

# Municipal Secondary Market Disclosure Information Cover Sheet

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

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

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**IF THIS FILING RELATES TO A SINGLE BOND ISSUE:**

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

\$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:

432492AF3

432492AG1

432492AH9

432492AJ5

432492AL0

432492AM8

432492AN6

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

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

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

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

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

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**TYPE OF FILING:**

Electronic (number of pages attached) 33  Paper (number of pages attached) \_\_\_\_\_

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

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

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

Fiscal Period Covered: July 1, 2003 – June 30, 2004 (FY2004)

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

Fiscal Period Covered: July 1, 2003 – June 30, 2004 (FY2004)

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

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

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

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

Period Covered: \_\_\_\_\_

F.  Other Secondary Market Information (Specify): \_\_\_\_\_

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

**Issuer Contact:**

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

**Dissemination Agent Contact, if any:**

Name Shelley J. Aronson Title President  
Employer First River Advisory L.L.C.  
Address 2640 Overridge 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 Valerie Fetters Title Interim 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 vfetters@hchc.com Obligor Web Site Address www.hchc.com

**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 29, 2004**

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:

1. 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
2. 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, 2004 (FY2004)

Unless otherwise noted, all data apply to the Fiscal Year Ended June 30, 2004, or are accurate as of June 30, 2004, as appropriate. OS pages refer to the Official Statement relating to the Securities, dated June 17, 1998.

### MEDICAL STAFF

<i>Active Staff Specialization [OS Page A-12]</i>					
<i>Internal Medicine</i>		<i>Surgery</i>		<i>Other</i>	
General	6	General Surgery	3	Family Practice	6
Cardiology	1	Ophthalmology	1	Obstetrics/Gynecology	2
Gastroenterology	2	Orthopedic Surgery	2	Pediatrics	2
Oncology	1	Otorhinolaryngology	1	Emergency Medicine	2
Neurology	1	Plastic Surgery	1	Pathology	1
Rheumatology	1	Podiatry	3	Radiology	1
		Urology	3	Chiropractic	7
		Vascular Surgery	2		
<b>Total Internal Medicine</b>	<b>12</b>	<b>Total Surgery</b>	<b>16</b>	<b>GRAND TOTAL</b>	<b>49</b>

<i>Age Distribution of the Active Staff [OS Page A-13]</i>		
<i>Age Range</i>	<i>Number of Physicians</i>	<i>Percent of Active Staff</i>
34 and under	10	20.4%
35 - 44	16	32.7%
45 - 54	19	38.8%
55 - 64	4	8.2%
65 and over	0	0.0%
TOTAL	49	
Note: Column may not add to 100.0 due to rounding		

<i>Active Staff Physicians, by Major Specialty [OS Page A-13]</i>				
	<i>Number</i>	<i>Median Age</i>	<i>Number Board-Certified</i>	<i>Number Board-Eligible</i>
Family Practice	6	38	4	2
Internal Medicine	12	46	10	2
Surgery	16	42	11	5
Obstetrics/Gynecology	2	50	2	0

**MUNICIPAL SECONDARY MARKET DISCLOSURE**  
**City of Hillsdale Hospital Finance Authority / Hillsdale Community Health Center**  
**Fiscal Year Ended June 30, 2004**

<i>Active Staff Physicians, by Practice Location</i> <i>[OS Page A-14]</i>	
Physicians' Office Building	11
Other City of Hillsdale Locations	21
Hospital-Based	4
<i>Subtotal, City of Hillsdale Locations</i>	36
Hudson	2
Jonesville	7
Litchfield	0
Quincy	0
Battle Creek	3
Jackson	1
Total	49
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	57,251,247	79.0%
Physicians holding consulting or courtesy privileges, plus <i>locum tenens</i> physicians	13,725,595	18.9%
Unassigned Revenue	1,484,716	2.0%
Total Revenue	72,461,558	100.0%

**MUNICIPAL SECONDARY MARKET DISCLOSURE**  
**City of Hillsdale Hospital Finance Authority / Hillsdale Community Health Center**  
**Fiscal Year Ended June 30, 2004**

<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	43	C	\$6,749,873	9.3%	9.3%
2	Orthopedic Surgery	36	E	\$4,851,473	6.7%	16.0%
3	Internal Medicine	49	C	\$4,091,866	5.6%	21.7%
4	Gastroenterology	47	C	\$3,676,038	5.1%	26.7%
5	Internal Medicine	36	C	\$3,432,860	4.7%	31.5%
6	Obstetrics/Gynecology	52	C	\$3,311,516	4.6%	36.0%
7	General Surgery	46	E	\$2,151,405	3.0%	39.0%
8	Gastroenterology	55	E	\$2,016,865	2.8%	41.8%
9	Family Practice	43	C	\$1,959,034	2.7%	44.5%
10	General Surgery	38	C	\$1,923,957	2.7%	47.1%
			C = Certified E = Eligible			

**MUNICIPAL SECONDARY MARKET DISCLOSURE**  
**City of Hillsdale Hospital Finance Authority / Hillsdale Community Health Center**  
**Fiscal Year Ended June 30, 2004**

**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>2004</i>	<i>2003</i>	<i>2002</i>	<i>2001</i>	<i>2000</i>
Days in Period	366	365	365	365	366
Licensed Beds	47	47	47	47	47
Available Beds	40	40	40	40	40
Admissions	2,795	2,545	2,546	2,410	2,317
Patient Days	8,844	8,349	8,760	8,621	9,398
Average Daily Census	24.2	22.9	24.0	23.6	25.7
Average LOS	3.2	3.3	3.4	3.6	4.1
Occupancy Rate (%)*	60.4	57.2	60.0	59.0	64.2
* 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>2004</i>	<i>2003</i>	<i>2002</i>	<i>2001</i>	<i>2000</i>
Days in Period	366	365	365	365	366
Licensed Beds	9	9	9	9	9
Available Beds	4	4	4	4	4
Admissions	144	105	123	106	103
Patient Days	312	212	262	304	316
Average Daily Census	0.9	0.6	0.7	0.8	0.9
Average LOS	2.2	2.0	2.1	2.9	3.1
Occupancy Rate (%)*	21.3	14.5	17.9	20.8	21.6
* 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, 2004**

<i>Historical Obstetrics Utilization (excludes newborns) [OS Page A-18]</i>					
	<i>Fiscal Years Ended June 30</i>				
	<i>2004</i>	<i>2003</i>	<i>2002</i>	<i>2001</i>	<i>2000</i>
Days in Period	366	365	365	365	366
Licensed Beds	9	9	9	9	9
Available Beds	8	8	8	8	8
Admissions	458	464	469	497	498
Patient Days	923	837	923	939	799
Average Daily Census	2.5	2.3	2.5	2.6	2.2
Average LOS	2.0	1.8	2.0	1.9	1.6
Occupancy Rate (%)*	31.5	28.7	31.6	32.2	27.3

\* Based on Available Beds rather than Licensed Beds

<i>Historical Acute Care Utilization (excludes newborns) [OS Page A-19]</i>					
	<i>Fiscal Years Ended June 30</i>				
	<i>2004</i>	<i>2003</i>	<i>2002</i>	<i>2001</i>	<i>2000</i>
Days in Period	366	365	365	365	366
Licensed Beds	65	65	65	65	65
Available Beds	52	52	52	52	52
Admissions	3,397	3,114	3,137	3,013	2,918
Adjusted Admissions <sup>1,2,3</sup>	8,037	7,459	7,097	6,786	6,316
Patient Days	10,079	9,398	9,949	9,864	10,688
Average Daily Census	27.5	25.7	27.3	27.0	29.2
Average LOS	3.0	3.0	3.2	3.3	3.7
Occupancy Rate (%) <sup>4</sup>	53.0	49.5	52.4	52.0	56.2
Net Patient Revenue per Adjusted Admission <sup>1,2,5</sup>	\$5,139	\$5,118	\$5,019	\$4,727	\$4,605
Gross Outpatient Revenue per Adjusted Admission <sup>1,2,5</sup>	\$5,416	\$4,795	\$4,774	\$4,609	\$4,382

<sup>1</sup> The FY2001 figure reported in the report relating to FY2001 was erroneous; this is the correct figure  
<sup>2</sup> The FY2003 figure reported in the report relating to FY2003 was erroneous; this is the correct figure  
<sup>3</sup> Admissions are adjusted by the percentage gross revenue attributable to outpatient services  
<sup>4</sup> Based on Available Beds rather than Licensed Beds  
<sup>5</sup> 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, 2004**

<i>McGuire Unit Utilization</i> <i>[OS Page A-20]</i>					
	<i>Fiscal Years Ended June 30</i>				
	<i>2004</i>	<i>2003</i>	<i>2002</i>	<i>2001</i>	<i>2000</i>
Days in Period*	366	365	365	365	366
Licensed Beds	21	21	21	21	21
Patient Days	7,212	6,773	6,516	6,629	6,747
Average Daily Census	19.7	18.6	17.9	18.2	18.4
Occupancy Rate (%)	93.8	88.4	85.0	86.5	87.8

<i>Surgical Procedures</i> <i>[OS Page A-20]</i>					
	<i>Fiscal Years Ended June 30</i>				
	<i>2004</i>	<i>2003</i>	<i>2002</i>	<i>2001</i>	<i>2000</i>
Inpatient	966	951	933	818	786
Outpatient	2,843	2,967	2,781	2,443	2,171
Total	3,809	3,918	3,714	3,261	2,957
Percent Outpatient (%)	74.6	75.7	74.9	74.9	73.4

<i>Emergency Department Volumes</i> <i>[OS Page A-21]</i>					
	<i>Fiscal Years Ended June 30</i>				
	<i>2004</i>	<i>2003</i>	<i>2002</i>	<i>2001</i>	<i>2000</i>
Visits	30,209	27,813	29,178	27,488	26,376
Change over Previous Period (%)	8.6	(4.7)	6.1	4.2	4.5
Transfers to Other Hospitals	141	135	133	139	139
Transfers per Thousand ED Visits	4.7	4.9	4.6	5.1	5.3

<i>Outpatient Service Volumes</i> <i>[OS Page A-21]</i>					
	<i>Fiscal Years Ended June 30</i>				
	<i>2004</i>	<i>2003</i>	<i>2002</i>	<i>2001</i>	<i>2000</i>
Scheduled Registrations	119,130	115,381	108,673	104,419	101,221
Change over Previous Period (%)	3.2	6.2	4.1	3.2	4.7

**MUNICIPAL SECONDARY MARKET DISCLOSURE**  
**City of Hillsdale Hospital Finance Authority / Hillsdale Community Health Center**  
**Fiscal Year Ended June 30, 2004**

<i>Ancillary Services Provided to <u>Inpatients</u></i> <i>[OS Page A-22]</i>					
	<i>Fiscal Years Ended June 30</i>				
	<i>2004</i>	<i>2003</i>	<i>2002</i>	<i>2001</i>	<i>2000</i>
Laboratory <sup>1</sup>	77,155	67,126	62,754	59,755	57,810
MRI Scanning <sup>2</sup>	228	173	111	109	86
CT Scanning <sup>2</sup>	1,218	1,132	1,121	1,022	873
Ultrasonography <sup>2</sup>	2,536	2,327	2,429	2,610	2,425
Other Radiology <sup>2</sup>	5,110	4,944	4,802	4,863	5,182
Nuclear Medicine <sup>2</sup>	258	278	343	463	414
Electrocardiography <sup>1</sup>	4,504	4,494	4,030	4,300	4,310
Electroencephalography <sup>1</sup>	27	27	47	22	15
Cardiovascular Lab <sup>3,4</sup>	118	51	56	115	77
Physical Therapy <sup>3</sup>	2,088	2,128	1,932	1,826	2,054
Respiratory Therapy <sup>3</sup>	31,557	30,504	27,062	22,094	24,391
	<sup>1</sup> Tests	<sup>2</sup> Examinations	<sup>3</sup> Procedures	<sup>4</sup> 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, 2004**

<i>Ancillary Services Provided to Outpatients (includes ED, Home Care and McGuire Unit patients) [OS Page A-23]</i>					
	<i>Fiscal Years Ended June 30</i>				
	<i>2004</i>	<i>2003</i>	<i>2002</i>	<i>2001</i>	<i>2000</i>
Laboratory <sup>1</sup>	235,038	226,445	212,245	193,108	180,740
MRI Scanning <sup>2</sup>	2,127	1,866	1,757	1,365	1,166
CT Scanning <sup>2</sup>	4,230	4,034	4,064	3,351	2,858
Ultrasonography <sup>2</sup>	8,058	7,797	7,204	6,840	6,810
Other Radiology <sup>2,5</sup>	29,668	28,867	25,396	25,352	23,898
Nuclear Medicine <sup>2</sup>	4,449	5,959	4,946	5,500	4,615
Electrocardiography <sup>1</sup>	3,032	3,170	3,284	2,964	2,669
Electroencephalography <sup>1</sup>	108	127	94	69	70
Cardiovascular Lab <sup>3,4,6</sup>	3,910	3,772	3,679	2,924	2,478
Physical Therapy <sup>3</sup>	20,919	18,283	16,231	17,763	20,896
Respiratory Therapy <sup>3</sup>	13,138	12,367	6,903	9,782	10,882
Endoscopy <sup>3</sup>	2,273	1,651	2,052	2,122	1,756
Sleep Studies <sup>1</sup>	360	201	216	191	159
	<sup>1</sup> Tests	<sup>2</sup> Examinations	<sup>3</sup> Procedures	<sup>4</sup> Includes stress tests, Holter monitors, vascular studies and cardiac rehabilitation	
<sup>5</sup> The FY2001 figure reported in the report relating to FY2001 was erroneous; this is the correct figure					
<sup>6</sup> The FY2003, FY2002 and FY2001 figures reported in the report relating to those respective FYs were erroneous; these are the correct figures					

<i>Home Care Visits [OS Page A-23]</i>				
<i>Fiscal Years Ended June 30</i>				
<i>2004</i>	<i>2003</i>	<i>2002</i>	<i>2001</i>	<i>2000</i>
10,876	9,552	10,381	9,899	11,612

**MUNICIPAL SECONDARY MARKET DISCLOSURE**  
**City of Hillsdale Hospital Finance Authority / Hillsdale Community Health Center**  
**Fiscal Year Ended June 30, 2004**

**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>2004</i>	<i>2003</i>	<i>2002</i>	<i>2001</i>	<i>2000</i>
Medicare	50.3%	55.6%	63.3%	59.5%	58.9%
Medicaid	33.1%	16.9%	13.2%	20.9%	27.0%
Private Pay and Commercial Insurance	16.6%	27.5%	23.5%	19.6%	14.1%
TOTALS	100.0%	100.0%	100.0%	100.0%	100.0%

Note: All prior FYs' figures reported in those prior FYs were erroneous; these are the correct figures

<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>2004</i>	<i>2003</i>	<i>2002</i>	<i>2001</i>	<i>2000</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>	<i>2001</i>	<i>2000</i>
Medicare	40.1	42.7	41.9	42.2	45.1	55.7	57.0	58.1	58.3	62.4
Medicaid	12.0	9.2	9.0	8.8	8.0	11.9	8.5	8.8	9.6	8.6
Blue Cross	25.8	25.6	25.3	23.5	21.3	16.9	17.6	17.9	15.1	13.8
Commercial Insurance	18.4	19.0	20.5	21.9	21.5	12.2	13.6	12.5	14.1	12.2
Self-Pay	3.7	3.5	3.3	3.6	4.1	3.3	3.3	2.7	2.9	3.0
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>2004</i>	<i>2003</i>	<i>2002</i>	<i>2001</i>	<i>2000</i>
Inpatient	38.8%	38.8%	39.6%	39.7%	42.0%
Outpatient	54.1%	54.2%	53.3%	53.4%	50.2%
McGuire Unit	4.4%	4.4%	4.6%	4.6%	5.1%
Home Care	2.7%	2.6%	2.5%	2.3%	2.7%
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, 2004**

<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>2004</i>	<i>2003</i>	<i>2002</i>	<i>2001</i>	<i>2000</i>
Net Patient Service Revenue	41,302	38,178	35,038	31,455	29,082
Other Operating Revenue	<u>438</u>	<u>601</u>	<u>581</u>	625	<u>500</u>
Total Operating Revenue	41,740	38,779	35,619	32,080	29,582
Depreciation Expense	1,683	1,629	1,481	1,475	1,389
Interest Expense	614	632	635	639	577
Bad Debt Expense	3,385	2,612	2,354	2,492	2,054
Other Operating Expenses	<u>34,396</u>	<u>31,452</u>	<u>29,078</u>	<u>25,817</u>	<u>24,711</u>
Total Operating Expenses	40,078	36,324	33,548	30,423	28,731
Income from Operations	1,662	2,455	2,071	1,657	851
Net Nonoperating (Losses)	<u>(704)</u>	<u>(982)</u>	<u>(855)</u>	<u>(984)</u>	<u>(410)</u>
Revenue and Gains in Excess of Expenses	957	1,473	1,216	673	441
Depreciation included in Net Nonoperating (Losses)	0	0	26	28	28
Net Income Available for Debt Service (EBIDA)	3,255	3,734	3,358	2,815	2,435
Capital Expenditures	4,399	1,607	1,483	1,506	1,697

\* 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>2004</i>	<i>2003</i>	<i>2002</i>	<i>2001</i>	<i>2000</i>
Debt Service Coverage Ratio*	1.80	2.43	2.15	3.35	2.90
Excess Margin	2.33%	3.90%	3.50%	2.16%	1.50%
Operating Margin	3.98%	6.33%	5.81%	5.17%	2.90%

\* Based on FY2004 Annual Debt Service on the Series 1998 Bonds and other Long-Term Debt of \$1,805,570. This figure includes \$541,603 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 FY2003 Annual Debt Service, the Debt Service Coverage Ratio would have been 2.58 in FY2004.  
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, 2004**

<i>Cost and Productivity Measures</i> <i>[OS Page A-35]</i>					
	<i>Fiscal Years Ended June 30</i>				
	<i>2004</i>	<i>2003</i>	<i>2002</i>	<i>2001</i>	<i>2000</i>
Total FTEs	292.4	287.6	285.0	265.8	267.5
FTEs per Adjusted Admission	0.036	0.039	0.012	0.039	0.042
FTEs per Adjusted Occupied Bed	4.4	4.4	4.5	4.2	4.1
Adjusted Acute Care Patient-Days	24,361	24,159	23,327	23,122	23,084
Paid-hours per Adjusted Patient-Day	25.0	25.5	25.1	23.7	24.7
McGuire Unit Paid Hours per Patient-Day	4.7	6.0	6.0	5.7	6.3
Capital Expense / Total Expenses	5.7%	6.2%	6.3%	6.6%	6.9%
Bad Debt Expense / Operating Revenue	8.1%	6.7%	6.6%	7.8%	6.9%

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>2004</i>	<i>2003</i>	<i>2002</i>	<i>2001</i>	<i>2000</i>
Cash and Temporary Investments <sup>1</sup>	3,740	5,490	2,648	3,750	893
Net Patient Accounts Receivable	6,480	5,043	5,443	5,127	5,028
Other Current Assets <sup>2</sup>	<u>1,694</u>	<u>1,422</u>	<u>1,985</u>	<u>1,708</u>	<u>3,168</u>
Total Current Assets <sup>2</sup>	11,913	11,955	10,076	10,585	9,089
Non-Current Cash and Investments (unrestricted) <sup>1</sup>	7,419	5,708	5,658	4,127	4,360
Property and Equipment	14,355	12,273	12,213	12,526	12,524
Other Assets <sup>2</sup>	<u>3,996</u>	<u>2,763</u>	<u>3,326</u>	<u>2,651</u>	<u>2,231</u>
Total Assets	37,683	32,700	31,273	29,889	28,204
Current Liabilities	8,244	5,423	5,412	5,337	4,241
Long-Term Debt	11,858	11,170	11,460	11,577	11,497
Net Assets	<u>17,582</u>	<u>16,106</u>	<u>14,401</u>	<u>12,975</u>	<u>12,466</u>
Total	37,683	32,700	31,273	29,889	28,204

<sup>1</sup> Used in Days' Cash on Hand, Cash-to-Debt and Quick Ratio calculations  
<sup>2</sup> 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, 2004**

<i>Liquidity Ratios</i> <i>[OS Page A-37]</i>					
	<i>Fiscal Years Ended June 30</i>				
	<i>2004</i>	<i>2003</i>	<i>2002</i>	<i>2001</i>	<i>2000</i>
Current Ratio <sup>1</sup>	1.45	2.20	1.86	1.98	2.14
Quick Ratio <sup>1</sup>	2.14	2.99	2.54	2.44	2.96
Days in Patient Accounts Receivable	57.3	48.2	56.7	59.5	63.3
Days Cash on Hand	106.1	117.8	94.6	99.4	70.2
Cash-to-Debt <sup>2</sup>	90.8%	97.1%	70.5%	66.4%	44.6%

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

<sup>2</sup> 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>2004</i>	<i>2003</i>	<i>2002</i>	<i>2001</i>	<i>2000</i>
Medicare	1.2052	1.2650	1.1740	1.1461	1.2890
Medicaid	0.6472	0.7204	0.6171	0.4816	0.5546
Blue Cross	0.8028	0.7846	0.8598	1.2475	0.9331

**MUNICIPAL SECONDARY MARKET DISCLOSURE**  
**City of Hillsdale Hospital Finance Authority / Hillsdale Community Health Center**  
**Fiscal Year Ended June 30, 2004**

<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	351	9.2%	9.2%	1.7
373	Vaginal Delivery, without Complications	266	7.0%	16.2%	1.5
209	Major Joint and Limb Reattachment Procedures, Lower Extremity	254	6.7%	22.8%	3.3
89	Simple Pneumonia and Pleurisy, > Age 17, with Complications	151	4.0%	26.8%	4.1
88	Chronic Obstructive Pulmonary Disease	140	3.7%	30.5%	3.7
127	Heart Failure and Shock	129	3.4%	33.9%	3.4
132	Atherosclerosis with Complications	101	2.7%	36.5%	1.7
143	Chest Pain	98	2.6%	39.1%	1.6
371	Cesarean Section, without Complications	96	2.5%	41.6%	3.3
140	Angina Pectoris	63	1.7%	43.3%	1.5

# Hillsdale Community Health Center

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Financial Report

June 30, 2004

# Hillsdale Community Health Center

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**Plante & Moran, PLLC**  
Suite 500  
67 W. Michigan Ave.  
Battle Creek, MI 49017-7018  
Tel: 269.962.4079  
Fax: 269.962.4225  
plantemoran.com

## 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, 2004 and 2003, 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. 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, 2004 and 2003, 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.

*Plante & Moran, PLLC*

August 29, 2004



A worldwide association of independent accounting firms

# Hillsdale Community Health Center

## Balance Sheet

		June 30	
		2004	2003
<b>Assets</b>			
<b>Current Assets</b>			
Cash		\$ 3,739,855	\$ 5,489,670
Accounts receivable (Note 2)		6,479,545	5,042,744
Other current assets		<u>1,693,880</u>	<u>1,422,314</u>
Total current assets		11,913,280	11,954,728
<b>Investments and Other Assets</b> (Note 3)		11,414,495	8,471,369
<b>Property and Equipment</b> (Note 4)		<u>14,355,325</u>	<u>12,273,408</u>
Total assets		<b><u>\$ 37,683,100</u></b>	<b><u>\$ 32,699,505</u></b>
<b>Liabilities and Net Assets</b>			
<b>Current Liabilities</b>			
Current portion of long-term debt (Note 6)		\$ 425,020	\$ 365,541
Trade accounts payable		3,043,984	1,818,733
Cost report settlements (Note 5)		1,850,000	1,000,000
Accrued expenses payable		2,207,551	1,715,330
Credit balances - Patient ledgers		<u>717,168</u>	<u>523,676</u>
Total current liabilities		8,243,723	5,423,280
<b>Long-term Debt</b> (Note 6)		11,857,606	11,170,316
<b>Net Assets</b>			
Unrestricted		17,483,627	16,063,406
Temporarily restricted (Note 7)		<u>98,144</u>	<u>42,503</u>
Total net assets		<u>17,581,771</u>	<u>16,105,909</u>
Total liabilities and net assets		<b><u>\$ 37,683,100</u></b>	<b><u>\$ 32,699,505</u></b>

# Hillsdale Community Health Center

## Statement of Operations and Changes in Net Assets

	Year Ended June 30	
	2004	2003
<b>Unrestricted Revenue, Gains and Other Support</b>		
Net patient revenue	\$ 41,301,623	\$ 38,178,115
Other operating income	<u>438,113</u>	<u>601,247</u>
Total unrestricted revenue	41,739,736	38,779,362
<b>Operating Expenses</b>		
Salaries and wages	13,951,689	12,518,264
Employee benefits	4,294,417	4,254,291
Supplies, purchased services and other	16,149,486	14,679,451
Provision for doubtful accounts	3,385,130	2,611,837
Depreciation and amortization	1,683,022	1,629,033
Interest	<u>614,471</u>	<u>631,602</u>
Total operating expenses (Note 11)	<u>40,078,215</u>	<u>36,324,478</u>
<b>Operating Income</b>	1,661,521	2,454,884
<b>Nonoperating Income</b>	665,398	351,093
<b>Physician Recruitment Expenses</b>	<u>(1,369,424)</u>	<u>(1,332,667)</u>
<b>Excess of Revenue Over Expenses</b>	<u>\$ 957,495</u>	<u>\$ 1,473,310</u>

# Hillsdale Community Health Center

## Statement of Operations and Changes in Net Assets (Continued)

	Year Ended June 30	
	2004	2003
<b>Unrestricted Net Assets</b>		
Excess of revenue over expenses	\$ 957,495	\$ 1,473,310
Changes in net unrealized gains and losses	401,076	30,466
Net assets released from restrictions used for purchase of property and equipment	<u>61,650</u>	<u>398,867</u>
Increase in unrestricted net assets	1,420,221	1,902,643
<b>Temporarily Restricted Net Assets</b>		
Contributions restricted for fixed asset additions	117,291	200,560
Net assets released from restrictions	<u>(61,650)</u>	<u>(398,867)</u>
Increase (decrease) in temporarily restricted net assets	<u>55,641</u>	<u>(198,307)</u>
<b>Increase in Net Assets</b>	1,475,862	1,704,336
<b>Net Assets - Beginning of year</b>	<u>16,105,909</u>	<u>14,401,573</u>
<b>Net Assets - End of year</b>	<u><b>\$ 17,581,771</b></u>	<u><b>\$ 16,105,909</b></u>

# Hillsdale Community Health Center

## Statement of Cash Flows

	Year Ended June 30	
	2004	2003
<b>Cash Flows from Operating Activities</b>		
Cash received from patients and third-party payors	\$ 37,523,184	\$ 35,728,686
Cash received from other operating revenue	438,113	601,247
Contributions received	92,013	5,117
Interest received on cash accounts	319,440	310,258
Cash paid to employees and suppliers	(33,033,041)	(30,821,542)
Interest paid	(614,471)	(631,602)
Other	58,943	59,437
	<u>4,784,181</u>	<u>5,251,601</u>
Net cash provided by operating activities	4,784,181	5,251,601
<b>Cash Flows from Investing Activities</b>		
Purchase and construction of capital assets	(4,399,389)	(1,607,479)
Advances to physicians	(1,787,874)	(713,170)
Cash proceeds from (to) other assets	-	(81,781)
Proceeds from sale of investments	-	69,235
Purchases of investments	(1,114,384)	(112,211)
Cash proceeds from (to) assets limited as to use	(96,409)	156,750
	<u>(7,398,056)</u>	<u>(2,288,656)</u>
Net cash used in investing activities	(7,398,056)	(2,288,656)
<b>Cash Flows from Financing Activities</b>		
Proceeds from issuance of long-term debt	1,404,584	17,800
Principal paid on long-term debt	(657,815)	(339,862)
Contributions restricted for fixed asset additions	117,291	200,560
	<u>864,060</u>	<u>(121,502)</u>
Net cash provided by (used in) financing activities	864,060	(121,502)
<b>Net Increase (Decrease) in Cash</b>	<b>(1,749,815)</b>	<b>2,841,443</b>
<b>Cash - Beginning of year</b>	<b>5,489,670</b>	<b>2,648,227</b>
<b>Cash - End of year</b>	<b><u>\$ 3,739,855</u></b>	<b><u>\$ 5,489,670</u></b>

# 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	
	2004	2003
Increase in net assets	\$ 1,475,862	\$ 1,704,336
Adjustments to reconcile increase in net assets to net cash from operating activities:		
Contributions restricted for fixed asset additions	(117,291)	(200,560)
Net realized and unrealized (gains) losses on investments	(596,078)	(6,747)
Depreciation	1,683,022	1,629,033
Bad debt expense	3,385,130	2,611,837
Amortization of bond costs	15,269	15,269
Amortization of physician advances	1,270,800	1,185,026
(Increase) decrease in assets:		
Patient accounts receivable	(4,628,439)	(2,249,429)
Other current assets	(271,566)	562,733
Increase (decrease) in liabilities:		
Cost report settlements	850,000	(200,000)
Accounts payable	1,225,251	(88,120)
Accrued expenses	492,221	288,223
Net cash provided by operating activities	<b><u>\$ 4,784,181</u></b>	<b><u>\$ 5,251,601</u></b>

Noncash investing and financing activities are as follows:

- During the years ended June 30, 2004 and 2003, the Hospital sold assets on land contracts. The total land contract receivable was \$736,378 and \$101,928 at June 30 2004 and 2003, respectively.
- During the year ended June 30, 2003, the Hospital leased equipment under a new capital lease. The lease obligation incurred was \$81,607.

# Hillsdale Community Health Center

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## Notes to Financial Statements June 30, 2004 and 2003

### 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.

**Patient Accounts Receivable** - Patient accounts receivable are stated at net realizable amounts. An allowance for uncollectible accounts is established on an aggregate basis and is computed using historical write off rate factors applied to unpaid accounts stratified by payor and number of days the accounts are outstanding. Uncollectible amounts are written off against the allowance for uncollectible accounts in the period they are deemed to be uncollectible. An allowance for contractual adjustments is also established on an aggregate basis and is computed based on agreements with third-party payors that provide payments to the Hospital at amounts different than established charges. Contractual adjustments are written-off against the allowance for contractual adjustments in the period payment is received.

**Bond Issue Costs** - Bond issue costs are included in other assets. These costs are being amortized over the life of the debt. Amortization expense was \$15,269 for both the years ended June 30, 2004 and 2003.

**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.

# Hillsdale Community Health Center

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Notes to Financial Statements  
June 30, 2004 and 2003

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

**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.

**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 during 2004 and 2003 amounted to \$298,180 and \$292,867, 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 investment in the joint venture is recorded using the equity method and is included in other assets (Note 3). In addition, the Hospital has a reimbursement agreement with Borgess Hospital, whereby Borgess Hospital pays fifty percent of the expenses at the Hospital's Reading and Litchfield clinics.

**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.

# Hillsdale Community Health Center

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Notes to Financial Statements  
June 30, 2004 and 2003

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

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.

**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).

# Hillsdale Community Health Center

## Notes to Financial Statements June 30, 2004 and 2003

### Note 2 - Accounts Receivable

Details of patient accounts receivable at June 30, 2004 and 2003 are as follows:

	<u>2004</u>	<u>2003</u>
Patient accounts receivable, gross	\$ 17,008,545	\$ 14,587,744
Less allowance for:		
Uncollectible accounts	(2,482,000)	(2,554,000)
Third-party contractual adjustments and interim payment advances	<u>(8,047,000)</u>	<u>(6,991,000)</u>
Patient accounts receivable - Net	<u>\$ 6,479,545</u>	<u>\$ 5,042,744</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>2004</u>	<u>2003</u>
Medicare	31%	27%
Medicaid	11%	9%
Blue Cross \ Blue Shield	17%	19%
Other third-party payors	24%	24%
Patient pay	<u>18%</u>	<u>21%</u>
Total	<u>100%</u>	<u>100%</u>

# Hillsdale Community Health Center

## Notes to Financial Statements June 30, 2004 and 2003

### Note 3 - Investments and Other Assets

The details of investments and other assets are given below:

	<u>2004</u>	<u>2003</u>
Assets limited as to use:		
By bond agreement:		
Bond payment account		
U.S. government securities	\$ 116,364	\$ 116,364
Debt service reserve		
U.S. government securities	841,350	841,350
By donor for capital improvements:		
Cash	97,545	42,503
By deferred compensation agreement:		
Mutual funds	<u>217,468</u>	<u>176,101</u>
Total assets limited as to use	1,272,727	1,176,318
Investments:		
Certificates of deposit	462,248	440,708
Corporate bonds	882,251	724,342
Governmental bonds	1,474,777	1,288,184
Corporate stock	<u>4,599,226</u>	<u>3,254,806</u>
Total investments	7,418,502	5,708,040
Other Assets:		
Physician advances	2,532,160	2,015,086
Less current portion	<u>(1,000,000)</u>	<u>(1,000,000)</u>
Subtotal	1,532,160	1,117,014
Land contract receivables	736,378	101,928
Jonesville joint venture	122,347	122,347
Bond issuance costs	291,249	306,518
Other	<u>41,132</u>	<u>41,132</u>
Total other assets	<u>2,723,266</u>	<u>1,587,011</u>
Total	<u>\$ 11,414,495</u>	<u>\$ 8,471,369</u>

# Hillsdale Community Health Center

## Notes to Financial Statements June 30, 2004 and 2003

### Note 3 - Investments and Other Assets (Continued)

Investment income (loss) is comprised of the following:

	2004	2003
Interest and dividend income	\$ 319,440	\$ 310,258
Net realized gains (losses)	195,002	(23,719)
Net unrealized gains	<u>401,076</u>	<u>30,466</u>
Investment income	<u>\$ 915,518</u>	<u>\$ 317,005</u>

### Note 4 - Property and Equipment

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

	Depreciable Life - Years	2004	2003
Land and improvements	5	\$ 281,506	\$ 281,506
Buildings and improvements	5-50	16,126,324	15,971,088
Equipment	5-10	11,525,726	10,935,281
Equipment under capital lease	5-10	827,797	827,797
Construction in Progress		<u>2,905,862</u>	<u>-</u>
Total cost		31,667,215	28,015,672
Less accumulated depreciation		16,717,414	15,163,056
Less accumulated amortization		<u>594,476</u>	<u>579,208</u>
Net carrying amount		<u>\$ 14,355,325</u>	<u>\$ 12,273,408</u>

During the year ended June 30, 2004, the Hospital began renovations and new construction for its operating rooms and emergency department. The total estimated construction for this project is expected to total \$3,380,000, with the vast majority in progress at June 30, 2004. All contractors and architects have been committed to this project and the Hospital intends to see to its completion. Michigan State Hospital Finance Authority, Healthcare Equipment Loan Program (HELP), Series C has approved to loan the Hospital up to \$5 million for its construction projects.

## Note 5 - Cost Report Settlements

Approximately 79 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 paid based upon an established fee-for-service reimbursement methodology. Skilled nursing care services rendered to Medicare program beneficiaries are paid 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 at a prospectively determined per diem rate 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, 2004 and 2003

### Note 6 - Long-term Debt

Details of long-term debt at June 30, 2004 and 2003 are as follows:

	<u>2004</u>	<u>2003</u>
Finance Authority, interest at 4.70% ot 5.75%, annual principal payments ranging from \$275,000 in 2005 to \$795,000 in 2026	\$ 10,720,000	\$ 10,980,000
Michigan State Hospital Finance Authority, Healthcare Equipment Loan Program, Series C, interest at 1.40%	1,380,543	-
Note payable, interest at 8.75%, payable in monthly installments of \$607, collateralized by vehicle purchase	12,220	17,751
Note payable, interest at 8.50%, payable in monthly installments of \$4,340, collateralized by real estate purchase	-	292,817
Note payable, no interest due, payable in monthly installments of \$371, collateralized, by vehicle purchase	11,804	16,693
Capital leases:		
Equipment, payable in monthly installments totaling approximately \$6,627 at June 30, 2004, including interest ranging from 4.00% to 9.00%	<u>158,059</u>	<u>228,596</u>
Total	12,282,626	11,535,857
Less current portion	<u>425,020</u>	<u>365,541</u>
Long-term portion	<u>\$ 11,857,606</u>	<u>\$ 11,170,316</u>

# Hillsdale Community Health Center

## Notes to Financial Statements June 30, 2004 and 2003

### Note 6 - 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, 2004 are as follows:

	<u>Notes Payable</u>	<u>Capital Leases</u>
2004	\$ 357,063	\$ 79,530
2005	365,822	55,470
2006	374,439	50,658
2007	386,100	8,443
2008	401,100	-
2009 and thereafter	<u>10,240,043</u>	<u>-</u>
Totals	<u>\$ 12,124,567</u>	194,101
Less interest		<u>36,042</u>
Total minimum lease payments		<u>\$ 158,059</u>

### Note 7 - Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at June 30, 2004 and 2003.

	<u>2004</u>	<u>2003</u>
Health care programs	\$ 28,584	\$ 28,457
Purchase of equipment and expansion	<u>69,560</u>	<u>14,046</u>
Total temporarily restricted net assets	<u>\$ 98,144</u>	<u>\$ 42,503</u>

### Note 8 - Defined Contribution Plan

The Hospital has established a defined contribution retirement plan covering

# Hillsdale Community Health Center

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## Notes to Financial Statements June 30, 2004 and 2003

substantially all employees. The Hospital contributed 3 percent of eligible wages resulting in pension expense of \$333,489 and \$313,855 for the years ended June 30, 2004 and 2003, respectively.

### Note 9 - Professional Liability

Prior to June 1, 2004, the Hospital carried commercial insurance for professional liability risks on a claims-made basis. The Hospital has purchased tail coverage for claims that had occurred but were not yet reported at June 1, 2004.

Effective June 1, 2004, the Hospital is self-insured with respect to medical malpractice risk. The Hospital has purchased self-insurance retention insurance for claims greater than \$1 million per occurrence. Losses from asserted claims and from unasserted claims identified under the Hospital's incident reporting system are accrued based on estimates that incorporate the Hospital's past experience, as well as other considerations, including the nature of each claim or incident and relevant trend factors.

The Hospital has established a trust fund for the payment of medical malpractice claim settlements. An actuary has been retained to assist the Hospital with determining amounts to be deposited in the trust fund. Professional liability investments will be established in an amount equal to the provision for medical malpractice.

The Hospital has been named in several malpractice lawsuits. At this time, it is premature to evaluate the likely outcome and amount of settlement, if any. Management intends to vigorously defend these suits and does not expect an unfavorable impact.

# Hillsdale Community Health Center

## Notes to Financial Statements June 30, 2004 and 2003

### Note 10 - 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 \$1,271,000 and \$1,185,000 for 2004 and 2003, respectively.

The Hospital has entered into guarantee agreements with two financial institutions. The Hospital has guaranteed, up to \$4.8 million, the obligations of an unrelated party to construct a medical office building. In the event the Hospital is required to make payments under this guarantee, the Hospital could seek to recover those amounts; however, the Hospital does not hold specific recourse or collateral rights in connection with the guarantee. The Hospital is unaware of any default or potential default resulting in any Hospital liability. The balance of the mortgage outstanding at June 30, 2004 was approximately \$5.4 million.

### Note 11 - 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, 2004 and 2003.

	<u>2004</u>	<u>2003</u>
Health care services	\$ 36,710,315	\$ 33,214,673
General and administrative	<u>3,367,900</u>	<u>3,109,805</u>
Total functional expenses	<u>\$ 40,078,215</u>	<u>\$ 36,324,478</u>