

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):

\$12,175,000

City of Hillsdale Hospital Finance Authority (Michigan)

Hospital Revenue Bonds, Series 1998

Hillsdale Community Health Center

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

432492AE6

432492AF3

432492AG1

432492AH9

432492AJ5

432492AL0

432492AM8

432492AN6

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) 33 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: July 1, 2001 – June 30, 2002 (FY2002)

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

Fiscal Period Covered: July 1, 2001 – June 30, 2002 (FY2002)

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 I. Aronson Title President
Employer First River Advisory L.L.C.
Address 398 Thornden Street City South Orange State NJ Zip Code 07079
Telephone (973) 275-0454 Fax (973) 275-0461
Email Address aronson@firstriver.com Relationship to Issuer Dissemination Agent

Obligor Contact, if any:

Name Ronald M. Larsen Title Chief Financial Officer
Employer Hillsdale Community Health Center
Address 168 South Howell Street City Hillsdale State MI Zip Code 49242
Telephone (517) 437-5232 Fax (517) 437-0246
Email Address _____ Obligor Web Site Address _____

Investor Relations Contact, if any:

Name _____ Title _____
Telephone _____ Email Address _____

HILLSDALE COMMUNITY HEALTH CENTER

168 South Howell Street
Hillsdale, MI 49242

OFFICER'S CERTIFICATE

DATED: OCTOBER 21, 2002

Pursuant to Section 5.6(b)(i) of the Loan Agreement dated as of June 15, 1998 between the City of Hillsdale Hospital Finance Authority and Hillsdale Community Health Center, the undersigned hereby certifies that, to the best of my knowledge, no Event of Default under the Loan Agreement exists, nor has any event occurred which, with notice and/or passage of time, would constitute such an Event of Default. All capitalized terms used herein are defined in such Loan Agreement.

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

- i. Audited financial statements prepared in accordance with GAAP by an Independent Public Accountant, in compliance with Section 5.6(a)(i) of the Loan Agreement; and
- ii. The Annual Report referred to in the Continuing Disclosure Agreement dated as of June 15, 1998, in accordance with Rule 15c2-12 of the Securities Exchange Commission.

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



Charles A. Bianchi, President

HILLSDALE COMMUNITY HEALTH CENTER

ANNUAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2001 (FY2002)

Unless otherwise noted, all data apply to the Fiscal Year Ended June 30, 2002, or are accurate as of June 30, 2002, as appropriate. OS pages refer to the Official Statement relating to the Securities, dated June 17, 1998.

MEDICAL STAFF

<i>Active Staff Specialization</i> [OS Page A-12]					
<i>Internal Medicine</i>		<i>Surgery</i>		<i>Other</i>	
General	4	General Surgery	2	Family Practice	6
Cardiology	1			Obstetrics/Gynecology	2
Gastroenterology	2	Ophthalmology	1	Pediatrics	3
Oncology	1	Orthopedic Surgery	4	Emergency Medicine	2
Neurology	1	Otorhinolaryngology	1	Pathology	1
		Podiatry	2	Radiology	2
		Urology	2	Chiropractic	4
Total Internal Medicine	9	Total Surgery	12	GRAND TOTAL	41

<i>Age Distribution of the Active Staff</i> [OS Page A-13]		
<i>Age Range</i>	<i>Number of Physicians</i>	<i>Percent of Active Staff</i>
34 and under	7	17.1%
35 - 44	15	36.6%
45 - 54	17	41.5%
55 - 64	2	4.9%
65 and over	0	0.0%
TOTAL	41	

Note: Column may not add to 100.0 due to rounding

<i>Active Staff Physicians, by Major Specialty</i> [OS Page A-13]				
	<i>Number</i>	<i>Median Age</i>	<i>Number Board-Certified</i>	<i>Number Board-Eligible</i>
Family Practice	6	41	6	0
Internal Medicine	9	48	8	1
Surgery	12	38	7	5
Obstetrics/Gynecology	2	48	1	1

MUNICIPAL SECONDARY MARKET DISCLOSURE
City of Hillsdale Hospital Finance Authority / Hillsdale Community Health Center
Fiscal Year Ended June 30, 2002

<i>Active Staff Physicians, by Practice Location</i> <i>[OS Page A-14]</i>	
Physicians' Office Building	13
Other City of Hillsdale Locations	20
Hospital-Based	5
<i>Subtotal, City of Hillsdale Locations</i>	38
Hudson	0
Jonesville	1
Litchfield	1
Quincy	0
Battle Creek	0
Jackson	1
Total	41
Note: During FY2002, physicians vacated the on-campus Medical Building and moved to a physician-owned Physicians' Office Building located elsewhere in Hillsdale, where they were joined by other physicians	

<i>Gross Revenue Attributable to Physician Referrals</i> <i>[OS Page A-14]</i>		
	<i>\$000 Omitted</i>	<i>Percentage</i>
Active Staff	47,250	81.0%
Physicians holding consulting or courtesy privileges, plus <i>locum tenens</i> physicians	8,965	15.4%
Unassigned Revenue	2,131	3.7%
Total Revenue	58,346	100.0%

MUNICIPAL SECONDARY MARKET DISCLOSURE
City of Hillsdale Hospital Finance Authority / Hillsdale Community Health Center
Fiscal Year Ended June 30, 2002

<i>Leading Referring Physicians</i> <i>[OS Page A-15]</i>						
<i>Rank</i>	<i>Specialty or Subspecialty</i>	<i>Age</i>	<i>Board-Certified / Eligible</i>	<i>Gross Revenue</i>	<i>Percent of Gross Revenue</i>	<i>Cumulative Percent</i>
1	Orthopedic Surgery	44	C	\$5,924,605	10.2%	10.2%
2	Internal Medicine	34	C	\$3,906,858	6.7%	16.9%
3	Internal Medicine	47	C	\$3,453,981	5.9%	22.8%
4	Orthopedic Surgery	41	E	\$3,060,930	5.2%	28.0%
5	Gastroenterology	45	C	\$2,941,408	5.0%	33.1%
6	Obstetrics/Gynecology	50	C	\$2,565,892	4.4%	37.5%
7	General Surgery	44	E	\$2,202,632	3.8%	41.2%
8	Internal Medicine	48	C	\$2,092,732	3.6%	44.8%
9	Gastroenterology	53	E	\$1,899,312	3.3%	48.1%
10	General Surgery	36	C	\$1,887,239	3.2%	51.3%
			C = Certified E = Eligible			

MUNICIPAL SECONDARY MARKET DISCLOSURE
City of Hillsdale Hospital Finance Authority / Hillsdale Community Health Center
Fiscal Year Ended June 30, 2002

SERVICE VOLUMES AND UTILIZATION

<i>Historical Adult Medical/Surgical (Including CCU) Utilization (excludes newborns) [OS Page A-17]</i>					
	<i>Fiscal Years Ended June 30</i>				
	<i>2002</i>	<i>2001</i>	<i>2000</i>	<i>1999</i>	<i>1998</i>
Days in Period	365	365	366	365	365
Licensed Beds	47	47	47	47	47
Available Beds	40	40	40	31	31
Admissions	2,546	2,410	2,317	2,244	2,166
Patient Days	8,760	8,621	9,398	9,633	9,682
Average Daily Census	24.0	23.6	25.7	26.4	26.5
Average LOS	3.4	3.6	4.1	4.3	4.5
Occupancy Rate (%)*	60.0	59.0	64.2	85.1	85.6
* Based on Available Beds rather than Licensed Beds					

<i>Historical Pediatrics Utilization (excludes newborns) [OS Page A-17]</i>					
	<i>Fiscal Years Ended June 30</i>				
	<i>2002</i>	<i>2001</i>	<i>2000</i>	<i>1999</i>	<i>1998</i>
Days in Period	365	365	366	365	365
Licensed Beds	9	9	9	9	9
Available Beds	4	4	4	4	4
Admissions	123	106	103	96	133
Patient Days	262	304	316	233	412
Average Daily Census	0.7	0.8	0.9	0.6	1.1
Average LOS	2.1	2.9	3.1	2.4	3.1
Occupancy Rate (%)*	17.9	20.8	21.6	16.0	28.2
* Based on Available Beds rather than Licensed Beds					

MUNICIPAL SECONDARY MARKET DISCLOSURE
City of Hillsdale Hospital Finance Authority / Hillsdale Community Health Center
Fiscal Year Ended June 30, 2002

<i>Historical Obstetrics Utilization</i> (excludes newborns) [OS Page A-18]					
	<i>Fiscal Years Ended June 30</i>				
	<i>2002</i>	<i>2001</i>	<i>2000</i>	<i>1999</i>	<i>1998</i>
Days in Period	365	365	366	365	365
Licensed Beds	9	9	9	9	9
Available Beds	8	8	8	8	8
Admissions	469	497	498	428	437
Patient Days	923	939	799	799	903
Average Daily Census	2.5	2.6	2.2	2.2	2.5
Average LOS	2.0	1.9	1.6	1.9	2.1
Occupancy Rate (%)*	31.6	32.2	27.3	27.4	30.9

* Based on Available Beds rather than Licensed Beds

<i>Historical Acute Care Utilization</i> (excludes newborns) [OS Page A-19]					
	<i>Fiscal Years Ended June 30</i>				
	<i>2002</i>	<i>2001</i>	<i>2000</i>	<i>1999</i>	<i>1998</i>
Days in Period	365	365	366	365	365
Licensed Beds	65	65	65	65	65
Available Beds	52	52	52	43	43
Admissions	3,137	3,013	2,918	2,768	2,736
Adjusted Admissions ^{1,2}	7,097	6,786	6,316	5,853	5,386
Patient Days	9,949	9,864	10,688	10,665	10,997
Average Daily Census	27.3	27.0	29.2	29.2	30.1
Average LOS	3.2	3.3	3.7	3.9	4.0
Occupancy Rate (%) ³	52.4	52.0	56.2	68.0	70.1
Net Patient Revenue per Adjusted Admission ^{1,4}	\$5,019	\$4,727	\$4,605	\$4,583	\$4,703
Gross Outpatient Revenue per Adjusted Admission ^{1,4}	\$4,774	\$4,609	\$4,382	\$4,124	\$3,838

¹ The FY2001 figure reported in the report relating to FY2001 was erroneous; this is the correct figure
² Admissions are adjusted by the percentage gross revenue attributable to outpatient services
³ Based on Available Beds rather than Licensed Beds
⁴ Calculated by management from the Corporation's audited financial statements and other records, using definitions published by Standard & Poor's Corporation in *CreditWeek Municipal*, October 20, 1997 and in *CreditWeek*, October 1994

MUNICIPAL SECONDARY MARKET DISCLOSURE
City of Hillsdale Hospital Finance Authority / Hillsdale Community Health Center
Fiscal Year Ended June 30, 2002

<i>McGuire Unit Utilization</i> <i>[OS Page A-20]</i>					
	<i>Fiscal Years Ended June 30</i>				
	<i>2002</i>	<i>2001</i>	<i>2000</i>	<i>1999</i>	<i>1998</i>
Days in Period*	365	365	366	365	365
Licensed Beds	21	21	21	21	21
Patient Days	6,516	6,629	6,747	7,042	7,225
Average Daily Census	17.9	18.2	18.4	19.3	19.8
Occupancy Rate (%)	85.0	86.5	87.8	91.9	94.3

<i>Surgical Procedures</i> <i>[OS Page A-20]</i>					
	<i>Fiscal Years Ended June 30</i>				
	<i>2002</i>	<i>2001</i>	<i>2000</i>	<i>1999</i>	<i>1998</i>
Inpatient	933	818	786	858	791
Outpatient	2,781	2,443	2,171	1,912	1,573
Total	3,714	3,261	2,957	2,770	2,364
Percent Outpatient (%)	74.9	74.9	73.4	69.0	66.5

<i>Emergency Department Volumes</i> <i>[OS Page A-21]</i>					
	<i>Fiscal Years Ended June 30</i>				
	<i>2002</i>	<i>2001</i>	<i>2000</i>	<i>1999</i>	<i>1998</i>
Visits	29,178	27,488	26,376	25,238	23,300
Change over Previous Period (%)	6.1	4.2	4.5	8.3	3.6
Transfers to Other Hospitals	133	139	139	122	134
Transfers per Thousand ED Visits	4.6	5.1	5.3	4.8	5.8

<i>Outpatient Service Volumes</i> <i>[OS Page A-21]</i>					
	<i>Fiscal Years Ended June 30</i>				
	<i>2002</i>	<i>2001</i>	<i>2000</i>	<i>1999</i>	<i>1998</i>
Scheduled Registrations	108,673	104,419	101,221	96,661	91,622
Change over Previous Period (%)	4.1	3.2	4.7	5.5	0.0

MUNICIPAL SECONDARY MARKET DISCLOSURE
City of Hillsdale Hospital Finance Authority / Hillsdale Community Health Center
Fiscal Year Ended June 30, 2002

<i>Ancillary Services Provided to <u>Inpatients</u></i> <i>[OS Page A-22]</i>					
	<i>Fiscal Years Ended June 30</i>				
	<i>2002</i>	<i>2001</i>	<i>2000</i>	<i>1999</i>	<i>1998</i>
Laboratory ¹	62,754	59,755	57,810	55,045	62,345
MRI Scanning ²	111	109	86	65	138
CT Scanning ²	1,121	1,022	873	652	627
Ultrasonography ²	2,429	2,610	2,425	2,157	1,400
Other Radiology ²	4,802	4,863	5,182	4,847	5,163
Nuclear Medicine ²	343	463	414	539	465
Electrocardiography ¹	4,030	4,300	4,310	4,351	4,326
Electroencephalography ¹	47	22	15	11	7
Cardiovascular Lab ^{3,4}	56	115	77	105	94
Physical Therapy ³	1,932	1,826	2,054	1,942	1,639
Respiratory Therapy ³	27,062	22,094	24,391	25,824	28,452
¹ Tests	² Examinations	³ Procedures	⁴ Includes stress tests, Holter monitors, vascular studies and cardiac rehabilitation		

MUNICIPAL SECONDARY MARKET DISCLOSURE
City of Hillsdale Hospital Finance Authority / Hillsdale Community Health Center
Fiscal Year Ended June 30, 2002

<i>Ancillary Services Provided to Outpatients</i> <i>(includes ED, Home Care and McGuire Unit patients)</i> <i>[OS Page A-23]</i>					
	<i>Fiscal Years Ended June 30</i>				
	<i>2002</i>	<i>2001</i>	<i>2000</i>	<i>1999</i>	<i>1998</i>
Laboratory ¹	212,245	193,108	180,740	169,872	174,709
MRI Scanning ²	1,757	1,365	1,166	991	894
CT Scanning ²	4,064	3,351	2,858	1,871	1,784
Ultrasonography ²	7,204	6,840	6,810	5,922	4,352
Other Radiology ²	30,198	29,752	23,898	22,598	21,303
Nuclear Medicine ²	4,946	5,500	4,615	3,914	2,689
Electrocardiography ¹	3,284	2,964	2,669	2,918	2,321
Electroencephalography ¹	94	69	70	62	86
Cardiovascular Lab ^{3,4,5}	3,679	2,924	2,478	2,272	2,147
Physical Therapy ³	16,231	17,763	20,896	20,136	18,940
Respiratory Therapy ³	6,903	9,782	10,882	8,689	6,040
Endoscopy ³	2,052	2,122	1,756	1,581	1,311
Sleep Studies ¹	216	191	159	89	75
¹ Tests	² Examinations	³ Procedures	⁴ Includes stress tests, Holter monitors, vascular studies and cardiac rehabilitation		
⁵ The FY2001 figure reported in the report relating to FY2001 was erroneous; this is the correct figure					

<i>Home Care Visits</i> <i>[OS Page A-23]</i>				
<i>Fiscal Years Ended June 30</i>				
<i>2002</i>	<i>2001</i>	<i>2000</i>	<i>1999</i>	<i>1998</i>
10,381	9,899	11,612	9,326	10,384

MUNICIPAL SECONDARY MARKET DISCLOSURE
City of Hillsdale Hospital Finance Authority / Hillsdale Community Health Center
Fiscal Year Ended June 30, 2002

FINANCIAL INFORMATION

<i>McGuire Unit Payor Mix</i> <i>(expressed as percentages of patient-days)</i> <i>[OS Page A-32]</i>					
	<i>Fiscal Years Ended June 30</i>				
	<i>2002</i>	<i>2001</i>	<i>2000</i>	<i>1999</i>	<i>1998</i>
Medicare	93.6%	93.5%	91.8%	96.7%	36.9%
Medicaid	0.2%	0.0%	0.8%	0.1%	32.5%
Private Pay and Commercial Insurance	6.2%	6.5%	7.4%	3.2%	30.6%
TOTALS	100.0%	100.0%	100.0%	100.0%	100.0%

<i>Payor Mix</i> <i>[OS Page A-33]</i>										
	<i>Fiscal Years Ended June 30</i>									
	<i>By Gross Revenue</i>					<i>By Acute Care Patient-Days</i>				
	<i>2002</i>	<i>2001</i>	<i>2000</i>	<i>1999</i>	<i>1998</i>	<i>2002</i>	<i>2001</i>	<i>2000</i>	<i>1999</i>	<i>1998</i>
Medicare	41.9	42.2	45.1	44.3	43.1	58.1	58.3	62.4	63.7	60.4
Medicaid	9.0	8.8	8.0	7.8	10.2	8.8	9.6	8.6	8.1	10.2
Blue Cross	25.3	23.5	21.3	21.1	18.6	17.9	15.1	13.8	12.8	11.2
Commercial Insurance	20.5	21.9	21.5	22.5	23.7	12.5	14.1	12.2	12.3	14.9
Self-Pay	3.3	3.6	4.1	4.3	4.4	2.7	2.9	3.0	3.1	3.3
TOTALS	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

<i>Gross Patient Revenue by Service</i> <i>[OS Page A-33]</i>					
	<i>Fiscal Years Ended June 30</i>				
	<i>2002</i>	<i>2001</i>	<i>2000</i>	<i>1999</i>	<i>1998</i>
Inpatient	39.6%	39.7%	42.0%	42.5%	44.5%
Outpatient	53.3%	53.4%	50.2%	50.8%	48.4%
McGuire Unit	4.6%	4.6%	5.1%	4.7%	4.8%
Home Care	2.5%	2.3%	2.7%	2.0%	2.3%
TOTALS	100.0%	100.0%	100.0%	100.0%	100.0%

MUNICIPAL SECONDARY MARKET DISCLOSURE
City of Hillsdale Hospital Finance Authority / Hillsdale Community Health Center
Fiscal Year Ended June 30, 2002

<i>Summary of Statements of Operations – Unrestricted</i>					
<i>(\$000s omitted)</i>					
<i>[OS Page A-34]</i>					
	<i>Fiscal Years Ended June 30</i>				
	<i>2002</i>	<i>2001</i>	<i>2000</i>	<i>1999</i>	<i>1998</i>
Net Patient Service Revenue	35,038	31,455	29,082	26,826	25,333
Other Operating Revenue	<u>581</u>	625	<u>500</u>	<u>290</u>	<u>287</u>
Total Operating Revenue	35,619	32,080	29,582	27,116	25,620
Depreciation Expense	1,481	1,475	1,389	1,125	925
Interest Expense	635	639	577	643	225
Bad Debt Expense	2,354	2,492	2,054	1,647	1,717
Other Operating Expenses	<u>29,078</u>	<u>25,817</u>	<u>24,711</u>	<u>22,015</u>	<u>20,722</u>
Total Operating Expenses	33,548	30,423	28,731	25,430	23,589
Income from Operations	2,071	1,657	851	1,686	2,031
Net Nonoperating Gains (Losses)	<u>(855)</u>	<u>(984)</u>	<u>(410)</u>	<u>(670)</u>	<u>(569)</u>
Revenue and Gains in Excess of Expenses	1,216	673	441	1,016	1,462
Depreciation included in net nonoperating gains (losses)	26	28	28	28	28
Net Income Available for Debt Service (EBIDA)	3,358	2,815	2,435	2,812	2,640
Capital Expenditures	1,483	1,506	1,697	2,659	3,069

* Calculated by management from the Corporation's audited financial statements, using definitions published by Standard & Poor's Corporation in *CreditWeek Municipal*, October 20, 1997

<i>Profitability Ratios</i>					
<i>[OS Page A-35]</i>					
	<i>Fiscal Years Ended June 30</i>				
	<i>2002</i>	<i>2001</i>	<i>2000</i>	<i>1999</i>	<i>1998</i>
Debt Service Coverage Ratio*	2.15	3.35	2.90	3.34	3.14
Excess Margin	3.50%	2.16%	1.50%	3.84%	5.84%
Operating Margin	5.81%	5.17%	2.90%	6.22%	7.93%

* Based on Maximum Annual Debt Service on the Series 1998 Bonds and other Long-Term Debt of \$1,559,914. This figure includes \$561,603 of annual debt service that in the form of a Guaranty of the debt of a limited liability company (the LLC) that owns the Physicians' Office Building (the POB), which Guaranty is subordinate to the several, though not joint, guaranties of the physicians who are members of the LLC and who occupy the POB. If the annual debt service relating to this Guaranty were not included in the calculation of Maximum Annual Debt Service, the Debt Service Coverage Ratio would have been 3.30 in FY2002.
Note: Calculated by management from the Corporation's audited financial statements, using definitions published by Standard & Poor's Corporation in *CreditWeek Municipal*, October 20, 1997 and in *CreditWeek*, October 1994

MUNICIPAL SECONDARY MARKET DISCLOSURE
City of Hillsdale Hospital Finance Authority / Hillsdale Community Health Center
Fiscal Year Ended June 30, 2002

<i>Cost and Productivity Measures</i> <i>[OS Page A-35]</i>					
	<i>Fiscal Years Ended June 30</i>				
	<i>2002</i>	<i>2001</i>	<i>2000</i>	<i>1999</i>	<i>1998</i>
Total FTEs	285.0	265.8	267.5	260.5	252.9
FTEs per Adjusted Admission	0.012	0.039	0.042	0.044	0.047
FTEs per Adjusted Occupied Bed	4.5	4.2	4.1	4.1	4.0
Adjusted Acute Care Patient-Days	23,327	23,122	23,084	23,411	22,966
Paid-hours per Adjusted Patient-Day	25.1	23.7	24.7	22.8	22.5
McGuire Unit Paid Hours per Patient-Day	6.0	5.7	6.3	5.8	6.0
Capital Expense / Total Expenses	6.3%	6.6%	6.9%	7.1%	5.0%
Bad Debt Expense / Operating Revenue	6.6%	7.8%	6.9%	6.1%	6.7%

Note: Calculated by management from the Corporation's audited financial statements and other records, using definitions published by Standard & Poor's Corporation in *CreditWeek Municipal*, October 20, 1997

<i>Balance Sheet Summary</i> <i>(\$000s omitted)</i> <i>[OS Page A-36]</i>					
	<i>Fiscal Years Ended June 30</i>				
	<i>2002</i>	<i>2001</i>	<i>2000</i>	<i>1999</i>	<i>1998</i>
Cash and Temporary Investments ¹	2,648	3,750	893	2,415	193
Net Patient Accounts Receivable	5,443	5,127	5,028	4,362	4,157
Other Current Assets ²	<u>1,985</u>	<u>1,708</u>	<u>3,168</u>	<u>3,003</u>	<u>2,088</u>
Total Current Assets ²	10,076	10,585	9,089	9,780	6,438
Non-Current Cash and Investments (unrestricted) ¹	5,658	4,127	4,360	3,122	3,361
Property and Equipment	12,213	12,526	12,524	12,214	10,675
Other Assets ²	<u>3,326</u>	<u>2,651</u>	<u>2,231</u>	<u>3,404</u>	<u>6,250</u>
Total Assets	31,273	29,889	28,204	28,520	26,724
Current Liabilities	5,412	5,337	4,241	4,918	4,087
Long-Term Debt	11,460	11,577	11,497	11,751	11,984
Net Assets	<u>14,401</u>	<u>12,975</u>	<u>12,466</u>	<u>11,851</u>	<u>10,653</u>
Total	31,273	29,889	28,204	28,520	26,724

¹ Used in "Days' Cash on Hand" and "Quick Ratio" calculations
² FY2001 amounts have been changed to reflect balance sheet reclassifications reported in connection with the FY2002 audited financial statements

MUNICIPAL SECONDARY MARKET DISCLOSURE
City of Hillsdale Hospital Finance Authority / Hillsdale Community Health Center
Fiscal Year Ended June 30, 2002

<i>Liquidity Ratios</i> <i>[OS Page A-37]</i>					
	<i>Fiscal Years Ended June 30</i>				
	<i>2002</i>	<i>2001</i>	<i>2000</i>	<i>1999</i>	<i>1998</i>
Current Ratio ¹	1.86	1.98	2.14	1.99	1.57
Quick Ratio ¹	2.54	2.44	2.96	2.42	2.48
Days in Patient Accounts Receivable	56.7	59.5	63.3	59.4	59.9
Days Cash on Hand	94.6	99.4	70.2	83.2	57.3
Cash-to-Debt ²	70.5%	66.4%	44.6%	46.1%	28.8%

¹ The FY2001 ratios have been changed to reflect balance sheet reclassifications reported in connection with the FY2002 audited financial statements

² The denominator of this ratio includes the current portion of long-term debt

Note: Calculated by management from the Corporation's audited financial statements and other records, using definitions published by Standard & Poor's Corporation in *CreditWeek Municipal*, October 20, 1997 and *CreditWeek*, October 1994, and by Moody's Investors Service in *Health Care Medians*, June 1996

<i>Case-Mix Indices</i> <i>[OS Page A-38]</i>					
	<i>Fiscal Years Ended June 30</i>				
	<i>2002</i>	<i>2001</i>	<i>2000</i>	<i>1999</i>	<i>1998</i>
Medicare	1.1740	1.1461	1.2890	1.2346	1.1283
Medicaid	0.6171	0.4816	0.5546	0.7252	0.7413
Blue Cross	0.8598	1.2475	0.9331	0.7382	0.6937

MUNICIPAL SECONDARY MARKET DISCLOSURE
City of Hillsdale Hospital Finance Authority / Hillsdale Community Health Center
Fiscal Year Ended June 30, 2002

<i>Top Ten DRGs</i> <i>[OS Page A-39]</i>					
<i>DRG</i>	<i>Description</i>	<i>Discharges</i>	<i>Percent</i>	<i>Cumulative Percent</i>	<i>Average LOS</i>
391	Normal Newborn	362	10.2%	10.2%	1.7
373	Vaginal Delivery, without Complications	275	7.7%	17.9%	1.9
209	Major Joint and Limb Reattachment Procedures, Lower Extremity	204	5.7%	23.6%	3.9
127	Heart Failure and Shock	156	4.4%	28.0%	4.7
89	Simple Pneumonia and Pleurisy, > Age 17, with Complications	128	3.6%	31.6%	4.5
371	Cesarean Section, without Complications	100	2.8%	34.4%	3.1
88	Chronic Obstructive Pulmonary Disease	95	2.7%	37.1%	3.9
143	Chest Pain	76	2.1%	39.2%	1.5
132	Atherosclerosis with Complications	68	1.9%	41.2%	2.0
140	Angina Pectoris	67	1.9%	43.0%	1.6

Hillsdale Community Health Center

Financial Report

June 30, 2002

Hillsdale Community Health Center

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Independent Auditor's Report

To the Board of Trustees
Hillsdale Community Health Center

We have audited the accompanying balance sheet of Hillsdale Community Health Center as of June 30, 2002 and 2001, and the related statements of operations and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hillsdale Community Health Center at June 30, 2002 and 2001, and the results of its 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.

In accordance with *Government Auditing Standards*, we will issue a report on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions, laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of the audit.

Plante & Moran, LLP

August 9, 2002

Hillsdale Community Health Center

Balance Sheet

		June 30	
		2002	2001
Assets			
Current Assets			
Cash		\$ 2,648,227	\$ 3,750,020
Accounts receivable (Note 2)		5,443,105	5,126,896
Cost report settlements (Note 3)		-	200,000
Other current assets		<u>1,985,047</u>	<u>1,507,695</u>
Total current assets		10,076,379	10,584,611
Investments and Other Assets (Note 4)		7,650,672	5,614,268
Assets Limited as to Use (Note 5)		1,333,068	1,163,420
Property and Equipment (Note 6)		<u>12,213,355</u>	<u>12,526,336</u>
Total assets		<u>\$ 31,273,474</u>	<u>\$ 29,888,635</u>
Liabilities and Net Assets			
Current Liabilities			
Current portion of long-term debt (Note 7)		\$ 316,636	\$ 291,125
Trade accounts payable		1,906,853	1,543,070
Cost report settlements (Note 3)		1,200,000	1,150,000
Accrued expenses payable		1,427,107	1,534,311
Credit balances - Patient ledgers		<u>561,629</u>	<u>818,026</u>
Total current liabilities		5,412,225	5,336,532
Long-term Debt (Note 7)		11,459,676	11,577,217
Net Assets			
Unrestricted		14,160,763	12,882,963
Temporarily restricted (Note 8)		<u>240,810</u>	<u>91,923</u>
Total net assets		<u>14,401,573</u>	<u>12,974,886</u>
Total liabilities and net assets		<u>\$ 31,273,474</u>	<u>\$ 29,888,635</u>

Hillsdale Community Health Center

Statement of Operations and Changes in Net Assets

	Year Ended June 30	
	2002	2001
Unrestricted Revenue, Gains and Other Support		
Net patient revenue	\$ 35,038,412	\$ 31,454,692
Other operating income	<u>581,426</u>	<u>625,176</u>
Total unrestricted revenue	35,619,838	32,079,868
Operating Expenses		
Salaries and wages	11,891,083	10,802,933
Employee benefits	3,470,513	3,201,512
Supplies, purchased services and other	13,716,833	11,811,882
Provision for doubtful accounts	2,354,357	2,491,857
Depreciation and amortization	1,480,997	1,475,395
Interest	<u>634,876</u>	<u>638,854</u>
Total operating expenses	<u>33,548,659</u>	<u>30,422,433</u>
Operating Income	2,071,179	1,657,435
Nonoperating Expenses - Net	<u>(855,097)</u>	<u>(984,399)</u>
Excess of Revenue Over Expenses	<u><u>\$ 1,216,082</u></u>	<u><u>\$ 673,036</u></u>

Hillsdale Community Health Center

Statement of Operations and Changes in Net Assets (Continued)

	Year Ended June 30	
	2002	2001
Unrestricted Net Assets		
Excess of revenue over expenses	\$ 1,216,082	\$ 673,036
Changes in net unrealized losses	(537,839)	(340,374)
Federal grant used for purchase of equipment	492,243	-
Net assets released from restrictions used for purchase of property and equipment	<u>107,314</u>	<u>203,334</u>
Increase in unrestricted net assets	1,277,800	535,996
Temporarily Restricted Net Assets		
Contributions	256,201	176,719
Net assets released from restrictions	<u>(107,314)</u>	<u>(203,334)</u>
Increase (decrease) in temporarily restricted net assets	<u>148,887</u>	<u>(26,615)</u>
Increase in Net Assets	1,426,687	509,381
Net Assets - Beginning of year	<u>12,974,886</u>	<u>12,465,505</u>
Net Assets - End of year	<u>\$ 14,401,573</u>	<u>\$ 12,974,886</u>

Hillsdale Community Health Center

Statement of Cash Flows

	Year Ended June 30	
	2002	2001
Cash Flows from Operating Activities		
Cash received from patients and third-party payors	\$ 32,361,449	\$ 29,963,769
Cash received from other operating revenue	581,426	625,176
Contributions received	28,518	27,829
Interest received on cash accounts	256,398	337,173
Cash paid to employees and suppliers	(28,928,361)	(25,947,429)
Interest paid	(634,876)	(638,854)
Medical Office Building:		
Cash received for rent	174,327	140,398
Cash paid for rental property costs	(82,321)	(46,755)
Other	11,574	(50,499)
	<u>3,768,134</u>	<u>4,410,808</u>
Net cash provided by operating activities	3,768,134	4,410,808
Cash Flows from Investing Activities		
Purchase and construction of capital assets	(990,485)	(1,505,761)
Advances to physicians	(1,605,886)	(849,827)
Proceeds from other assets	4,776	16,550
Purchases of investments	(2,069,117)	(107,898)
Cash proceeds from (to) assets limited as to use	(169,648)	612,460
	<u>(4,830,360)</u>	<u>(1,834,476)</u>
Net cash used in investing activities	(4,830,360)	(1,834,476)
Cash Flows from Financing Activities		
Proceeds from issuance of long-term debt	-	379,421
Principal paid on long-term debt	(295,768)	(275,834)
Contributions restricted for fixed asset additions	256,201	176,719
	<u>(39,567)</u>	<u>280,306</u>
Net cash provided by (used in) financing activities	(39,567)	280,306
Net Increase (Decrease) in Cash	(1,101,793)	2,856,638
Cash - Beginning of year	<u>3,750,020</u>	<u>893,382</u>
Cash - End of year	<u><u>\$ 2,648,227</u></u>	<u><u>\$ 3,750,020</u></u>

Hillsdale Community Health Center

Statement of Cash Flows (Continued)

A reconciliation of increase in net assets to net cash from operating activities is as follows:

	Year Ended June 30	
	2002	2001
Increase in net assets	\$ 1,426,687	\$ 509,381
Adjustments to reconcile increase in net assets to net cash from operating activities:		
Contributions restricted for fixed asset additions	(256,201)	(176,719)
Federal grant for purchase of equipment	(492,243)	-
Net unrealized losses on investments	537,839	340,374
Depreciation	1,507,204	1,503,471
Bad debt expense	2,354,357	2,491,857
Amortization of bond costs	15,268	15,268
Amortization of physician advances	1,080,716	1,076,822
(Increase) decrease in assets:		
Patient accounts receivable	(2,926,963)	(2,390,347)
Cost report settlements	200,000	350,000
Other current assets	14,891	(181,575)
Increase (decrease) in liabilities:		
Cost report settlements	50,000	550,000
Accounts payable	363,783	181,033
Accrued expenses	(107,204)	141,243
Net cash provided by operating activities	<u>\$ 3,768,134</u>	<u>\$ 4,410,808</u>

Noncash Investing and Financing Activities:

- During the year ended June 30, 2002, the Hospital leased equipment under a new capital lease. The lease obligation incurred was \$203,738. Also, the Hospital recorded a receivable for a federal grant totaling \$492,243, the purpose of which is to reimburse the Hospital for fixed asset purchases made during the year ended June 30, 2002.
- There were no noncash activities during the year ended June 30, 2001.

Hillsdale Community Health Center

Notes to Financial Statements June 30, 2002 and 2001

Note 1 - Nature of Business and Significant Accounting Policies

The Hospital operates a short-term, acute care facility including a skilled nursing unit providing inpatient and outpatient health care services to the Hillsdale, Michigan area.

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

Property and Equipment - Property and equipment are stated at cost. Maintenance and repairs are charged to expense as incurred. Depreciation has been charged to operations using the straight-line method.

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

Self Insurance - The Hospital acts as a self-insurer for health insurance benefits up to limits as provided for in an agreement with its insurance plan administrator. The cost of claims, including an estimate for unprocessed claims, is recognized as an operating expense in the year of the incident. Services covered by the plan are expensed as health care benefits.

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

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

Hillsdale Community Health Center

Notes to Financial Statements June 30, 2002 and 2001

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

Charity Care - The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. Services provided on a charity basis for 2002 and 2001 amounted to \$281,160 and \$359,553, respectively.

Tax Status - The Hospital is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code, and accordingly, no tax provision is reflected in the financial statements.

Joint Affiliation - A joint affiliation was established with Borgess Hospital of Kalamazoo. The Hospital is engaged in a joint venture with Borgess Hospital as 50-50 owners of the Jonesville Clinic. The clinic provides primary care services to residents of the surrounding area. The investment in the joint venture is recorded using the equity method and is included in other assets (Note 4).

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

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

Reclassifications - Certain 2001 balances have been reclassified to conform with 2002 presentations.

Hillsdale Community Health Center

Notes to Financial Statements June 30, 2002 and 2001

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

Excess of Revenue Over Expenses - The 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 unrealized gains and losses on investments other than trading securities, permanent transfers of assets to and from affiliates for other than goods and services, and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purpose of acquiring such assets).

Note 2 - Accounts Receivable

Details of patient accounts receivable at June 30, 2002 and 2001 are as follows:

	<u>2002</u>	<u>2001</u>
Patient accounts receivable, gross	\$ 15,321,105	\$ 14,422,896
Less allowance for:		
Uncollectible accounts	(2,523,000)	(2,520,000)
Third-party contractual adjustments and interim payment advances	<u>(7,355,000)</u>	<u>(6,776,000)</u>
Patient accounts receivable - Net	<u>\$ 5,443,105</u>	<u>\$ 5,126,896</u>

The Hospital is located in Hillsdale, Michigan. The Hospital provides service without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from residents and third-party payors was as follows:

	<u>2002</u>	<u>2001</u>
Medicare	24%	30%
Medicaid	9%	12%
Blue Cross \ Blue Shield	22%	18%
Other third-party payors	31%	24%
Patient pay	<u>14%</u>	<u>16%</u>
Total	<u>100%</u>	<u>100%</u>

Note 3 - Cost Report Settlements

Approximately 75 percent of the Hospital's revenue from patient services is received from the Medicare, Medicaid and Blue Cross of Michigan programs. The Hospital has agreements with these payors that provide for reimbursement to the Hospital at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between the Hospital's established rates for services and amounts reimbursed by third-party payors. A summary of the basis of reimbursement with these third-party payors follows:

- Medicare - Inpatient acute-care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Outpatient services are reimbursed based upon an established fee-for-service reimbursement methodology. Skilled nursing care services rendered to Medicare program beneficiaries are reimbursed at prospectively determined rates based upon clinical assessments completed by the unit that are subject to review and final approval by Medicare.
- 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 services are paid on an established fee-for-service methodology. Skilled nursing care services are paid by the Medicaid program on a per diem based on historical costs.
- Blue Cross - Inpatient services rendered to Blue Cross patients are paid at prospectively determined rates per discharge. Outpatient services are paid on an established fee-for-service methodology.

Hillsdale Community Health Center

Notes to Financial Statements June 30, 2002 and 2001

Note 4 - Investments and Other Assets

The details of investments and other assets are given below:

	<u>2002</u>	<u>2001</u>
Investments:		
Certificates of deposit	\$ 636,766	\$ 132,241
Mutual funds	-	270,875
Corporate bonds	655,411	270,242
Governmental bonds	1,097,914	546,637
Corporate stock	<u>3,268,226</u>	<u>2,907,044</u>
Total investments	5,658,317	4,127,039
Other Assets:		
Physicians advances	2,588,870	2,063,700
Less current portion	<u>(1,000,000)</u>	<u>(1,000,000)</u>
	1,588,870	1,063,700
Hospital association and equipment purchase deposits	30,301	21,270
Jonesville joint venture	51,397	65,204
Bond issuance costs	<u>321,787</u>	<u>337,055</u>
Total other assets	<u>1,992,355</u>	<u>1,487,229</u>
Total	<u>\$ 7,650,672</u>	<u>\$ 5,614,268</u>

Investment income (loss) is comprised of the following:

	<u>2002</u>	<u>2001</u>
Interest and dividend income	\$ 256,398	\$ 336,597
Net unrealized losses	<u>(537,839)</u>	<u>(340,374)</u>
Investment income (loss)	<u>\$ (281,441)</u>	<u>\$ (3,777)</u>

Hillsdale Community Health Center

Notes to Financial Statements June 30, 2002 and 2001

Note 5 - Assets Limited as to Use

The details of assets limited as to use are given below:

	<u>2002</u>	<u>2001</u>
Assets limited as to use:		
By bond agreement:		
Future capital improvements		
U.S. government securities	\$ 106,289	\$ 102,729
Debt service reserve		
U.S. government securities	841,350	841,350
By donor for capital improvements:		
Cash	240,810	91,323
By deferred compensation agreement:		
Mutual funds	<u>144,619</u>	<u>128,018</u>
Total assets limited as to use	<u>\$ 1,333,068</u>	<u>\$ 1,163,420</u>

Hillsdale Community Health Center

Notes to Financial Statements June 30, 2002 and 2001

Note 6 - Property and Equipment

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

	2002	2001	Depreciable Life - Years
	<u>2002</u>	<u>2001</u>	
Land and improvements	\$ 281,506	\$ 256,476	5
Buildings and improvements:			
Hospital	13,121,682	12,891,288	5-50
Medical office buildings	1,709,833	1,631,446	5-25
Construction in progress	254,741	304,775	
Equipment	10,300,981	9,682,213	5-10
Equipment under capital lease	<u>775,284</u>	<u>620,146</u>	5-10
 Total cost	 26,444,027	 25,386,344	
 Less accumulated depreciation	 13,677,019	 12,332,380	
Less accumulated amortization	<u>553,653</u>	<u>527,628</u>	
 Net carrying amount	 <u>\$ 12,213,355</u>	 <u>\$ 12,526,336</u>	

Total depreciation and amortization expense, including amortization of capital leases, for the years ended June 30, 2002 and 2001, consisted of the following:

	2002	2001
	<u>2002</u>	<u>2001</u>
Included in operating expenses	\$ 1,480,997	\$ 1,475,395
Included in nonoperating expenses	<u>26,207</u>	<u>28,076</u>
 Total	 <u>\$ 1,507,204</u>	 <u>\$ 1,503,471</u>

Hillsdale Community Health Center

Notes to Financial Statements June 30, 2002 and 2001

Note 7 - Long-term Debt

Long-term debt consists of the following:

	<u>2002</u>	<u>2001</u>
Series 1998 Bonds payable to City of Hillsdale Hospital Finance Authority, interest of 4.5% to 5.25%, annual principal payments ranging from \$250,000 in 2003 to \$795,000 in 2026, collateralized by the unrestricted "gross revenues" of the Hospital	\$ 11,230,000	\$ 11,470,000
Real estate mortgage payable to bank, interest at 1.5% over prime, an effective rate of 11% at June 30, 2002 and 2001, payable in monthly installments of \$876 including interest, collateralized by real estate purchased	1,141	11,169
Note payable, interest of 8.75%, payable in monthly installments of \$607, collateralized by vehicle purchased	23,221	28,234
Note payable, interest of 8.5%, payable in monthly installments of \$4,340, collateralized by real estate purchased	318,619	342,480
Capital leases:		
Equipment, payable in monthly installments totaling approximately \$8930 at June 30, 2002, including interest ranging from 8.9210% to 12.44%	<u>203,331</u>	<u>16,459</u>
Total	11,776,312	11,868,342
Less current portion	<u>316,636</u>	<u>291,125</u>
Long-term portion	<u>\$ 11,459,676</u>	<u>\$ 11,577,217</u>

Hillsdale Community Health Center

Notes to Financial Statements June 30, 2002 and 2001

Note 7 - Long-term Debt (Continued)

Principal payments on notes payable and lease payments on capital leases over the next five years, and in aggregate, as of June 30, 2002 are as follows:

	<u>Notes Payable</u>	<u>Capital Leases</u>
2003	\$ 282,598	\$ 48,260
2004	294,253	50,658
2005	312,298	50,658
2006	323,779	50,658
2007	336,474	50,658
2008 and thereafter	<u>10,023,579</u>	<u>1,576</u>
Totals	<u>\$ 11,572,981</u>	252,468
Less interest		<u>49,137</u>
Total minimum lease payments		<u>\$ 203,331</u>

Note 8 - Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at June 30, 2002 and 2001.

	<u>2002</u>	<u>2001</u>
Health care programs	\$ 28,201	\$ 27,605
Purchase of equipment and expansion	<u>212,609</u>	<u>64,318</u>
Total temporarily restricted net assets	<u>\$ 240,810</u>	<u>\$ 91,923</u>

Note 9 - Defined Contribution Plan

The Hospital has established a defined contribution retirement plan covering substantially all employees. The Hospital contributed 3percent of eligible wages resulting in pension expense of \$265,697 and \$279,418 for the years ended June 30, 2002 and 2001, respectively.

Hillsdale Community Health Center

Notes to Financial Statements June 30, 2002 and 2001

Note 10 - Malpractice Insurance Coverage

The Hospital is insured against medical malpractice 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 bears the risk of the ultimate costs of any individual claims exceeding \$1,000,000 or aggregate claims exceeding \$3,000,000 for claims asserted in the policy year. Currently, there are claims alleging malpractice asserted against the Hospital, but they are not expected to exceed the insurance coverage. No accrual for possible losses attributable to incidents that may have occurred but that have not been identified under the incident reporting system has been made because the amount cannot be reasonably estimated. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during the claims-made term, but reported subsequently, will be uninsured.

Note 11 - Commitments and Contingencies

The Hospital has entered into agreements with newly recruited physicians that include provisions for income guarantees and loans over the next few years. The amounts advanced to the physicians depend on income levels earned in their practices. Per contractual arrangements, these advances are amortized over 3-6 years if the physician remains practicing in the area. Amortization of these advances, which is included in physician recruitment expenses, has approximated \$1,081,000 and \$1,077,000 for 2002 and 2001, respectively.

During the year ended June 30, 2002, the Hospital guaranteed a mortgage payable for the construction of a medical office building for \$4,180,000. At June 30, 2002, the Three Meadows Medical Office Building is complete and occupied. The Hospital is unaware of any default or potential default resulting in any Hospital liability.

Hillsdale Community Health Center

Notes to Financial Statements June 30, 2002 and 2001

Note 12 - Functional Expenses

The Hospital provides general health care services to residents within its geographic location, including residential care, assisted living and independent living. Expenses related to providing these services are as follows for the years ended June 30, 2002 and 2001.

	<u>2002</u>	<u>2001</u>
Health care services	\$ 29,590,193	\$ 26,722,988
General and administrative	<u>3,958,466</u>	<u>3,699,445</u>
Total functional expenses	<u>\$ 33,548,659</u>	<u>\$ 30,422,433</u>