

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) 37 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 2006 – June 2007 (FY2007)

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

Fiscal Period Covered: July 2006 – June 2007 (FY2007)

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

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

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

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

Period Covered: _____

F. Other Secondary Market Information (Specify): _____

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

Issuer Contact:

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

Dissemination Agent Contact, if any:

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

Obligor Contact, if any:

Name 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: NOVEMBER 14, 2007

Hillsdale Community Health Center (the "Corporation") reports, pursuant to Section 5.6(b)(ii) of the Loan Agreement dated as of June 15, 1998 between the City of Hillsdale Hospital Finance Authority (the "Issuer") and the Corporation (the "Loan Agreement") that the Corporation has failed to comply with the minimum Debt Service Coverage Ratio specified in Section 5.1(b) of the Loan Agreement with respect to the Fiscal Year ended June 30, 2007 ("FY2007"). Unless otherwise defined herein, all capitalized terms shall have the meanings specified in the Trust Indenture between the Issuer and U.S. Bank Trust National Association, as successor Trustee, dated as of June 15, 1998 (the "Indenture"), in the Loan Agreement or in other documents relating to the issuance of the Issuer's Hospital Revenue Bonds, Series 1998, on behalf of the Corporation. The calculation of the Debt Service Coverage Ratio is tabulated below:

<i>Debt Service Coverage Ratio Calculation, FY2007</i>		
Excess of Revenue over Expenses		(1,137,291)
Plus:	Interest	736,649
Plus:	Depreciation	2,476,358
Net Income Available for Debt Service		2,075,716
Debt Service Requirements for FY2007		1,814,679
Debt Service Coverage Ratio		1.14

The Corporation has not received any notice of this failure to comply from either the Trustee or the Issuer. Accordingly, this failure to comply does not yet constitute an Event of Default under Section 7.1(b) of the Loan Agreement. Nevertheless, this Officer's Certificate shall set forth the action which the Corporation has already taken and that which it plans to take, as required by Section 5.1(b)(ii) of the Loan Agreement.

The Corporation's Debt Service Requirements for FY2007 include those on Guaranteed Indebtedness relating to a mortgage loan from two banks (the "Banks") to Hallett Street Professional Development Co. ("Hallett"), a Michigan limited liability company of which the Corporation is not a member (the "Hallett Loan"). Hallett owns and operates a professional office building which rents space to physicians affiliated with the Corporation and to the Corporation for certain outpatient functions. Because Hallett's debt service coverage ratio on the Hallett Loan was less than 1.10 for FY2007, then the Corporation was required to include 100 percent of Hallett's debt service requirements in its computation of Debt Service Requirements, as required by Section 5.5(b)(iv)(A) of the Loan Agreement. FY2007 Debt Service Requirements on the Guaranteed Indebtedness of

\$516,998 represented nearly 28½ percent of the Corporation total FY2007 Debt Service Requirements of \$1,814,679.

Section 5.1(b) specifies a remedy for failure to comply with the Debt Service Coverage Ratio set forth therein. The Corporation has engaged a Consultant, First River Advisory L.L.C. (“First River Advisory”), to recommend changes to enable the Corporation to comply with the Debt Service Coverage Ratio covenant. The report of First River Advisory is attached hereto. First River Advisory recommends that the Corporation negotiate with the Banks a reduction in the percentage of the Hallett Loan guaranteed from 100 percent to 75 percent so that Debt Service Requirements on this Guaranteed Indebtedness could be reduced to 75 percent of the FY2007 payments on the Hallett Loan. This would reduce FY2007 Debt Service Requirements by \$129,250.

<i>Debt Service Coverage Ratio Calculation, FY2007 Based on 75 Percent Guarantee of the Hallett Loan</i>		
Excess of Revenue over Expenses		(1,137,291)
Plus:	Interest	736,649
Plus:	Depreciation	2,476,358
Net Income Available for Debt Service		2,075,716
Debt Service Requirements for FY2007		1,685,429
Debt Service Coverage Ratio		1.23

The initial response by the Banks to this proposed reduction in the percentage guaranteed was favorable.

Corporation management will present the report of First River Advisory to the Board of the Corporation for adoption later this month, as required by Section 5.1(b) of the Loan Agreement. Management also expects to present a resolution to amend the Hallett Loan guarantee to the Board at the same time. Thus, the Corporation expects to be able to implement recommendation of First River Advisory expeditiously. The Corporation will notify the Trustee of the outcome of this process.

Other than the failure to comply set forth above, 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, as required by Section 5.6(b)(i) of the 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.

Valerie Fetters

by: Valerie Fetters
Chief Financial Officer

FIRST RIVER ADVISORY L.L.C.

2640 OVERRIDGE DRIVE
ANN ARBOR, MICHIGAN 48104-4040

TELEPHONE FACSIMILE MOBILE PHONE
(734) 761-3624 (734) 761-3614 (734) 276-0300
E-MAIL: aronson@firstriver.com

Member Firm



SHELLEY J. ARONSON
PRESIDENT
Certified Independent Public Finance Advisor

CONSULTANT'S REPORT

Dated: November 13, 2007

RE: Hillsdale Community Health Center

First River Advisory L.L.C. ("First River Advisory") has been appointed as a Consultant pursuant to the requirements of Section 5.1(b) of the Loan Agreement between the City of Hillsdale Hospital Finance Authority (the "Issuer") and Hillsdale Community Health Center (the "Corporation") dated as of June 15, 1998 (the "Loan Agreement") in connection with the failure by the Corporation to comply with the minimum Debt Service Coverage Ratio specified in such Section 5.1(b) for the Fiscal Year ended June 30, 2007 ("FY2007"). First River Advisory represents that it qualifies as a Consultant, as defined in the Trust Indenture between the Issuer and U.S. Bank Trust National Association, as successor Trustee, dated as of June 15, 1998 (the "Indenture"). Unless otherwise defined herein, all capitalized terms shall have the meanings specified in the Indenture, in the Loan Agreement or in other documents relating to the issuance of the Issuer's Hospital Revenue Bonds, Series 1998, on behalf of the Corporation.

The Corporation's Debt Service Requirements for FY2007 include those on Guaranteed Indebtedness relating to a mortgage loan from two banks (the "Banks") to Hallett Street Professional Development Co. ("Hallett"), a Michigan limited liability company of which the Corporation is not a member (the "Hallett Loan"). Hallett owns and operates a professional office building (the "POB") which rents space to physicians affiliated with the Corporation and to the Corporation for certain outpatient functions. Because Hallett's debt service coverage ratio on the Hallett Loan was less than 1.10 for FY2007, then the Corporation was required to include 100 percent of Hallett's debt service requirements in its computation of Debt Service Requirements, as required by Section 5.5(b)(iv)(A) of the Loan Agreement. FY2007 Debt Service Requirements on the Guaranteed Indebtedness of \$516,998 represented nearly 28½ percent of the Corporation total FY2007 Debt Service Requirements of \$1,814,679.

First River Advisory understands that Hallett has operated the POB successfully for several years, and has routinely produced sufficient cash flow to remit timely payments on the Hallett Loan and to pay operating and maintenance expenses. However, such cash flow has not been sufficient to enable Hallett to achieve a debt service coverage ratio of greater than 1.10 with respect to the Hallett Loan, which would enable the Corporation to count only 50 percent of Hallett's debt service requirements on the Hallett Loan in the computation of its Debt Service Requirements, as permitted by Section 5.5(b)(iv)(B) of the Loan Agreement. This is understandable, for the members of Hallett,

who set the POB's rents, are also tenants in the POB. Even though the Corporation would benefit, the members of Hallett would be disadvantaged financially by raising the POB rents.

First River Advisory finds that because of the particular circumstances of this Guaranteed Indebtedness, this Guaranteed Indebtedness has a disproportionately disadvantageous impact on the Corporation's Debt Service Requirements. First River Advisory has been successful in persuading investors to exclude Guaranteed Indebtedness having these characteristics from computations of Debt Service Requirements in connection with more recent financings for hospitals. Further, the recommendation of First River Advisory to exclude Guaranteed Indebtedness having these characteristics from computations of Debt Service Requirements was accepted by a task force convened by the National Federation of Municipal Analysts to develop a *Recommended Term Sheet and Legal Provisions for Hospital Debt Transactions*.

First River Advisory recognizes that the Corporation cannot unilaterally repudiate its obligations under its guaranty of the Hallett Loan, and that the solution must be agreeable to the Banks. Therefore, First River Advisory recommends that the Corporation negotiate with the Banks a reduction in the percentage of the Hallett Loan guaranteed from 100 percent to 75 percent so that Debt Service Requirements on this Guaranteed Indebtedness could be reduced to 75 percent of the FY2007 payments on the Hallett Loan. This would reduce FY2007 Debt Service Requirements by \$129,250. Doing so would enable the Corporation to achieve the Debt Service Coverage Ratio required by Section 5.1(b) of the Loan Agreement, as demonstrated in the following table:

<i>Debt Service Coverage Ratio Calculations, FY2007</i>			
		<i>As Reported by the Corporation</i>	<i>Upon Implementation of Recommendation</i>
Excess of Revenue over Expenses		(1,137,291)	(1,137,291)
Plus:	Interest	736,649	736,649
Plus:	Depreciation	2,476,358	2,476,358
Net Income Available for Debt Service		2,075,716	2,075,716
Debt Service Requirements for FY2007		1,814,679	1,685,429
Debt Service Coverage Ratio		1.14	1.23

This reduction in the percentage of the Hallett Loan guaranteed by the Corporation would continue to apply to computations of Debt Service Requirements in future Fiscal Years. It would be necessary for the Corporation to comply with the requirements for incurrence of Permitted

Indebtedness, as specified in Section 5.5(a) of the Loan Agreement, before it could agree to increase the percentage of the Hallett Loan guaranteed.

Respectfully submitted,

FIRST RIVER ADVISORY L.L.C.

A handwritten signature in black ink, appearing to read "Shelley J. Aronson", with a stylized flourish extending from the end of the name.

SHELLEY J. ARONSON
President

HILLSDALE COMMUNITY HEALTH CENTER

ANNUAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2007 (FY2007)

Unless otherwise noted, all data apply to the Fiscal Year Ended June 30, 2007, or are accurate as of June 30, 2007, 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	1	Orthopedic Surgery	2	Pediatrics	2
Oncology	1	Otorhinolaryngology	1	Anesthesiology	1
Neurology	2	Podiatry	2	Emergency Medicine	2
Pulmonology	1	Urology	2	Pathology	1
Rheumatology	1	Vascular Surgery	2	Radiology	1
				Dentistry	1
				Chiropractic	7
Total Internal Medicine	12	Total Surgery	14	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	1	2.0%
35 - 44	16	32.0%
45 - 54	24	48.0%
55 - 64	9	18.0%
65 and over	0	0.0%
TOTAL	50	
Note: Column may not add to 100.0 due to rounding		

MUNICIPAL SECONDARY MARKET DISCLOSURE
City of Hillsdale Hospital Finance Authority / Hillsdale Community Health Center
Fiscal Year Ended June 30, 2007

<i>Active Staff Physicians, by Major Specialty</i> <i>[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	41	6	0
Internal Medicine	12	49	11	1
Surgery	14	45	12	2
Obstetrics/Gynecology	2	53	2	0

<i>Active Staff Physicians, by Practice Location</i> <i>[OS Page A-14]</i>	
Physicians' Office Building	11
Other City of Hillsdale Locations	24
Hospital-Based	5
<i>Subtotal, City of Hillsdale Locations</i>	40
Hudson	2
Jonesville	7
Litchfield	0
Quincy	0
Battle Creek	0
Jackson	0
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	67,079	75.8%
Physicians holding consulting or courtesy privileges, plus <i>locum tenens</i> physicians	19,767	22.3%
Unassigned Revenue	1,611	1.8%
Total Revenue	88,457	100.0%

MUNICIPAL SECONDARY MARKET DISCLOSURE
City of Hillsdale Hospital Finance Authority / Hillsdale Community Health Center
Fiscal Year Ended June 30, 2007

<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	46	C	\$8,985,482	10.2%	10.2%
2	Internal Medicine	52	C	\$4,624,747	5.2%	15.4%
3	Internal Medicine	54	C	\$3,957,451	4.5%	19.9%
4	Family Practice	35	C	\$3,803,569	4.3%	24.2%
5	Gastroenterology	50	C	\$3,745,889	4.2%	28.4%
6	Obstetrics/Gynecology	55	C	\$3,591,588	4.1%	32.5%
7	Family Practice	46	C	\$3,283,404	3.7%	36.2%
8	General Surgery	49	E	\$3,165,299	3.6%	39.7%
9	Family Practice	34	C	\$2,845,969	3.2%	43.0%
10	Internal Medicine	39	C	\$2,583,143	2.9%	45.9%
			C = Certified E = Eligible			

MUNICIPAL SECONDARY MARKET DISCLOSURE
City of Hillsdale Hospital Finance Authority / Hillsdale Community Health Center
Fiscal Year Ended June 30, 2007

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>2007</i>	<i>2006</i>	<i>2005</i>	<i>2004</i>	<i>2003</i>
Days in Period	365	365	365	366	365
Licensed Beds	47	47	47	47	47
Available Beds	40	40	40	40	40
Admissions	2,471	2,413	2,761	2,795	2,545
Patient Days	8,369	8,204	8,721	8,844	8,349
Average Daily Census	22.9	22.5	23.9	24.2	22.9
Average LOS	3.4	3.4	3.2	3.2	3.3
Occupancy Rate (%)*	57.3	56.2	59.7	60.4	57.2
* 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>2007</i>	<i>2006</i>	<i>2005</i>	<i>2004</i>	<i>2003</i>
Days in Period	365	365	365	366	365
Licensed Beds	9	9	9	9	9
Available Beds	4	4	4	4	4
Admissions	119	86	106	144	105
Patient Days	197	176	222	312	212
Average Daily Census	0.5	0.5	0.6	0.9	0.6
Average LOS	1.7	2.0	2.1	2.2	2.0
Occupancy Rate (%)*	13.5	12.1	15.2	21.3	14.5
* 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, 2007

<i>Historical Obstetrics Utilization</i> (excludes newborns) [OS Page A-18]					
	<i>Fiscal Years Ended June 30</i>				
	<i>2007</i>	<i>2006</i>	<i>2005</i>	<i>2004</i>	<i>2003</i>
Days in Period	365	365	365	366	365
Licensed Beds	9	9	9	9	9
Available Beds	8	8	8	8	8
Admissions	432	464	466	458	464
Patient Days	895	948	989	923	837
Average Daily Census	2.5	2.6	2.7	2.5	2.3
Average LOS	2.1	2.0	2.1	2.0	1.8
Occupancy Rate (%)*	30.7	32.5	33.9	31.5	28.7
* Based on Available Beds rather than Licensed Beds					

<i>Historical Acute Care Utilization</i> (excludes newborns) [OS Page A-19]					
	<i>Fiscal Years Ended June 30</i>				
	<i>2007</i>	<i>2006</i>	<i>2005</i>	<i>2004</i>	<i>2003</i>
Days in Period	365	365	365	366	365
Licensed Beds	65	65	65	65	65
Available Beds	52	52	52	52	52
Admissions	3,022	2,963	3,333	3,397	3,114
Adjusted Admissions ^{1,2}	7,456	7,386	7,827	8,037	7,459
Patient Days	9,461	9,328	9,932	10,079	9,398
Average Daily Census	25.9	25.6	27.2	27.5	25.7
Average LOS	3.1	3.1	3.0	3.0	3.0
Occupancy Rate (%) ³	49.8	49.1	52.3	53.0	49.5
Net Patient Revenue per Adjusted Admission ^{1,4}	\$6,463	\$6,157	\$5,601	\$5,139	\$5,118
Gross Outpatient Revenue per Adjusted Admission ^{1,4}	\$7,055	\$6,797	\$5,713	\$5,416	\$4,795
¹ The FY2003 figure reported in the report relating to FY2003 was erroneous; this is the correct figure ² Admissions are adjusted by the percentage gross revenue attributable to outpatient services ³ Based on Available Beds rather than Licensed Beds ⁴ Calculated by management from the Corporation's audited financial statements and other records, using definitions published by Standard & Poor's Corporation in <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, 2007

<i>McGuire Unit Utilization</i> <i>[OS Page A-20]</i>					
	<i>Fiscal Years Ended June 30</i>				
	<i>2007</i>	<i>2006</i>	<i>2005</i>	<i>2004</i>	<i>2003</i>
Days in Period*	365	365	365	366	365
Licensed Beds	21	21	21	21	21
Patient Days	7,161	7,165	7,042	7,212	6,773
Average Daily Census	19.6	19.6	19.3	19.7	18.6
Occupancy Rate (%)	93.4	93.5	91.9	93.8	88.4

<i>Surgical Procedures</i> <i>[OS Page A-20]</i>					
	<i>Fiscal Years Ended June 30</i>				
	<i>2007</i>	<i>2006</i>	<i>2005</i>	<i>2004</i>	<i>2003</i>
Inpatient	976	942	1,030	966	951
Outpatient	2,458	2,994	2,816	2,843	2,967
Total	3,434	3,936	3,846	3,809	3,918
Percent Outpatient (%)	71.6	76.1	73.2	74.6	75.7

<i>Emergency Department Volumes</i> <i>[OS Page A-21]</i>					
	<i>Fiscal Years Ended June 30</i>				
	<i>2007</i>	<i>2006</i>	<i>2005</i>	<i>2004</i>	<i>2003</i>
Visits	31,016	30,138	29,925	30,209	27,813
Change over Previous Period (%)	2.9	0.7	(0.9)	8.6	(4.7)
Transfers to Other Hospitals	217	167	151	141	135
Transfers per Thousand ED Visits	7.0	5.5	5.0	4.7	4.9

<i>Outpatient Service Volumes</i> <i>[OS Page A-21]</i>					
	<i>Fiscal Years Ended June 30</i>				
	<i>2007</i>	<i>2006</i>	<i>2005</i>	<i>2004</i>	<i>2003</i>
Scheduled Registrations	121,513	119,136	123,236	119,130	115,381
Change over Previous Period (%)	2.0	(3.3)	3.4	3.2	6.2

MUNICIPAL SECONDARY MARKET DISCLOSURE
City of Hillsdale Hospital Finance Authority / Hillsdale Community Health Center
Fiscal Year Ended June 30, 2007

<i>Ancillary Services Provided to <u>Inpatients</u></i>					
<i>[OS Page A-22]</i>					
	<i>Fiscal Years Ended June 30</i>				
	<i>2007</i>	<i>2006</i>	<i>2005</i>	<i>2004</i>	<i>2003</i>
Laboratory ¹	86,819	80,544	82,045	77,155	67,126
MRI Scanning ²	215	218	238	228	173
CT Scanning ²	1,771	1,507	1,266	1,218	1,132
Ultrasonography ²	2,904	2,388	2,617	2,536	2,327
Other Radiology ²	4,885	4,801	5,171	5,110	4,944
Nuclear Medicine ²	240	235	308	258	278
Electrocardiography ¹	4,347	4,130	4,647	4,504	4,494
Electroencephalography ¹	41	43	40	27	27
Cardiovascular Lab ^{3,4}	34	47	79	118	51
Physical Therapy ³	1,895	1,917	2,169	2,088	2,128
Respiratory Therapy ³	38,109	39,463	34,777	31,557	30,504
	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, 2007

<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>2007</i>	<i>2006</i>	<i>2005</i>	<i>2004</i>	<i>2003</i>
Laboratory ¹	271,487	259,597	249,935	235,038	226,445
MRI Scanning ²	3,818	3,663	2,370	2,127	1,866
CT Scanning ²	6,144	5,365	4,246	4,230	4,034
Ultrasonography ²	9,653	9,287	9,058	8,058	7,797
Other Radiology ²	28,740	27,582	28,468	29,668	28,867
Nuclear Medicine ²	3,488	4,677	4,303	4,449	5,959
Electrocardiography ¹	4,555	4,430	3,582	3,032	3,170
Electroencephalography ¹	98	128	106	108	127
Cardiovascular Lab ^{3,4,5}	4,836	5,078	3,921	3,910	3,772
Physical Therapy ³	21,671	22,583	21,538	20,919	18,283
Respiratory Therapy ³	19,182	17,172	14,981	13,138	12,367
Endoscopy ³	2,392	2,461	2,391	2,273	1,651
Sleep Studies ¹	528	512	566	360	201
	¹ Tests	² Examinations	³ Procedures	⁴ Includes stress tests, Holter monitors, vascular studies and cardiac rehabilitation	
⁵ The FY2003 figure reported in the report relating to FY2003 was erroneous; this is the correct figure					

<i>Home Care Visits</i> <i>[OS Page A-23]</i>				
<i>Fiscal Years Ended June 30</i>				
<i>2007</i>	<i>2006</i>	<i>2005</i>	<i>2004</i>	<i>2003</i>
9,805	9,765	10,711	10,876	9,552

MUNICIPAL SECONDARY MARKET DISCLOSURE
City of Hillsdale Hospital Finance Authority / Hillsdale Community Health Center
Fiscal Year Ended June 30, 2007

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>2007</i>	<i>2006</i>	<i>2005</i>	<i>2004</i>	<i>2003</i>
Medicare	70.3%	63.5%	51.8%	50.3%	55.6%
Medicaid	22.2%	33.1%	37.8%	33.1%	16.9%
Private Pay and Commercial Insurance	7.5%	3.4%	10.4%	16.6%	27.5%
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>2007</i>	<i>2006</i>	<i>2005</i>	<i>2004</i>	<i>2003</i>	<i>2007</i>	<i>2006</i>	<i>2005</i>	<i>2004</i>	<i>2003</i>
Medicare	47	45	43	40.1	42.7	57.6	60.2	56.4	55.7	57.0
Medicaid	12	12	11	12.0	9.2	12.3	12.1	11.4	11.9	8.5
Blue Cross	23	23	25	25.8	25.6	15.0	14.1	16.9	16.9	17.6
Commercial Insurance	14	16	17	18.4	19.0	10.0	10.2	11.7	12.2	13.6
Self-Pay	4	4	4	3.7	3.5	5.1	3.4	3.6	3.3	3.3
TOTALS	100	100	100	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>2007</i>	<i>2006</i>	<i>2005</i>	<i>2004</i>	<i>2003</i>
Inpatient	36.5%	35.7%	38.5%	38.8%	38.8%
Outpatient	58.0%	58.2%	55.4%	54.1%	54.2%
McGuire Unit	4.5%	4.4%	4.0%	4.4%	4.4%
Home Care	1.0%	1.7%	2.1%	2.7%	2.6%
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, 2007

<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>2007</i>	<i>2006</i>	<i>2005</i>	<i>2004¹</i>	<i>2003</i>
Net Patient Service Revenue	50,201	45,477	42,876	41,300	38,178
Other Operating Revenue	<u>672</u>	1,016	<u>550</u>	<u>416</u>	<u>601</u>
Total Operating Revenue	50,873	46,493	43,426	41,717	38,779
Depreciation Expense	2,476	2,211	1,799	1,683	1,629
Interest Expense	737	720	648	614	632
Bad Debt Expense	2,745	2,545	2,209	3,384	2,612
Other Operating Expenses	<u>45,361</u>	<u>39,157</u>	<u>36,887</u>	<u>34,396</u>	<u>31,452</u>
Total Operating Expenses	51,319	44,634	41,543	40,077	36,324
Income from Operations	(446)	1,859	1,883	1,640	2,455
Net Nonoperating (Losses)	<u>(692)</u>	(695)	<u>(931)</u>	<u>(682)</u>	<u>(982)</u>
Revenue and Gains in Excess of Expenses	(1,137)	1,164	952	957	1,473
Depreciation included in Net Nonoperating (Losses)	0	0	0	0	0
Net Income Available for Debt Service (EBIDA) ²	2,076	4,095	3,399	3,255	3,734
Capital Expenditures	4,956	2,367	3,578	4,399	1,607

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>2007</i>	<i>2006</i>	<i>2005</i>	<i>2004</i>	<i>2003</i>
Debt Service Coverage Ratio ^{1,2}	1.14	2.30	1.94	1.80	2.43
Excess Margin ²	(2.27)%	2.54%	2.09%	2.33%	3.90%
Operating Margin ²	(0.88)%	4.00%	4.15%	3.93%	6.33%

¹ Based on FY2007 Debt Service Requirements on the Series 1998 Bonds and other Long-Term Indebtedness of \$1,814,679. This figure includes \$516,998 of Debt Service Requirements in the form of a Guaranty of the debt of a limited liability company (the LLC) that owns the Physicians' Office Building (the POB). The Corporation's plan to remedy the non-compliance with the Debt Service Coverage Ratio is addressed in the Officer's Certificate.

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, 2007

<i>Cost and Productivity Measures</i> <i>[OS Page A-35]</i>					
	<i>Fiscal Years Ended June 30</i>				
	<i>2007</i>	<i>2006</i>	<i>2005</i>	<i>2004</i>	<i>2003</i>
Total FTEs	313.4	295.0	296.2	292.4	287.6
FTEs per Adjusted Admission ¹	0.041	0.040	0.042	0.036	0.039
FTEs per Adjusted Occupied Bed ¹	4.7	4.3	4.9	4.4	4.4
Adjusted Acute Care Patient-Days ¹	24,565	24,960	24,720	24,361	24,159
Paid-hours per Adjusted Patient-Day ¹	25.7	25.7	24.9	25.0	25.5
McGuire Unit Paid Hours per Patient-Day ¹	4.9	4.8	5.0	4.7	6.0
Capital Expense / Total Expenses ¹	6.3%	6.6%	5.8%	5.7%	6.2%
Bad Debt Expense / Operating Revenue ¹	5.4%	5.5%	7.2%	8.1%	6.7%

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>2007</i>	<i>2006¹</i>	<i>2005</i>	<i>2004</i>	<i>2003</i>
Cash and Temporary Investments ²	4,470	4,692	4,655	3,740	5,490
Net Patient Accounts Receivable	7,343	7,908	6,261	6,480	5,043
Other Current Assets	<u>3,406</u>	2,341	<u>2,067</u>	<u>1,694</u>	<u>1,422</u>
Total Current Assets	15,218	14,941	12,982	11,913	11,955
Non-Current Cash and Investments (unrestricted) ²	10,175	8,973	7,752	7,419	5,708
Property and Equipment	18,116	16,154	16,246	14,355	12,273
Other Assets	<u>3,569</u>	3,733	<u>4,846</u>	<u>3,996</u>	<u>2,763</u>
Total Assets	47,079	43,800	41,827	37,683	32,700
Current Liabilities	11,642	9,964	9,237	8,244	5,423
Long-Term Debt	15,078	13,791	13,909	11,858	11,170
Net Assets	<u>20,359</u>	<u>20,045</u>	<u>18,681</u>	<u>17,582</u>	<u>16,106</u>
Total	47,079	43,801	41,827	37,683	32,700

¹ Certain FY2006 amounts have been changed to reflect reclassifications reported in connection with the FY2007 audited financial statements
² Used in Days' Cash on Hand, Cash-to-Debt and Quick Ratio calculations

MUNICIPAL SECONDARY MARKET DISCLOSURE
City of Hillsdale Hospital Finance Authority / Hillsdale Community Health Center
Fiscal Year Ended June 30, 2007

<i>Liquidity Ratios</i> <i>[OS Page A-37]</i>					
	<i>Fiscal Years Ended June 30</i>				
	<i>2007</i>	<i>2006</i>	<i>2005</i>	<i>2004</i>	<i>2003</i>
Current Ratio ¹	1.31	1.45	1.41	1.45	2.20
Quick Ratio ¹	1.89	2.17	2.02	2.14	2.99
Days in Patient Accounts Receivable ¹	53.4	63.5	52.1	57.3	48.2
Days Cash on Hand ¹	109.4	117.8	111.2	106.1	117.8
Cash-to-Debt ^{1,2}	93.1%	94.2%	84.9%	90.8%	97.1%

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 and *CreditWeek*, October 1994, and by Moody's Investors Service in *Health Care Medians*, June 1996

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

<i>Case-Mix Indices</i> <i>[OS Page A-38]</i>						
	<i>Fiscal Years Ended June 30</i>					
	<i>2007</i>	<i>2006</i>	<i>2005</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>
Medicare	1.3189	1.3052	1.2807	1.2052	1.2650	1.1740
Medicaid	0.6596	0.6213	0.6053	0.6472	0.7204	0.6171
Blue Cross	0.7686	0.9104	0.8234	0.8028	0.7846	0.8598

MUNICIPAL SECONDARY MARKET DISCLOSURE
City of Hillsdale Hospital Finance Authority / Hillsdale Community Health Center
Fiscal Year Ended June 30, 2007

<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	312	10.3%	10.3%	1.8
544	Major Joint Replacement or Reattachment of Lower Extremity	172	5.7%	16.0%	3.4
89	Simple Pneumonia and Pleurisy, Age > 17, with Complications	141	4.7%	20.7%	4.3
373	Vaginal Delivery, without Complications	132	4.4%	25.1%	1.5
127	Heart Failure and Shock	121	4.0%	29.1%	3.6
88	Chronic Obstructive Pulmonary Disease	68	2.2%	31.3%	3.7
132	Atherosclerosis with Complications	65	2.1%	33.4%	1.8
182	Esophagitis, Gastroenteritis and Miscellaneous Digestive Disorders, Age >17, with Complications	54	1.8%	35.2%	2.5
390	Neonate with Other Significant Problems	53	1.8%	37.0%	2.2
576	Septicemia without MV96+ hours, Age >17	53	1.8%	38.8%	4.5

Hillsdale Community Health Center

Financial Report
June 30, 2007

Hillsdale Community Health Center

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Independent Auditor's Report

To the Board of Trustees
Hillsdale Community Health Center

We have audited the accompanying balance sheet of Hillsdale Community Health Center (the "Hospital") as of June 30, 2007 and 2006 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, 2007 and 2006 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

September 12, 2007

Hillsdale Community Health Center

Balance Sheet

	<u>June 30, 2007</u>	<u>June 30, 2006</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 4,470,278	\$ 4,692,078
Accounts receivable (Note 2)	7,342,651	7,907,763
Assets limited as to use (Note 3)	1,917,364	559,783
Other current assets	1,488,179	1,781,401
Total current assets	15,218,472	14,941,025
Investments (Note 3)	11,292,063	10,169,775
Property and Equipment - Net (Note 4)	18,115,798	16,153,703
Other Assets (Note 5)	2,452,508	2,536,221
Total assets	<u>\$ 47,078,841</u>	<u>\$ 43,800,724</u>
Liabilities and Net Assets		
Current Liabilities		
Current portion of long-term debt (Note 7)	\$ 657,473	\$ 742,687
Accounts payable	2,854,324	2,493,254
Estimated third-party payor settlements (Note 6)	3,349,000	2,650,000
Accrued liabilities and other	4,780,747	4,078,366
Total current liabilities	11,641,544	9,964,307
Long-term Debt - Net of current portion (Note 7)	15,077,953	13,791,334
Total liabilities	26,719,497	23,755,641
Net Assets		
Unrestricted	20,200,459	19,933,565
Temporarily restricted (Note 9)	158,885	111,518
Total net assets	20,359,344	20,045,083
Total liabilities and net assets	<u>\$ 47,078,841</u>	<u>\$ 43,800,724</u>

Hillsdale Community Health Center

Statement of Operations

	Year Ended	
	June 30, 2007	June 30, 2006
Unrestricted Revenue, Gains, and Other Support		
Net patient service revenue	\$ 48,189,832	\$ 45,476,848
Other	672,008	1,015,832
DSH revenue received (Note 1)	2,011,506	-
Total unrestricted revenue, gains, and other support	50,873,346	46,492,680
Expenses		
Salaries and wages	17,082,172	15,507,047
Employee benefits and payroll taxes	4,749,071	4,089,050
Operating supplies and expenses	21,518,669	19,561,374
Depreciation and amortization	2,476,358	2,210,938
Provision for bad debts	2,744,710	2,545,282
Interest expense	736,649	720,334
Contribution to County Health Plans (Note 1)	2,011,506	-
Total expenses	51,319,135	44,634,025
Operating (Loss) Income	(445,789)	1,858,655
Nonoperating Income (Expense)		
Investment income (Note 3)	748,824	741,072
Contributions	123,052	27,727
Other income	17,088	-
Rent income	9,668	12,884
Physician recruitment expense	(1,590,134)	(1,476,457)
Net nonoperating expenses	(691,502)	(694,774)
Excess of Revenue (Under) Over Expenses	(1,137,291)	1,163,881
Change in Unrealized Gains and Losses on Investments (Note 3)	835,592	50,095
Net Assets Released from Restriction	568,593	120,544
Increase in Unrestricted Net Assets	\$ 266,894	\$ 1,334,520

Hillsdale Community Health Center

Statement of Changes in Net Assets

	Year Ended	
	<u>June 30, 2007</u>	<u>June 30, 2006</u>
Unrestricted Net Assets		
Excess of revenue (under) over expenses	\$ (1,137,291)	\$ 1,163,881
Change in unrealized gains and losses on investments (Note 3)	835,592	50,095
Net assets released from restriction	<u>568,593</u>	<u>120,544</u>
Increase in Unrestricted Net Assets	266,894	1,334,520
Temporarily Restricted Net Assets		
Restricted contributions	615,960	150,060
Net assets released from restriction	<u>(568,593)</u>	<u>(120,544)</u>
Increase in Temporarily Restricted Net Assets	<u>47,367</u>	<u>29,516</u>
Increase in Net Assets	314,261	1,364,036
Net Assets - Beginning of year	<u>20,045,083</u>	<u>18,681,047</u>
Net Assets - End of year	<u>\$ 20,359,344</u>	<u>\$ 20,045,083</u>

Hillsdale Community Health Center

Statement of Cash Flows

	Year Ended	
	June 30, 2007	June 30, 2006
Cash Flows from Operating Activities		
Cash received from patients and third-party payors	\$ 49,453,293	\$ 45,922,777
Cash paid to suppliers and employees	(46,789,206)	(42,998,979)
Investment income received	600,362	489,707
Interest paid	(736,649)	(720,334)
Cash received from other operating income	2,680,489	1,018,345
Net cash provided by operating activities	5,208,289	3,711,516
Cash Flows from Investing Activities		
Purchase of property and equipment	(4,956,129)	(2,366,871)
Proceeds from sale of property and equipment	44,000	42,500
Purchase of investments	(1,495,815)	(976,777)
Proceeds from sale of joint ventures	-	167,972
Advances to physicians	(844,276)	(596,517)
Proceeds from land contracts	12,266	6,415
Increase in deposits	(7,500)	-
Net cash used in investing activities	(7,247,454)	(3,723,278)
Cash Flows from Financing Activities		
Proceeds from issuance of debt obligations	1,894,339	659,388
Principal payments of debt obligations	(692,934)	(732,929)
Proceeds from restricted contributions	615,960	150,060
Net cash provided by financing activities	1,817,365	76,519
Net (Decrease) Increase in Cash and Cash Equivalents	(221,800)	64,757
Cash and Cash Equivalents - Beginning of year	4,692,078	4,627,321
Cash and Cash Equivalents - End of year	\$ 4,470,278	\$ 4,692,078

Hillsdale Community Health Center

Notes to Financial Statements June 30, 2007 and 2006

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 healthcare services to the Hillsdale, Michigan area.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents - Cash and cash equivalents include cash and investments in highly liquid investments purchased with an original maturity of three months or less, excluding those amounts included in assets limited as to use.

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 excess of revenue (under) over expenses unless the income or loss is restricted by donor or law. Unrealized gains or losses on investments are excluded from excess of revenue (under) over expenses.

Joint Affiliations - A joint affiliation was established with Borgess Hospital of Kalamazoo. The Hospital was engaged in a joint venture with Borgess Hospital as 50-50 owners of Jonesville Clinic. Jonesville Clinic was sold during the year ended June 30, 2006.

Property and Equipment - Property and equipment amounts are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method.

Bond Issue Costs - Bond issue costs are included in other assets (see Note 5). These costs are being amortized over the life of the debt. Amortization expense was \$15,269 for the years ended June 30, 2007 and 2006.

Hillsdale Community Health Center

Notes to Financial Statements June 30, 2007 and 2006

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. A cost-to-charge ratio of approximately .50 is applied to all domestic claims and recorded as healthcare benefits along with foreign claims paid. The balance was adjusted to net patient revenue.

Net Patient Service Revenue - The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactively calculated adjustments arising under reimbursement agreements with third-party payors 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. Final determination of compliance of such laws and regulations is subject to future government review and interpretation. Violations may result in significant regulatory action including fines, penalties, and exclusion from the 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 2007 and 2006 amounted to \$793,173 and \$396,047, respectively, based on established rates.

Contributions to County Health Plans - The Hospital has entered into an indigent care agreement with three area counties. To fund the operations of the County Health Plans, the State provides the Hospital with a contribution from designated state and federal funds. The Hospital then disburses these funds directly to the County Health Plans. The County Health Plans rely on these funds to be able to provide access to basic community-based healthcare services to a population that might not otherwise obtain healthcare services.

Hillsdale Community Health Center

Notes to Financial Statements June 30, 2007 and 2006

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

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

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 changes in net assets as net assets released from restrictions.

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

Tax Status - The Hospital and its subsidiaries are nonprofit, tax-exempt organizations and, accordingly, no tax provision is reflected in the financial statements.

Note 2 - Patient Accounts Receivable

The details of patient accounts receivable are as follows:

	<u>2007</u>	<u>2006</u>
Patient accounts receivable	\$ 18,723,651	\$ 18,155,763
Less:		
Allowance for uncollectible accounts	(2,159,000)	(2,334,000)
Allowance for contractual adjustments and interim payment advances	<u>(9,222,000)</u>	<u>(7,914,000)</u>
Net patient accounts receivable	<u>\$ 7,342,651</u>	<u>\$ 7,907,763</u>

Hillsdale Community Health Center

Notes to Financial Statements June 30, 2007 and 2006

Note 2 - Patient Accounts Receivable (Continued)

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

	Percentage	
	2007	2006
Medicare	22	22
Blue Cross/Blue Shield of Michigan	22	16
Medicaid	7	4
Commercial insurance and HMOs	16	14
Self-pay	33	44
Total	100	100

Note 3 - Investments

The details of investments are as follows:

	2007	2006
Assets limited as to use:		
Professional and general liability self-insurance	\$ 1,917,364	\$ 559,783
Debt service reserve and payment funds	957,714	957,714
Donor-restricted assets	158,885	138,278
Board-designated assets	27,710	-
Deferred compensation	18	100,545
Other investments	10,147,736	8,973,238
Less current portion	(1,917,364)	(559,783)
Total	\$ 11,292,063	\$ 10,169,775
Cash and cash equivalents	\$ 3,812,826	\$ 2,640,834
Corporate bonds	2,383,061	1,052,227
Mutual funds - Equity	1,650,677	1,403,319
Governmental bonds	1,568,206	1,588,848
Corporate stocks	3,794,657	4,044,330
Total	\$ 13,209,427	\$ 10,729,558

Hillsdale Community Health Center

Notes to Financial Statements June 30, 2007 and 2006

Note 3 - Investments (Continued)

The details of investment income are as follows:

	<u>2007</u>	<u>2006</u>
Interest and dividend income	\$ 600,362	\$ 489,707
Net realized gains on investments	<u>148,462</u>	<u>251,365</u>
Subtotal	748,824	741,072
Net unrealized gains and losses on investments	<u>835,592</u>	<u>50,095</u>
Total	<u>\$ 1,584,416</u>	<u>\$ 791,167</u>

Note 4 - Property and Equipment

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

	<u>2007</u>	<u>2006</u>	<u>Depreciable Life - Years</u>
Land	\$ 103,162	\$ 103,162	-
Land improvements	272,885	272,885	5
Buildings	24,443,571	21,433,331	5-50
Equipment	15,287,507	13,720,433	5-10
Capital leases	827,797	827,797	5-10
Construction in progress	<u>5,054</u>	<u>233,067</u>	-
Total cost	40,939,976	36,590,675	
Accumulated depreciation	<u>(22,824,178)</u>	<u>(20,436,972)</u>	
Net property and equipment	<u>\$ 18,115,798</u>	<u>\$ 16,153,703</u>	

At June 30, 2006, the Hospital had commitments related to the construction of a 10-bed mental health addition. As of June 30, 2007, this project is now completed and in use.

Hillsdale Community Health Center

Notes to Financial Statements June 30, 2007 and 2006

Note 5 - Other Assets

The details of other assets are as follows:

	<u>2007</u>	<u>2006</u>
Physician advances - Net of current portion of \$1,000,000 for the years ended June 30, 2007 and 2006	\$ 1,167,541	\$ 1,701,219
Land contract receivables	952,330	494,596
Bond issuance costs	245,445	260,714
Deposits	<u>87,192</u>	<u>79,692</u>
Total other assets	<u>\$ 2,452,508</u>	<u>\$ 2,536,221</u>

Note 6 - Cost Report Settlements

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Approximately 71 percent of the Hospital's net patient service revenue is received from the Medicare, Medicaid, and Blue Cross/Blue Shield of Michigan programs. The Hospital has agreements with third-party payors that provide for reimbursement at amounts different from established rates. 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 is as follows:

- **Medicare** - Inpatient and 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 based on clinical, diagnostic, and other factors. Inpatient psychiatric and substance abuse services are reimbursed at cost subject to a per-case limit. Outpatient and home care services related to Medicare beneficiaries are reimbursed based on a prospectively determined amount per episode of care.
- **Medicaid** - Inpatient, acute care services rendered to Medicaid program beneficiaries are also paid at prospectively determined rates per discharge. Capital costs relating to Medicaid patients are paid on a cost-reimbursement method. Outpatient and physician services are reimbursed on an established fee-for-service methodology.
- **Blue Cross/Blue Shield of Michigan** - Inpatient, acute care services are reimbursed at prospectively determined rates per discharge. Outpatient services are reimbursed on a fee-for-service and percentage-of-charge basis.

Hillsdale Community Health Center

Notes to Financial Statements June 30, 2007 and 2006

Note 7 - Long-term Debt

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

	<u>2007</u>	<u>2006</u>
Series 1998 Bonds payable to the City of Hillsdale Hospital Finance Authority, interest at 5.0 percent to 5.75 percent, annual principal payments ranging from \$315,000 in 2008 to \$795,000 in 2026	\$ 9,855,417	\$ 10,156,667
Michigan State Hospital Finance Authority, Healthcare Equipment and Loan Program (HELP), Series C, payable in monthly payments of \$19,988, plus interest at 3.85 percent, balance due in November 2008	3,929,192	4,218,318
Michigan State Hospital Finance Authority, Healthcare Equipment and Loan Program (HELP), Series C, payable in monthly payments of \$8,120, plus interest at 3.85 percent, balance due in July 2011	1,847,432	-
Note payable, paid off in 2007	-	2,968
Note payable, interest at 7.00 percent adjusting every five years to 1 percent over prime, payable in monthly installments of \$1,011, collateralized by property purchased	103,385	108,101
Capital lease obligation, paid off in 2007	-	47,967
Total	15,735,426	14,534,021
Less current portion	<u>657,473</u>	<u>742,687</u>
Long-term portion	<u>\$ 15,077,953</u>	<u>\$ 13,791,334</u>

Currently, the HELP loan is secured with a letter of credit up to \$5,000,000, expiring in 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 during the year.

Hillsdale Community Health Center

Notes to Financial Statements June 30, 2007 and 2006

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, 2007 are as follows:

Years Ending June 30	Amount
2008	\$ 657,473
2009	4,122,073
2010	448,252
2011	468,672
2012	1,849,370
Thereafter	8,189,586
Total	<u>\$ 15,735,426</u>

Note 8 - Operating Leases

The Hospital is obligated under certain operating leases, primarily for facilities, office equipment, and automobiles. Total rent expense under these leases was \$462,720 for the years ended June 30, 2007 and 2006.

Future minimum rental commitments are as follows:

Years Ending June 30	Amount
2008	\$ 462,720
2009	462,720
2010	308,480
Total	<u>\$ 1,233,920</u>

Note 9 - Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at June 30, 2007 and 2006:

	2007	2006
Healthcare programs	\$ 33,759	\$ 32,450
Purchase of equipment and expansion	125,126	79,068
Total temporarily restricted	<u>\$ 158,885</u>	<u>\$ 111,518</u>

Hillsdale Community Health Center

Notes to Financial Statements June 30, 2007 and 2006

Note 10 - Defined Contribution Pension 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 \$435,000 and \$398,000 for the years ended June 30, 2007 and 2006, respectively.

Note 11 - Professional Liability

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 an off-shore company, HCHC Assurance Company LTD, for the payment of medical malpractice claim settlements. An actuary has been retained to assist the Hospital with determining the estimated malpractice liability. Professional liability investments have been established in an amount equal to or greater than 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.

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 amounts of such guarantees entered into during the years ended June 30, 2007 and 2006 total approximately \$285,000 and \$150,000, respectively. The Hospital has recorded a liability for future payments totaling approximately \$367,000 and \$241,000 for the years ended June 30, 2007 and 2006, 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 \$1,378,000 and \$1,289,000 for 2007 and 2006, respectively.

Hillsdale Community Health Center

Notes to Financial Statements June 30, 2007 and 2006

Note 12 - Commitments and Contingencies (Continued)

The Hospital has entered into guarantee agreements with two financial institutions. The Hospital has guaranteed the obligations of an unrelated party to construct a medical office building up to \$4.8 million. 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, 2007 was approximately \$4.9 million.

Note 13 - Functional Expenses

The Hospital provides general healthcare services to residents within its geographic area, including residential care, assisted living, and independent living. Expenses related to providing these services for the years ended June 30, 2007 and 2006 are as follows.

	<u>2007</u>	<u>2006</u>
Healthcare services	\$ 45,317,211	\$ 39,285,570
General and administrative	<u>6,001,924</u>	<u>5,348,455</u>
Total	<u>\$ 51,319,135</u>	<u>\$ 44,634,025</u>

Hillsdale Community Health Center

Notes to Financial Statements June 30, 2007 and 2006

Note 14 - Cash Flows

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

	<u>2007</u>	<u>2006</u>
Increase in net assets	\$ 314,261	\$ 1,364,036
Adjustments to reconcile increase in net assets to net cash from operating activities:		
Depreciation	2,476,358	2,210,938
Realized and unrealized net gains and losses on investments	(984,054)	(301,460)
Loss (gain) on the sale of fixed assets	3,676	(38,100)
Bad debt expense	2,744,710	2,545,282
Temporarily restricted donations	(615,960)	(150,060)
Amortization of bond costs	15,269	15,269
Amortization of physician advances	1,377,954	1,288,756
(Increase) decrease in assets:		
Accounts receivable	(2,179,598)	(4,191,879)
Other current assets	293,222	285,168
Increase (decrease) in liabilities:		
Accounts payable	361,070	(1,005,735)
Accrued liabilities	702,381	829,301
Cost report settlements payable	699,000	860,000
Net cash provided by operating activities	<u>\$ 5,208,289</u>	<u>\$ 3,711,516</u>

Significant noncash financing and investing activities for the years ended June 30, 2007 and 2006 are as follows:

During the years ended June 30, 2007 and 2006, the Hospital sold assets on land contracts totaling \$470,000 and \$244,051, respectively.