

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:

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) 36 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 2004 – June 2005 (FY2005)

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

Fiscal Period Covered: July 2004 – June 2005 (FY2005)

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

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

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

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

Period Covered: _____

F. Other Secondary Market Information (Specify): _____

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

Issuer Contact:

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

Dissemination Agent Contact, if any:

Name Shelley J. Aronson Title President
Employer First River Advisory L.L.C.
Address 2640 Override Drive City Ann Arbor State MI Zip Code 48104
Telephone (734) 761-3624 Fax (734) 761-3614
Email Address aronson@firstriver.com Relationship to Issuer Dissemination Agent

Obligor Contact, if any:

Name Valerie Fetters 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 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 28, 2005

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, 2005 (FY2005)

Unless otherwise noted, all data apply to the Fiscal Year Ended June 30, 2005, or are accurate as of June 30, 2005, 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	5	General Surgery	3	Family Practice	6
Cardiology	1	Ophthalmology	2	Obstetrics/Gynecology	2
Gastroenterology	2	Orthopedic Surgery	2	Pediatrics	1
Oncology	1	Otorhinolaryngology	1	Anesthesiology	1
Neurology	1	Podiatry	2	Emergency Medicine	2
Pulmonology	1	Urology	3	Pathology	1
Rheumatology	1	Vascular Surgery	2	Radiology	2
				Chiropractic	7
Total Internal Medicine	12	Total Surgery	15	GRAND TOTAL	49

<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	8	16.3%
35 - 44	18	36.7%
45 - 54	17	34.7%
55 - 64	6	12.2%
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	15	42	12	3
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, 2005

<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	65,125	83.6%
Physicians holding consulting or courtesy privileges, plus <i>locum tenens</i> physicians	11,332	14.6%
Unassigned Revenue	1,415	1.8%
Total Revenue	77,872	100.0%

MUNICIPAL SECONDARY MARKET DISCLOSURE
City of Hillsdale Hospital Finance Authority / Hillsdale Community Health Center
Fiscal Year Ended June 30, 2005

<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	\$7,898,360	10.1%	10.1%
2	Orthopedic Surgery	37	C	\$5,596,163	7.2%	17.3%
3	Internal Medicine	50	C	\$4,938,193	6.3%	23.7%
4	Internal Medicine	37	C	\$3,527,847	4.5%	28.2%
5	Obstetrics/Gynecology	53	C	\$3,367,821	4.3%	32.5%
6	Gastroenterology	48	C	\$3,097,985	4.0%	36.5%
7	Family Practice	32	C	\$2,349,044	3.0%	39.5%
8	Internal Medicine	52	C	\$2,328,416	3.0%	42.5%
9	Family Practice	33	C	\$2,311,421	3.0%	45.5%
10	General Surgery	47	C	\$2,211,631	2.8%	48.3%
			C = Certified E = Eligible			

MUNICIPAL SECONDARY MARKET DISCLOSURE
City of Hillsdale Hospital Finance Authority / Hillsdale Community Health Center
Fiscal Year Ended June 30, 2005

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>2005</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>	<i>2001</i>
Days in Period	365	366	365	365	365
Licensed Beds	47	47	47	47	47
Available Beds	40	40	40	40	40
Admissions	2,761	2,795	2,545	2,546	2,410
Patient Days	8,721	8,844	8,349	8,760	8,621
Average Daily Census	23.9	24.2	22.9	24.0	23.6
Average LOS	3.2	3.2	3.3	3.4	3.6
Occupancy Rate (%)*	59.7	60.4	57.2	60.0	59.0
* 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>2005</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>	<i>2001</i>
Days in Period	365	366	365	365	365
Licensed Beds	9	9	9	9	9
Available Beds	4	4	4	4	4
Admissions	106	144	105	123	106
Patient Days	222	312	212	262	304
Average Daily Census	0.6	0.9	0.6	0.7	0.8
Average LOS	2.1	2.2	2.0	2.1	2.9
Occupancy Rate (%)*	15.2	21.3	14.5	17.9	20.8
* 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, 2005

<i>Historical Obstetrics Utilization (excludes newborns) [OS Page A-18]</i>					
	<i>Fiscal Years Ended June 30</i>				
	<i>2005</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>	<i>2001</i>
Days in Period	365	366	365	365	365
Licensed Beds	9	9	9	9	9
Available Beds	8	8	8	8	8
Admissions	466	458	464	469	497
Patient Days	989	923	837	923	939
Average Daily Census	2.7	2.5	2.3	2.5	2.6
Average LOS	2.1	2.0	1.8	2.0	1.9
Occupancy Rate (%)*	33.9	31.5	28.7	31.6	32.2
* 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>2005</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>	<i>2001</i>
Days in Period	365	366	365	365	365
Licensed Beds	65	65	65	65	65
Available Beds	52	52	52	52	52
Admissions	3,333	3,397	3,114	3,137	3,013
Adjusted Admissions ^{1,2,3}	7,827	8,037	7,459	7,097	6,786
Patient Days	9,932	10,079	9,398	9,949	9,864
Average Daily Census	27.2	27.5	25.7	27.3	27.0
Average LOS	3.0	3.0	3.0	3.2	3.3
Occupancy Rate (%) ⁴	52.3	53.0	49.5	52.4	52.0
Net Patient Revenue per Adjusted Admission ^{1,2,5}	\$5,601	\$5,139	\$5,118	\$5,019	\$4,727
Gross Outpatient Revenue per Adjusted Admission ^{1,2,5}	\$5,713	\$5,416	\$4,795	\$4,774	\$4,609
¹ The FY2001 figure reported in the report relating to FY2001 was erroneous; this is the correct figure ² The FY2003 figure reported in the report relating to FY2003 was erroneous; this is the correct figure ³ Admissions are adjusted by the percentage gross revenue attributable to outpatient services ⁴ Based on Available Beds rather than Licensed Beds ⁵ Calculated by management from the Corporation's audited financial statements and other records, using definitions published by Standard & Poor's Corporation in <i>CreditWeek Municipal</i> , October 20, 1997 and in <i>CreditWeek</i> , October 1994					

MUNICIPAL SECONDARY MARKET DISCLOSURE
City of Hillsdale Hospital Finance Authority / Hillsdale Community Health Center
Fiscal Year Ended June 30, 2005

<i>McGuire Unit Utilization</i> <i>[OS Page A-20]</i>					
	<i>Fiscal Years Ended June 30</i>				
	<i>2005</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>	<i>2001</i>
Days in Period*	365	366	365	365	365
Licensed Beds	21	21	21	21	21
Patient Days	7,042	7,212	6,773	6,516	6,629
Average Daily Census	19.3	19.7	18.6	17.9	18.2
Occupancy Rate (%)	91.9	93.8	88.4	85.0	86.5

<i>Surgical Procedures</i> <i>[OS Page A-20]</i>					
	<i>Fiscal Years Ended June 30</i>				
	<i>2005</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>	<i>2001</i>
Inpatient	1,030	966	951	933	818
Outpatient	2,816	2,843	2,967	2,781	2,443
Total	3,846	3,809	3,918	3,714	3,261
Percent Outpatient (%)	73.2	74.6	75.7	74.9	74.9

<i>Emergency Department Volumes</i> <i>[OS Page A-21]</i>					
	<i>Fiscal Years Ended June 30</i>				
	<i>2005</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>	<i>2001</i>
Visits	29,925	30,209	27,813	29,178	27,488
Change over Previous Period (%)	(0.9)	8.6	(4.7)	6.1	4.2
Transfers to Other Hospitals	151	141	135	133	139
Transfers per Thousand ED Visits	5.0	4.7	4.9	4.6	5.1

<i>Outpatient Service Volumes</i> <i>[OS Page A-21]</i>					
	<i>Fiscal Years Ended June 30</i>				
	<i>2005</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>	<i>2001</i>
Scheduled Registrations	123,236	119,130	115,381	108,673	104,419
Change over Previous Period (%)	3.4	3.2	6.2	4.1	3.2

MUNICIPAL SECONDARY MARKET DISCLOSURE
City of Hillsdale Hospital Finance Authority / Hillsdale Community Health Center
Fiscal Year Ended June 30, 2005

<i>Ancillary Services Provided to <u>Inpatients</u></i>					
<i>[OS Page A-22]</i>					
	<i>Fiscal Years Ended June 30</i>				
	<i>2005</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>	<i>2001</i>
Laboratory ¹	82,045	77,155	67,126	62,754	59,755
MRI Scanning ²	238	228	173	111	109
CT Scanning ²	1,266	1,218	1,132	1,121	1,022
Ultrasonography ²	2,617	2,536	2,327	2,429	2,610
Other Radiology ²	5,171	5,110	4,944	4,802	4,863
Nuclear Medicine ²	308	258	278	343	463
Electrocardiography ¹	4,647	4,504	4,494	4,030	4,300
Electroencephalography ¹	40	27	27	47	22
Cardiovascular Lab ^{3,4}	79	118	51	56	115
Physical Therapy ³	2,169	2,088	2,128	1,932	1,826
Respiratory Therapy ³	34,777	31,557	30,504	27,062	22,094
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, 2005

<i>Ancillary Services Provided to <u>Outpatients</u></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>2005</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>	<i>2001</i>
Laboratory ¹	249,935	235,038	226,445	212,245	193,108
MRI Scanning ²	2,370	2,127	1,866	1,757	1,365
CT Scanning ²	4,246	4,230	4,034	4,064	3,351
Ultrasonography ²	9,058	8,058	7,797	7,204	6,840
Other Radiology ^{2,5}	28,468	29,668	28,867	25,396	25,352
Nuclear Medicine ²	4,303	4,449	5,959	4,946	5,500
Electrocardiography ¹	3,582	3,032	3,170	3,284	2,964
Electroencephalography ¹	106	108	127	94	69
Cardiovascular Lab ^{3,4,6}	3,921	3,910	3,772	3,679	2,924
Physical Therapy ³	21,538	20,919	18,283	16,231	17,763
Respiratory Therapy ³	14,981	13,138	12,367	6,903	9,782
Endoscopy ³	2,391	2,273	1,651	2,052	2,122
Sleep Studies ¹	566	360	201	216	191
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					
⁶ 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</i> <i>[OS Page A-23]</i>				
<i>Fiscal Years Ended June 30</i>				
<i>2005</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>	<i>2001</i>
10,711	10,876	9,552	10,381	9,899

MUNICIPAL SECONDARY MARKET DISCLOSURE
City of Hillsdale Hospital Finance Authority / Hillsdale Community Health Center
Fiscal Year Ended June 30, 2005

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>2005</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>	<i>2001</i>
Medicare	51.8%	50.3%	55.6%	63.3%	59.5%
Medicaid	37.8%	33.1%	16.9%	13.2%	20.9%
Private Pay and Commercial Insurance	10.4%	16.6%	27.5%	23.5%	19.6%
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>2005</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>	<i>2001</i>	<i>2005</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>	<i>2001</i>
Medicare	43.0	40.1	42.7	41.9	42.2	56.4	55.7	57.0	58.1	58.3
Medicaid	11.0	12.0	9.2	9.0	8.8	11.4	11.9	8.5	8.8	9.6
Blue Cross	25.0	25.8	25.6	25.3	23.5	16.9	16.9	17.6	17.9	15.1
Commercial Insurance	17.0	18.4	19.0	20.5	21.9	11.7	12.2	13.6	12.5	14.1
Self-Pay	4.0	3.7	3.5	3.3	3.6	3.6	3.3	3.3	2.7	2.9
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>2005</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>	<i>2001</i>
Inpatient	38.5%	38.8%	38.8%	39.6%	39.7%
Outpatient	55.4%	54.1%	54.2%	53.3%	53.4%
McGuire Unit	4.0%	4.4%	4.4%	4.6%	4.6%
Home Care	2.1%	2.7%	2.6%	2.5%	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, 2005

<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>2005</i>	<i>2004¹</i>	<i>2003</i>	<i>2002</i>	<i>2001</i>
Net Patient Service Revenue	43,840	41,300	38,178	35,038	31,455
Other Operating Revenue	<u>508</u>	<u>416</u>	<u>601</u>	<u>581</u>	625
Total Operating Revenue	44,348	41,717	38,779	35,619	32,080
Depreciation Expense	1,799	1,683	1,629	1,481	1,475
Interest Expense	648	614	632	635	639
Bad Debt Expense	3,173	3,384	2,612	2,354	2,492
Other Operating Expenses	<u>36,888</u>	<u>34,396</u>	<u>31,452</u>	<u>29,078</u>	<u>25,817</u>
Total Operating Expenses	42,508	40,077	36,324	33,548	30,423
Income from Operations	1,840	1,640	2,455	2,071	1,657
Net Nonoperating (Losses)	<u>(931)</u>	<u>(682)</u>	<u>(982)</u>	<u>(855)</u>	<u>(984)</u>
Revenue and Gains in Excess of Expenses	909	957	1,473	1,216	673
Depreciation included in Net Nonoperating (Losses)	0	0	0	26	28
Net Income Available for Debt Service (EBIDA) ²	3,357	3,255	3,734	3,358	2,815
Capital Expenditures	3,578	4,399	1,607	1,483	1,506

1 Certain FY2004 amounts have been changed to reflect statement of operations reclassifications reported in connection with the FY2005 audited financial statements
2 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>2005</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>	<i>2001</i>
Debt Service Coverage Ratio ^{1,2}	1.94	1.80	2.43	2.15	3.35
Excess Margin ²	2.09%	2.33%	3.90%	3.50%	2.16%
Operating Margin ²	4.15%	3.93%	6.33%	5.81%	5.17%

¹ Based on FY2005 Annual Debt Service on the Series 1998 Bonds and other Long-Term Debt of \$1,730,069. 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 FY2005 Annual Debt Service, the Debt Service Coverage Ratio would have been 2.82 in FY2005.
² 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, 2005

<i>Cost and Productivity Measures</i> <i>[OS Page A-35]</i>					
	<i>Fiscal Years Ended June 30</i>				
	<i>2005</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>	<i>2001</i>
Total FTEs	296.2	292.4	287.6	285.0	265.8
FTEs per Adjusted Admission ¹	0.042	0.036	0.039	0.012	0.039
FTEs per Adjusted Occupied Bed ¹	4.9	4.4	4.4	4.5	4.2
Adjusted Acute Care Patient-Days ¹	24,720	24,361	24,159	23,327	23,122
Paid-hours per Adjusted Patient-Day ¹	24.9	25.0	25.5	25.1	23.7
McGuire Unit Paid Hours per Patient-Day ¹	5.0	4.7	6.0	6.0	5.7
Capital Expense / Total Expenses ¹	5.8%	5.7%	6.2%	6.3%	6.6%
Bad Debt Expense / Operating Revenue ¹	7.2%	8.1%	6.7%	6.6%	7.8%

¹ 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>2005</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>	<i>2001</i>
Cash and Temporary Investments ¹	4,655	3,740	5,490	2,648	3,750
Net Patient Accounts Receivable	6,261	6,480	5,043	5,443	5,127
Other Current Assets ²	<u>2,067</u>	<u>1,694</u>	<u>1,422</u>	<u>1,985</u>	<u>1,708</u>
Total Current Assets ²	12,982	11,913	11,955	10,076	10,585
Non-Current Cash and Investments (unrestricted) ¹	7,752	7,419	5,708	5,658	4,127
Property and Equipment	16,246	14,355	12,273	12,213	12,526
Other Assets ²	<u>4,846</u>	<u>3,996</u>	<u>2,763</u>	<u>3,326</u>	<u>2,651</u>
Total Assets	41,827	37,683	32,700	31,273	29,889
Current Liabilities	9,237	8,244	5,423	5,412	5,337
Long-Term Debt	13,909	11,858	11,170	11,460	11,577
Net Assets	<u>18,681</u>	<u>17,582</u>	<u>16,106</u>	<u>14,401</u>	<u>12,975</u>
Total	41,827	37,683	32,700	31,273	29,889

¹ Used in Days' Cash on Hand, Cash-to-Debt 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, 2005

<i>Liquidity Ratios</i> <i>[OS Page A-37]</i>					
	<i>Fiscal Years Ended June 30</i>				
	<i>2005</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>	<i>2001</i>
Current Ratio ^{1,3}	1.41	1.45	2.20	1.86	1.98
Quick Ratio ^{1,3}	2.02	2.14	2.99	2.54	2.44
Days in Patient Accounts Receivable ³	52.1	57.3	48.2	56.7	59.5
Days Cash on Hand ³	111.2	106.1	117.8	94.6	99.4
Cash-to-Debt ^{2,3}	84.9%	90.8%	97.1%	70.5%	66.4%

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
³ 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>2005</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>	<i>2001</i>
Medicare	1.2807	1.2052	1.2650	1.1740	1.1461
Medicaid	0.6053	0.6472	0.7204	0.6171	0.4816
Blue Cross	0.8234	0.8028	0.7846	0.8598	1.2475

MUNICIPAL SECONDARY MARKET DISCLOSURE
City of Hillsdale Hospital Finance Authority / Hillsdale Community Health Center
Fiscal Year Ended June 30, 2005

<i>Top Ten DRGs [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	327	8.7%	8.7%	1.7
373	Vaginal Delivery, without Complications	261	7.0%	15.7%	1.5
209	Major Joint and Limb Reattachment Procedures, Lower Extremity	244	6.5%	22.2%	3.2
127	Heart Failure and Shock	140	3.7%	26.0%	3.5
88	Chronic Obstructive Pulmonary Disease	139	3.7%	29.7%	3.5
89	Simple Pneumonia and Pleurisy, > Age 17, with Complications	134	3.6%	33.3%	4.3
132	Atherosclerosis with Complications	98	2.6%	35.9%	1.6
371	Cesarean Section, without Complications	91	2.4%	38.3%	3.1
359	Uterine and Adnexa Procedures for Non- malignancy, with Complications	64	1.7%	40.0%	3.0
143	Chest Pain	59	1.6%	41.6%	1.5

Hillsdale Community Health Center

**Financial Report
with Additional Information
June 30, 2005**

Hillsdale Community Health Center

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Plante & Moran, PLLC

Suite 300

750 Trade Centre Way

Portage, MI 49002

Tel: 269.567.4500

Fax: 269.567.4501

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, 2005 and 2004 and the related statements of operations, 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hillsdale Community Health Center at June 30, 2005 and 2004 and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Plante & Moran, PLLC

August 30, 2005

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Hillsdale Community Health Center

Balance Sheet

	<u>June 30, 2005</u>	<u>June 30, 2004</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 4,654,679	\$ 3,739,855
Accounts receivable (Note 2)	6,261,166	6,479,545
Other current assets	<u>2,066,569</u>	<u>1,693,880</u>
Total current assets	12,982,414	11,913,280
Assets Limited as to Use (Note 3)	9,423,963	8,691,229
Property and Equipment - Net (Note 4)	16,246,221	14,355,325
Other Assets (Note 5)	<u>3,174,065</u>	<u>2,723,266</u>
Total assets	<u>\$ 41,826,663</u>	<u>\$ 37,683,100</u>
Liabilities and Net Assets		
Current Liabilities		
Current portion of long-term debt (Note 7)	\$ 698,530	\$ 425,020
Accounts payable	3,498,989	3,043,984
Estimated third-party payor settlements (Note 6)	1,790,000	1,850,000
Accrued liabilities and other	<u>3,249,065</u>	<u>2,924,719</u>
Total current liabilities	9,236,584	8,243,723
Long-term Debt - Net of current portion (Note 7)	<u>13,909,032</u>	<u>11,857,606</u>
Total liabilities	23,145,616	20,101,329
Net Assets		
Unrestricted	18,599,045	17,483,627
Temporarily restricted (Note 9)	<u>82,002</u>	<u>98,144</u>
Total net assets	<u>18,681,047</u>	<u>17,581,771</u>
Total liabilities and net assets	<u>\$ 41,826,663</u>	<u>\$ 37,683,100</u>

Hillsdale Community Health Center

Statement of Operations

	Year Ended	
	<u>June 30, 2005</u>	<u>June 30, 2004</u>
Unrestricted Revenue, Gains, and Other Support		
Net patient service revenue	\$ 43,840,160	\$ 41,300,498
Other	<u>508,277</u>	<u>416,206</u>
Total unrestricted revenue, gains, and other support	44,348,437	41,716,704
Expenses		
Salaries and wages	14,596,681	13,951,689
Employee benefits and payroll taxes	3,819,130	4,294,417
Operating supplies and expenses	18,471,813	16,149,486
Depreciation and amortization	1,799,329	1,683,022
Provision for bad debts	3,173,111	3,384,005
Interest expense	<u>648,239</u>	<u>614,471</u>
Total expenses	<u>42,508,303</u>	<u>40,077,090</u>
Operating Income	1,840,134	1,639,614
Other Income (Expenses)		
Investment income (Note 3)	522,686	514,442
Gain on sale of property	41,804	21,907
Contributions	90,100	92,013
Other income (expenses)	(1,493)	22,550
Rent income	9,980	36,393
Physician recruitment expenses	<u>(1,594,027)</u>	<u>(1,369,424)</u>
Total other expenses	<u>(930,950)</u>	<u>(682,119)</u>
Excess of Revenue Over Expenses	909,184	957,495
Change in Unrealized Gains and Losses on Investments (Note 3)	45,892	401,076
Net Assets Released from Restriction for Capital	<u>160,342</u>	<u>61,650</u>
Increase in Unrestricted Net Assets	<u>\$ 1,115,418</u>	<u>\$ 1,420,221</u>

Hillsdale Community Health Center

Statement of Changes in Net Assets

	Year Ended June 30	
	2005	2004
Unrestricted Net Assets		
Excess of revenue over expenses	\$ 909,184	\$ 957,495
Change in unrealized gains and losses on investments (Note 3)	45,892	401,076
Net assets released from restriction for capital	160,342	61,650
Increase in Unrestricted Net Assets	1,115,418	1,420,221
Temporarily Restricted Net Assets		
Restricted contributions	144,200	117,291
Net assets released from restriction	(160,342)	(61,650)
(Decrease) Increase in Temporarily Restricted Net Assets	(16,142)	55,641
Increase in Net Assets	1,099,276	1,475,862
Net Assets - Beginning of year	17,581,771	16,105,909
Net Assets - End of year	\$ 18,681,047	\$ 17,581,771

Hillsdale Community Health Center

Statement of Cash Flows

	Year Ended	
	June 30, 2005	June 30, 2004
Cash Flows from Operating Activities		
Cash received from patients and third-party payors	\$ 43,998,539	\$ 37,523,184
Cash paid to suppliers and employees	(39,787,844)	(33,033,041)
Investment income received	377,684	319,440
Donations received	90,100	92,013
Interest paid	(648,239)	(614,471)
Cash received from other operating income	558,568	497,056
Net cash provided by operating activities	4,588,808	4,784,181
Cash Flows from Investing Activities		
Purchase of property and equipment	(3,577,725)	(4,399,389)
Purchase of investments	(541,840)	(1,114,384)
Cash proceeds to assets limited as to use	(82,186)	(96,409)
Advances to physicians	(2,308,286)	(1,787,874)
Proceeds from land contracts	479,417	-
Net cash used in investing activities	(6,030,620)	(7,398,056)
Cash Flows from Financing Activities		
Proceeds from issuance of debt obligations	2,753,686	1,404,584
Principal payments of debt obligations	(541,250)	(657,815)
Proceeds from restricted contributions	144,200	117,291
Net cash provided by financing activities	2,356,636	864,060
Net Increase (Decrease) in Cash and Cash Equivalents	914,824	(1,749,815)
Cash and Cash Equivalents - Beginning of year	3,739,855	5,489,670
Cash and Cash Equivalents - End of year	\$ 4,654,679	\$ 3,739,855

Hillsdale Community Health Center

Notes to Financial Statements June 30, 2005 and 2004

Note 1 - Nature of Business and Significant Accounting Policies

Hillsdale Community Health Center (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.

Patient Accounts Receivable - Accounts receivable for patients are stated at net amounts. An allowance for uncollectible accounts is established on an aggregate basis by 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 doubtful accounts in the period they are determined 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 payment to the Hospital at amounts different than the established charges. Contractual adjustments are written off against the allowance for contractual adjustments in the period payment is received.

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 income from operations unless the income or loss is restricted by donor or law. Unrealized gains or losses on investments are excluded from excess revenue over expenses unless the investments are trading securities.

Joint Affiliations - 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 (see Note 5). In addition, the Hospital has a reimbursement agreement with Borgess Hospital, whereby Borgess Hospital pays 50 percent of the expenses at the Hospital's Reading and Litchfield clinics.

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.

Bond Issue Costs - Bond issue costs are included in the other assets (see Note 5). These costs are being amortized over the life of the debt. Amortization expense was \$15,269 for both years ended June 2005 and 2004.

Hillsdale Community Health Center

Notes to Financial Statements June 30, 2005 and 2004

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

Self-insurance - The Hospital acts as a self-insurer for the health insurance benefits up to limits as provided for 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 for the fiscal year ended June 30, 2004 were expensed as health care benefits. During the year ended June 30, 2005, a cost-to-charge ratio of .491 was applied to all domestic claims and recorded as health care benefits along with foreign claims paid. The balance was adjusted to net patient revenue.

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 the future periods as final statements are determined. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Management believes that 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 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 2005 and 2004 amounted to \$258,013 and \$298,180, respectively.

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 restrictions were to be used for the purpose of acquiring such assets).

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 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

Notes to Financial Statements June 30, 2005 and 2004

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 are to be used and gifts of cash and other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Hospital reports the expirations of donor restrictions when assets are placed in service.

Tax Status - The Hospital and its subsidiaries are nonprofit corporations as described in Section 501(c)(3) of the Internal Revenue Code, and accordingly, no tax provision is reflected on the financial statements.

Reclassification - Certain prior year amounts have been reclassified to conform to the current year presentation.

Note 2 - Patient Accounts Receivable

The details of patient accounts receivable at June 30, 2005 and 2004 are as follows:

	2005	2004
Patient accounts receivable	\$ 16,320,166	\$ 17,008,545
Less:		
Allowance for uncollectible accounts	2,100,000	2,482,000
Allowance for third-party contractual adjustments and interim payment advances	7,959,000	8,047,000
Net patient accounts receivable	<u>\$ 6,261,166</u>	<u>\$ 6,479,545</u>

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

	Percent	
	2005	2004
Medicare	34	31
Blue Cross/Blue Shield of Michigan	21	17
Medicaid	8	11
Commercial insurance and HMOs	22	24
Self-pay	15	17
Total	<u>100</u>	<u>100</u>

Hillsdale Community Health Center

Notes to Financial Statements June 30, 2005 and 2004

Note 3 - Assets Limited as to Use and Investments

The composition of assets limited as to use at June 30, 2005 and 2004, is set forth in the following tables. Investments are stated at fair value.

	<u>2005</u>	<u>2004</u>
Assets limited as to use:		
Professional and general liability self insurance	\$ 571,000	\$ -
Debt service reserve and payment funds	957,714	957,714
Donor-restricted assets	82,003	97,545
Deferred compensation	60,839	217,468
Other investments	<u>7,752,407</u>	<u>7,418,502</u>
Total	<u>\$ 9,423,963</u>	<u>\$ 8,691,229</u>
Investments:		
Cash and cash equivalents	\$ 2,178,893	\$ 1,517,507
Corporate bonds	1,039,169	882,251
Mutual funds - Equity	60,839	217,468
Governmental bonds	1,482,789	1,474,777
Corporate stocks	<u>4,662,273</u>	<u>4,599,226</u>
Total assets limited as to use and investments	<u>\$ 9,423,963</u>	<u>\$ 8,691,229</u>

Investment income and gains for assets limited as to use, cash equivalents, and other investments are comprised of the following for the years ended June 30, 2005 and 2004:

	<u>2005</u>	<u>2004</u>
Income:		
Interest and dividend income	\$ 377,684	\$ 319,440
Net realized gains on investments	145,002	195,002
Net unrealized gains and losses on investments	<u>45,892</u>	<u>401,076</u>
Total income	<u>\$ 568,578</u>	<u>\$ 915,518</u>

Hillsdale Community Health Center

Notes to Financial Statements June 30, 2005 and 2004

Note 4 - Property and Equipment

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

	2005	2004	Depreciable Life - Years
Land	\$ 103,162	\$ 103,162	-
Land improvements	272,885	178,344	5
Buildings and improvements	20,599,131	16,126,324	5-50
Equipment	12,175,904	11,525,726	5-10
Capital leases	827,797	827,797	5-10
Construction in progress	1,168,746	2,905,862	
Total cost	35,147,625	31,667,215	
Accumulated depreciation	(18,901,404)	(17,311,890)	
Total property and equipment	<u>\$ 16,246,221</u>	<u>\$ 14,355,325</u>	

Note 5 - Other Assets

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

	2005	2004
Physician advances, net of current portion of \$1,300,000 and \$1,000,000 for the years ended June 30, 2005 and 2004, respectively	\$ 2,393,458	\$ 1,532,160
Land contract receivables	256,961	736,378
Jonesville joint venture	167,972	122,347
Bond issuance costs	275,982	291,249
Deposits	79,692	41,132
Total other assets	<u>\$ 3,174,065</u>	<u>\$ 2,723,266</u>

Note 6 - Cost Report Settlements

Approximately 66 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 reimbursements 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:

Hillsdale Community Health Center

Notes to Financial Statements June 30, 2005 and 2004

Note 6 - Cost Report Settlements (Continued)

Medicare - Inpatient acute-care services rendered to Medicare program beneficiaries are paid 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 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.

Note 7 - Long-term Debt

Details of long-term debt at June 30, 2005 and 2004 are as follows:

	2005	2004
Series 1998 Bonds payable to the City of Hillsdale Hospital Finance Authority, interest at 4.90% to 5.75%, annual principal payments ranging from \$285,000 in 2006 to \$795,000 in 2026	\$ 10,445,000	\$ 10,720,000
Michigan State Hospital Finance Authority, Healthcare Equipment and Loan Program (HELP), Series C, interest at 3.60%	3,942,510	1,380,543
Note payable, interest at 8.75%, payable in monthly installments of \$607, collateralized by real estate purchase	7,790	12,220
Note payable, no interest due, payable in monthly installments of \$4,340, collateralized by vehicle purchase	5,300	11,804
Note payable, interest at 7.00% adjusting every five years to 1% over prime, payable in monthly installments of \$1,011, collateralized by property purchased	112,500	-

Hillsdale Community Health Center

Notes to Financial Statements June 30, 2005 and 2004

Note 7 - Long-term Debt (Continued)

	<u>2005</u>	<u>2004</u>
Capital lease, payable in monthly installments totaling approximately \$6,627 at June 30, 2005, including interest ranging from 4.00% to 9.00%	\$ 94,462	\$ 158,059
Total	14,607,562	12,282,626
Less current portion	<u>698,530</u>	<u>425,020</u>
Long-term portion	<u>\$ 13,909,032</u>	<u>\$ 11,857,606</u>

Currently, the HELP loan is secured with a letter of credit up to \$5,000,000, expiring November 2008, and the Hospital pays 1.4 percent on the outstanding principal balance of the loan. The additional percentage is included in interest expense paid during the year.

The letter of credit has three covenants that require the Hospital to perform the following:

1. Provide the bank audited financial statements within 120 days after the end of each fiscal year
2. Provide the bank any other information regarding the business, properties, or the condition of operations, financial or otherwise, upon the bank's request
3. Achieve a cash flow coverage ratio of not less than 1.2 to 1.0

The Series 1998 Bonds have three covenants that require the Hospital to perform the following:

1. Debt service reserve fund requirements shall be equal to the lesser of (i), (ii), or (iii), as follows:
 - (i) 10 percent of the stated principal amount of such Series 1998 Bonds;
 - (ii) 100 percent of the maximum annual debt service requirements on such Series 1998 Bonds for the then current or any subsequent fiscal year; or
 - (iii) 125 percent of the average annual debt service requirements on outstanding Series 1998 Bonds
2. Pay the operating expenses of the Hospital
3. Achieve a debt service coverage ratio of at least 1.20

Hillsdale Community Health Center

Notes to Financial Statements June 30, 2005 and 2004

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, 2005 are as follows:

<u>Years Ending June 30</u>	<u>Long-term Debt</u>	<u>Capital Leases Obligations</u>
2006	\$ 650,274	\$ 55,470
2007	659,179	50,658
2008	671,181	8,443
2009	3,224,560	-
2010	350,815	-
2011 and thereafter	8,957,091	-
Total	14,513,100	114,571
Less amount representing interest under capital leases obligations	-	(20,109)
Net	<u>\$ 14,513,100</u>	<u>\$ 94,462</u>

Note 8 - Operating Leases

The Hospital is obligated under certain operating leases, primarily for medical equipment. Total rent expense under these leases was \$154,240 for the year ended June 30, 2005.

The following is a schedule of future minimum lease payments under operating leases that have initial or remaining lease terms in excess of one year:

Future minimum rental commitments are as follows:

<u>Years Ending June 30</u>	<u>Amount</u>
2006	\$ 462,720
2007	462,720
2008	462,720
2009	462,720
2010	308,480
Total	<u>\$ 2,159,360</u>

Hillsdale Community Health Center

Notes to Financial Statements June 30, 2005 and 2004

Note 9 - Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at June 30, 2005 and 2004:

	<u>2005</u>	<u>2004</u>
Health care programs	\$ 28,990	\$ 28,584
Purchase of equipment and expansion	<u>53,012</u>	<u>69,560</u>
Total	<u>\$ 82,002</u>	<u>\$ 98,144</u>

Note 10 - Defined Contribution Plan

The Hospital has established a defined contribution retirement plan covering substantially all employees. The Hospital contributed 3 percent of eligible wages, resulting in pension expense of approximately \$310,000 and \$330,000 for the years ended June 30, 2005 and 2004, respectively.

Note 11 - 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 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, 2005 and 2004

Note 12 - Commitments and Contingencies

The Hospital has entered into agreements with newly recruited physicians that include provisions for income guarantees ranging from one to three years. The maximum amount of such guarantees entered into during the years ended June 30, 2005 and 2004 totals approximately \$500,000 and \$1,000,000, respectively. The Hospital has recorded a liability for future payments totaling approximately \$845,000 and \$146,000 for the years ended June 30, 2005 and 2004, respectively. The amounts advanced to the physicians depend on income levels earned in their practices. Per contractual agreements, these advances are amortized over two to six years if the physician remains practicing in the area; otherwise the unamortized balance can be collected by the Hospital. Amortization of these advances, which is included in physician recruitment expenses, has approximated \$1,445,000 and \$1,271,000 for 2005 and 2004, 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 that the Hospital is required to make payments under this guarantee, the Hospital could seek to recover those amounts; however, the Hospital does not have 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, 2005 was approximately \$5.3 million.

Note 13 - Functional Expenses

The Hospital provides general health care services to residents within its geographic area, including residential care, assisted living, and independent living. Expenses related to providing services are as follows for the years ended June 30, 2005 and 2004:

	<u>2005</u>	<u>2004</u>
Health care services	\$ 39,107,639	\$ 36,709,285
General and administrative	<u>3,400,664</u>	<u>3,367,805</u>
Total	<u>\$ 42,508,303</u>	<u>\$ 40,077,090</u>

Hillsdale Community Health Center

Notes to Financial Statements June 30, 2005 and 2004

Note 14 - Cash Flows

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

	<u>2005</u>	<u>2004</u>
Statement of Cash Flows		
Increase in net assets	\$ 1,099,276	\$ 1,475,862
Adjustments to reconcile increase in net assets to net cash from operating activities:		
Depreciation	1,799,329	1,683,022
Net realized and unrealized gains on investments	(190,894)	(596,078)
Bad debt expense	3,173,111	3,384,005
Temporarily restricted donations	(144,200)	(117,291)
Amortization of bond costs	15,267	12,569
Amortization of physician advances	1,444,988	1,270,800
Increase in assets:		
Patient accounts receivable	(2,954,732)	(4,627,314)
Other current assets	(372,689)	(271,566)
Increase (decrease) in liabilities:		
Accounts payable	455,006	1,225,251
Accrued liabilities	324,346	492,221
Cost report settlements payable	(60,000)	850,000
Net cash provided by operating activities	<u>\$ 4,588,808</u>	<u>\$ 4,781,481</u>

Significant noncash financing and investing activities for the years ended June 30, 2005 and 2004 are as follows:

During the years ended June 30, 2005 and 2004, the Hospital sold assets on land contracts. The total land contract receivable was \$256,961 and \$736,378 at June 30, 2005 and 2004, respectively. During the year ended June 30, 2005, the Hospital purchased property, issuing a note payable for \$112,500.

Additional Information



Plante & Moran, PLLC

Suite 300

750 Trade Centre Way

Portage, MI 49002

Tel: 269.567.4500

Fax: 269.567.4501

plantemoran.com

To the Board of Trustees
Hillsdale Community Health Center

We have audited the financial statements of Hillsdale Community Health Center as of June 30, 2005 and 2004. Our audits were made for the purpose of forming an opinion on the financial statements taken as a whole. The additional information, as listed in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

August 30, 2005

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Hillsdale Community Health Center

Schedule of Net Patient Revenue

	Year Ended June 30			
	2005			2004
	Inpatient	Outpatient	Total	Total
Routine Care Revenue				
Adults and pediatrics	\$ 3,015,060	\$ -	\$ 3,015,060	\$ 3,070,691
Coronary care	480,909	-	480,909	466,188
Nursery	233,776	-	233,776	224,765
SNF	1,127,360	-	1,127,360	1,147,772
Total routine care revenue	4,857,105	-	4,857,105	4,909,416
Other Professional Services				
Ambulance	1,715	-	1,715	5,515
Anesthesiology	142,260	371,929	514,189	451,611
Cardiac rehabilitation	262,636	190,840	453,476	-
Clinic services	-	35,314	35,314	116,434
Delivery room	597,128	234,402	831,530	851,430
Emergency room	617,781	3,535,898	4,153,679	3,146,659
Home health care	-	1,596,487	1,596,487	1,475,508
Laboratory	2,713,020	7,219,022	9,932,042	8,951,462
Medical supplies	9,938,462	6,510,329	16,448,791	15,616,697
Occupational therapy	205,389	493,057	698,446	798,415
Operating room	1,600,282	4,286,959	5,887,241	6,053,248
Pathology	57,667	83,578	141,245	113,625
Pharmacy	7,596,708	4,255,816	11,852,524	11,464,397
Physical therapy	343,614	2,085,793	2,429,407	2,196,201
Radiology	609,669	3,955,891	4,565,560	4,452,439
CT Scan	770,625	2,482,499	3,253,124	3,014,863
MRI	252,927	2,550,386	2,803,313	2,490,120
Ultrasound	542,779	1,861,430	2,404,209	2,202,392
Respiratory therapy	2,013,902	2,366,846	4,380,748	3,574,380
Speech therapy	34,919	25,926	60,845	149,970
Litchfield Rural Health Clinic	-	212,812	212,812	171,850
Reading Rural Health Clinic	-	358,525	358,525	254,926
Total other professional services	28,301,483	44,713,739	73,015,222	67,552,142
Gross patient service revenue	\$ 33,158,588	\$ 44,713,739	77,872,327	72,461,558
Deductions from Revenue				
Medicare revenue deductions			(15,012,252)	(13,608,468)
Medicaid revenue deductions			(3,434,823)	(3,867,824)
Blue Cross revenue deductions			(10,523,828)	(9,925,908)
Other revenue deductions			(5,061,264)	(3,758,860)
Total revenue deductions			(34,032,167)	(31,161,060)
Net patient service revenue			43,840,160	41,300,498
Other Operating Revenue				
Cafeteria revenue			140,926	144,821
Other revenue			367,351	271,385
Total other operating revenue			508,277	416,206
Total operating revenue			\$ 44,348,437	\$ 41,716,704

Hillsdale Community Health Center

Schedule of Operating Expenses

	Year Ended June 30				
	2005			2004	
	Salaries and Wages	Employee Benefits and Payroll Taxes	Other Supplies and Expenses	Total	Total
Nursing Services					
Adults and pediatrics	\$ 2,103,679	\$ -	\$ 146,006	\$ 2,249,685	\$ 2,188,726
Coronary care	648,015	-	56,305	704,320	587,999
SNF	697,278	-	86,324	783,602	767,356
Total nursing services	3,448,972	-	288,635	3,737,607	3,544,081
Other Professional Services					
Anesthesiology	17,434	-	135,144	152,578	124,870
Central service and supply	130,647	-	326,160	456,807	440,542
Clinic services	206,435	-	389,524	595,959	349,822
Delivery room	599,606	-	57,178	656,784	653,154
Emergency room	975,529	-	197,496	1,173,025	1,117,785
Home health care	768,301	-	197,057	965,358	918,478
Laboratory	894,566	-	1,424,027	2,318,593	2,344,210
Medical records	597,802	-	395,492	993,294	980,822
Nursing administration	282,303	-	4,386	286,689	310,833
Operating room	1,135,298	-	4,389,186	5,524,484	5,172,389
Pathology	-	-	589,605	589,605	411,037
Pharmacy	-	-	2,100,440	2,100,440	1,799,496
Physical therapy	423,619	-	763,351	1,186,970	1,116,791
Radiology - MRI	1,080,064	-	1,774,084	2,854,148	2,693,458
Respiratory therapy	558,531	-	424,138	982,669	747,831
Social service	43,353	-	5	43,358	42,593
Litchfield Rural Health Clinic	99,468	-	77,255	176,723	186,944
Reading Rural Health Clinic	137,273	-	88,802	226,075	207,843
Total other professional services	7,950,229	-	13,333,330	21,283,559	19,618,898
General Services					
Maintenance and repair	245,788	-	836,807	1,082,595	826,268
Laundry	45,772	-	25,235	71,007	68,830
Housekeeping	371,477	-	146,627	518,104	521,526
Dietary	542,146	-	452,572	994,718	905,737
Total general services	1,205,183	-	1,461,241	2,666,424	2,322,361
Administrative					
Administrative	1,992,297	-	3,388,607	5,380,904	4,615,835
Employee health and welfare	-	3,819,130	-	3,819,130	4,294,417
Total administrative	1,992,297	3,819,130	3,388,607	9,200,034	8,910,252
Provision for Bad Debts	-	-	3,173,111	3,173,111	3,384,005
Depreciation and Amortization	-	-	1,799,329	1,799,329	1,683,022
Interest	-	-	648,239	648,239	614,471
Total Operating Expenses - 2005	\$ 14,596,681	\$ 3,819,130	\$ 24,092,492	\$ 42,508,303	
Total Operating Expenses - 2004	\$ 13,951,689	\$ 4,294,417	\$ 21,830,984		\$ 40,077,090