements are determined. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Final cost report settlements increased net patient service revenue by approximately \$656,000 and \$263,000 for the years ended September 30, 2007 and 2006, respectively, reflecting amount settlements received for prior years in excess of previously estimated amounts.

Note 4 - Assets Limited as to Use

Assets limited as to use consist of the following:

	<u>2007</u>	<u>2006</u>
Funds held in trust under bond indentures related to Debt Service Reserve Fund, Project Fund, and Capitalized Interest Fund:		
Cash and cash equivalents	\$ 115,645	\$ 252,574
Short-term private debt obligations	2,102,504	5,608,314
Less amount for payment of current liabilities	<u>(1,150,045)</u>	<u>(1,771,474)</u>
Total funds held in trust under bond indentures	1,068,104	4,089,414
Funds held under affiliate guarantee arrangement (Note 14)	<u>500,000</u>	<u>500,000</u>
Total assets limited as to use	<u>\$ 1,568,104</u>	<u>\$ 4,589,414</u>

The funds held in trust for bond requirements are subject to the terms of the Obligated Group's bonds payable detailed in Note 8.

Hills & Dales General Hospital Obligated Group

Notes to Combined Financial Statements September 30, 2007 and 2006

Note 5 - Investments

Investments are reported at fair value. Fair value is generally determined using quoted market prices. The composition of investments at September 30, 2007 and 2006 is as follows:

	<u>2007</u>	<u>2006</u>
Cash and cash equivalents	\$ 51,416	\$ 55,106
Government bonds	351,656	324,967
Common stocks	330,802	289,629
Total	<u>\$ 733,874</u>	<u>\$ 669,702</u>

Investment income and gains and losses are comprised of the following for the years ended September 30, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Income:		
Interest income included in other income, net of fees	\$ 135,503	\$ 138,428
Realized gains on investments	13,264	-
Change in net unrealized gains and losses on investments	35,163	(10,838)
Total	<u>\$ 183,930</u>	<u>\$ 127,590</u>

Note 6 - Property and Equipment

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

	<u>2007</u>	<u>2006</u>	<u>Depreciable Life - Years</u>
Land	\$ 716,251	\$ 361,251	-
Land improvements	625,988	575,685	5-25
Buildings	15,545,539	7,420,988	5-50
Equipment	10,409,487	9,255,850	3-5
Construction in progress	-	5,892,786	-
Total cost	27,297,265	23,506,560	
Accumulated depreciation	<u>(11,902,247)</u>	<u>(10,858,697)</u>	
Net property and equipment	<u>\$ 15,395,018</u>	<u>\$ 12,647,863</u>	

Hills & Dales General Hospital Obligated Group

Notes to Combined Financial Statements September 30, 2007 and 2006

Note 6 - Property and Equipment (Continued)

Depreciation and amortization expense was \$1,062,862 and \$808,244 for the years ended September 30, 2007 and 2006, respectively.

Construction in progress at September 30, 2006 represents costs related to a hospital expansion project. The construction project was completed and placed into service during the year ended September 30, 2007. The construction project was financed through the issuance of various bonds detailed in Note 8.

Note 7 - Note Payable

The Obligated Group has an operating line of credit with a local bank in the amount of \$500,000 with an effective interest rate of 8.0 percent, the prime rate plus .25 percent, at September 30, 2007. At September 30, 2007, the Obligated Group had draws on the line of \$225,000. The Obligated Group had no borrowings at September 30, 2006. The line of credit is secured by buildings, real estate, and substantially all assets of the Obligated Group and expires June 30, 2008.

Note 8 - Long-term Debt

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

	2007	2006
Hospital revenue bonds, Series 2005A	\$ 11,624,653	\$ 11,624,653
Taxable hospital revenue refunding bonds, Series 2005	1,034,157	1,100,000
Hospital revenue refunding bonds, Series 2006A	1,667,064	1,775,000
Capital lease obligations	71,316	263,583
Other	105,398	141,181
Total	14,502,588	14,904,417
Less current portion	253,868	379,091
Long-term portion	<u>\$ 14,248,720</u>	<u>\$ 14,525,326</u>

Hospital revenue bonds, Series 2005A, consist of hospital revenue bonds payable to the Michigan State Hospital Finance Authority. The bonds are issued to Hills & Dales General Hospital, Inc., as obligated group agent, on behalf of the Obligated Group. The bonds require interest-only payments at a fixed rate of 6.75 percent until 2022. Beginning in 2022, the bonds are payable annually in amounts ranging from \$355,000 to \$1,075,000 through 2039.

Hills & Dales General Hospital Obligated Group

Notes to Combined Financial Statements September 30, 2007 and 2006

Note 8 - Long-term Debt (Continued)

Taxable hospital revenue bonds, Series 2005, consist of taxable hospital revenue refunding bonds payable to a financial institution. The bonds are the joint and several obligations of the Obligated Group. The bonds carry interest rates ranging from 5.70 percent to 7.45 percent and are payable annually in amounts ranging from \$50,000 to \$115,000 through 2021.

Hospital obligated group bonds payable, Series 2006A, consist of hospital revenue refunding serial bonds payable to the County of Tuscola Hospital Finance Authority. The bonds are the joint and several obligations of the Obligated Group. The bonds carry interest rates ranging from 3.80 percent to 5.10 percent and are payable annually in amounts ranging from \$100,000 to \$155,000 through 2021.

All of the bonds are payable from the revenue of the Obligated Group and are collateralized by a mortgage on certain real property of the Hospital, a security interest in certain personal property of the Hospital, and a pledge of gross revenue of the Obligated Group.

Under the terms of the bond indentures, the Obligated Group is required to maintain certain deposits with a trustee. Such deposits are included with assets limited as to use. The note indentures also place limits on the incurrence of additional borrowings and requires that the Obligated Group satisfy certain measures of financial performance as long as the notes are outstanding. The Obligated Group is in compliance with these covenants at September 30, 2007.

Capital lease obligations require monthly payments ranging from \$747 to \$5,479, including imputed interest ranging from 6.48 percent to 6.50 percent through 2009. The leases are collateralized by the leased equipment.

Minimum principal payments on long-term debt and capital lease obligations are as follows:

<u>Year Ending September 30</u>	<u>Long-term Debt</u>	<u>Capital Lease Obligations</u>
2008	\$ 193,403	\$ 61,012
2009	165,954	12,528
2010	168,333	-
2011	168,333	-
2012	178,335	-
Thereafter	<u>13,556,914</u>	<u>-</u>
Total minimum payments	14,431,272	73,540
Less amount representing interest	<u>-</u>	<u>(2,224)</u>
Net minimum payments	<u>\$ 14,431,272</u>	<u>\$ 71,316</u>

Hills & Dales General Hospital Obligated Group

Notes to Combined Financial Statements September 30, 2007 and 2006

Note 8 - Long-term Debt (Continued)

A summary of interest cost and investment income on borrowed funds held by the trustee under the revenue bond indentures during the years ended September 30, 2007 and 2006 is as follows:

	<u>2007</u>	<u>2006</u>
Interest cost	\$ 463,641	\$ 651,305
Investment income	274,960	158,071

Note 9 - Operating Leases

The Obligated Group leases equipment under an operating leases requiring monthly payments ranging from \$19,800 to \$29,351 and expiring through November 2010. The minimum lease payments under the operating leases are \$352,211 for years 2008 through 2010. Lease expense amounted to \$374,161 and \$201,979 for the years ended September 30, 2007 and 2006, respectively.

Note 10 - Accrued Liabilities

The detail of accrued liabilities is as follows:

	<u>2007</u>	<u>2006</u>
Payroll and related items	\$ 781,002	\$ 874,912
Compensated absences	423,202	447,381
Accrued interest	354,200	407,101
Professional liability claims	150,000	150,000
Total accrued liabilities	<u>\$ 1,708,404</u>	<u>\$ 1,879,394</u>

Note 11 - Pension Plan

The Obligated Group maintains a defined contribution pension plan covering substantially all employees. The plan includes a 50 percent employer match of participant contributions up to 1 percent of compensation, with the potential for an additional discretionary contribution. Participants are eligible for the employer match after age 21 and one year of service. Pension expense for the defined contribution plan was \$167,617 and \$172,410 for the years ended September 30, 2007 and 2006, respectively.

Hills & Dales General Hospital Obligated Group

Notes to Combined Financial Statements September 30, 2007 and 2006

Note 12 - Other Income - Net

Details of other income are as follows:

	<u>2007</u>	<u>2006</u>
Unrestricted contributions	\$ 377,861	\$ 265
Investment income	135,503	138,428
Total other income - Net	<u>\$ 513,364</u>	<u>\$ 138,693</u>

Note 13 - Net Patient Service Revenue

Net patient service revenue consists of the following:

	<u>2007</u>	<u>2006</u>
Patient revenue:		
Inpatient services	\$ 4,106,694	\$ 3,438,836
Outpatient services	18,283,595	16,799,362
Other patient revenue	1,948,074	1,585,252
Total patient revenue	24,338,363	21,823,450
Provision for contractual allowances	<u>6,589,646</u>	<u>6,044,612</u>
Total	<u>\$ 17,748,717</u>	<u>\$ 15,778,838</u>

Note 14 - Professional Liability Insurance

The Obligated Group 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 Obligated Group bears the risk of the ultimate costs of any individual and aggregate claims exceeding the policy limits for claims asserted in the policy year, certain deductibles under the policy, and any claims that have not been reported to the insurance carrier.

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.

Hills & Dales General Hospital Obligated Group

Notes to Combined Financial Statements September 30, 2007 and 2006

Note 15 - Related Party Transactions

The Obligated Group has guaranteed a certain bond to an affiliate. In the event of a default by the affiliate, the Obligated Group could be required to repay the full amount of the guarantee. As of September 30, 2007, the maximum potential future payments under this guarantee total \$500,000 and are payable through March 15, 2017. In the event the Obligated Group is required to make payments under this guarantee, the Obligated Group could seek to recover those amounts from the affiliate; however, the Obligated Group does not hold specific recourse or collateral rights in connection with the guarantee.

In addition, the Obligated Group has invested approximately \$339,000 in this affiliate. In the event the affiliate's financial position and operational results are sufficient to do so, it is anticipated that the affiliate will transfer these funds back to the Obligated Group.

Note 16 - Functional Expenses

The Obligated Group provides general healthcare services to residents within its geographic location. Expenses related to providing these services are as follows:

	<u>2007</u>	<u>2006</u>
Healthcare services	\$ 11,992,471	\$ 10,977,734
General and administrative	<u>6,946,132</u>	<u>6,395,092</u>
Total	<u>\$ 18,938,603</u>	<u>\$ 17,372,826</u>

Additional Information

To the Board of Directors
Hills & Dales General Hospital Obligated Group

We have audited the special purpose combined financial statements of Hills & Dales General Hospital Obligated Group as of September 30, 2007 and 2006. Our audits were made for the purpose of forming an opinion on the combined financial statements taken as a whole. The combining information in the accompanying schedules is presented for the purpose of additional analysis of the combined financial statements rather than to present the financial position and results of operations of the individual entities and is not a required part of the basic combined financial statements. The combining information has been subjected to the procedures applied in the audits of the combined financial statements and, in our opinion, is fairly stated in all material respects in relation to the combined financial statements taken as a whole.

Plante & Moran, PLLC

November 30, 2007

Hills & Dales General Hospital Obligated Group

Combining Balance Sheet September 30, 2007

	Hills & Dales General Hospital, Inc.	Hills & Dales Healthcare Corporation	Total
Assets			
Current Assets			
Cash and cash equivalents	\$ 858,690	\$ 144,043	\$ 1,002,733
Accounts receivable	2,860,774	17,225	2,877,999
Current portion of assets limited as to use	1,150,045	-	1,150,045
Prepaid expenses and other	94,129	-	94,129
Inventory	359,517	-	359,517
Total current assets	5,323,155	161,268	5,484,423
Assets Limited as to Use - Net of current portion	1,068,104	500,000	1,568,104
Investments in Marketable Securities	-	733,875	733,875
Property and Equipment - Net	14,539,363	855,655	15,395,018
Other Assets	456,773	-	456,773
Total assets	<u>\$ 21,387,395</u>	<u>\$ 2,250,798</u>	<u>\$ 23,638,193</u>
Liabilities and Net Assets			
Current Liabilities			
Note payable	\$ 225,000	\$ -	\$ 225,000
Current portion of long-term debt	240,535	13,333	253,868
Accounts payable	934,761	70,455	1,005,216
Estimated third-party payor settlements	745,231	-	745,231
Construction and retainage payable	355,232	-	355,232
Accrued liabilities	1,708,404	-	1,708,404
Total current liabilities	4,209,163	83,788	4,292,951
Long-term Debt - Net of current portion	14,195,386	53,334	14,248,720
Total liabilities	18,404,549	137,122	18,541,671
Net Assets - Unrestricted	2,982,846	2,113,676	5,096,522
Total liabilities and net assets	<u>\$ 21,387,395</u>	<u>\$ 2,250,798</u>	<u>\$ 23,638,193</u>

Hills & Dales General Hospital Obligated Group

Combining Balance Sheet (Continued) September 30, 2006

	Hills & Dales General Hospital, Inc.	Hills & Dales Healthcare Corporation	Total
Assets			
Current Assets			
Cash and cash equivalents	\$ 1,194,754	\$ 127,977	\$ 1,322,731
Accounts receivable	2,332,261	8,762	2,341,023
Current portion of assets limited as to use	1,771,474	-	1,771,474
Prepaid expenses and other	112,231	-	112,231
Inventory	343,973	-	343,973
Total current assets	5,754,693	136,739	5,891,432
Assets Limited as to Use - Net of current portion	4,089,414	500,000	4,589,414
Investments in Marketable Securities	-	669,702	669,702
Property and Equipment - Net	12,140,641	507,222	12,647,863
Other Assets	470,776	-	470,776
Total assets	<u>\$ 22,455,524</u>	<u>\$ 1,813,663</u>	<u>\$ 24,269,187</u>
Liabilities and Net Assets			
Current Liabilities			
Current portion of long-term debt	\$ 365,758	\$ 13,333	\$ 379,091
Accounts payable	734,386	70,709	805,095
Estimated third-party payor settlements	993,759	-	993,759
Construction and retainage payable	645,489	-	645,489
Accrued liabilities	1,879,394	-	1,879,394
Total current liabilities	4,618,786	84,042	4,702,828
Long-term Debt - Net of current portion	14,458,659	66,667	14,525,326
Total liabilities	19,077,445	150,709	19,228,154
Net Assets - Unrestricted	3,378,079	1,662,954	5,041,033
Total liabilities and net assets	<u>\$ 22,455,524</u>	<u>\$ 1,813,663</u>	<u>\$ 24,269,187</u>

Hills & Dales General Hospital Obligated Group

Combining Statement of Operations Year Ended September 30, 2007

	Hills & Dales General Hospital, Inc.	Hills & Dales Healthcare Corporation	Total
Unrestricted Revenue, Gains, and Other Support			
Total patient service revenue	\$ 24,338,363	\$ -	\$ 24,338,363
Revenue deductions	(6,589,646)	-	(6,589,646)
Net patient service revenue	17,748,717	-	17,748,717
Other	677,639	19,209	696,848
Total unrestricted revenue, gains, and other support	18,426,356	19,209	18,445,565
Expenses			
Salaries and wages	8,740,245	-	8,740,245
Employee benefits and payroll taxes	2,549,386	-	2,549,386
Operating supplies and expenses	4,198,939	10,138	4,209,077
Purchased services	1,085,911	-	1,085,911
Insurance	246,854	-	246,854
Depreciation and amortization	1,056,295	6,567	1,062,862
Provision for bad debts	601,272	-	601,272
Interest expense	439,404	3,592	442,996
Total expenses	18,918,306	20,297	18,938,603
Operating Loss	(491,950)	(1,088)	(493,038)
Other Income	96,717	416,647	513,364
Excess of Revenue (Under) Over Expenses	(395,233)	415,559	20,326
Change in Unrealized Gains and Losses on Investments	-	35,163	35,163
(Decrease) Increase in Unrestricted Net Assets	\$ (395,233)	\$ 450,722	\$ 55,489

Hills & Dales General Hospital Obligated Group

Combining Statement of Operations Year Ended September 30, 2006

	Hills & Dales General Hospital, Inc.	Hills & Dales Healthcare Corporation	Total
Unrestricted Revenue, Gains, and Other Support			
Total patient service revenue	\$ 21,823,450	\$ -	\$ 21,823,450
Revenue deductions	(6,044,612)	-	(6,044,612)
Net patient service revenue	15,778,838	-	15,778,838
Other	510,911	46,085	556,996
Total unrestricted revenue, gains, and other support	16,289,749	46,085	16,335,834
Expenses			
Salaries and wages	8,649,482	-	8,649,482
Employee benefits and payroll taxes	2,422,118	-	2,422,118
Operating supplies and expenses	3,726,656	27,433	3,754,089
Purchased services	712,808	-	712,808
Insurance	282,293	-	282,293
Depreciation and amortization	801,549	6,695	808,244
Provision for bad debts	528,392	-	528,392
Interest expense	211,209	4,191	215,400
Total expenses	17,334,507	38,319	17,372,826
Operating (Loss) Income	(1,044,758)	7,766	(1,036,992)
Other Income	69,960	68,733	138,693
Excess of Revenue (Under) Over Expenses	(974,798)	76,499	(898,299)
Transfer (to) from Affiliate	(400,000)	400,000	-
Change in Unrealized Gains and Losses on Investments	-	(10,838)	(10,838)
(Decrease) Increase in Unrestricted Net Assets	\$ (1,374,798)	\$ 465,661	\$ (909,137)

Hills & Dales General Hospital Obligated Group

Combining Statement of Changes in Net Assets Year Ended September 30, 2007

	Hills & Dales General Hospital, Inc.	Hills & Dales Healthcare Corporation	Total
Unrestricted Net Assets			
Excess of revenue (under) over expenses	\$ (395,233)	\$ 415,559	\$ 20,326
Change in unrealized gains and losses on investments	-	35,163	35,163
(Decrease) Increase in Unrestricted Net Assets	(395,233)	450,722	55,489
Net Assets - Beginning of year	<u>3,378,079</u>	<u>1,662,954</u>	<u>5,041,033</u>
Net Assets - End of year	<u>\$ 2,982,846</u>	<u>\$ 2,113,676</u>	<u>\$ 5,096,522</u>

Hills & Dales General Hospital Obligated Group

Combining Statement of Changes in Net Assets Year Ended September 30, 2006

	Hills & Dales General Hospital, Inc.	Hills & Dales Healthcare Corporation	Total
Unrestricted Net Assets			
Excess of revenue (under) over expenses	\$ (974,798)	\$ 76,499	\$ (898,299)
Change in unrealized gains and losses on investments	-	(10,838)	(10,838)
Transfer (to) from affiliate	(400,000)	400,000	-
(Decrease) Increase in Unrestricted Net Assets	(1,374,798)	465,661	(909,137)
Net Assets - Beginning of year	4,752,877	1,197,293	5,950,170
Net Assets - End of year	\$ 3,378,079	\$ 1,662,954	\$ 5,041,033