

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:

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) 48 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 2010 – June 2011 (FY2011)

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

Fiscal Period Covered: July 2010 – June 2011 (FY2011)

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): Announcement regarding Incurrence of Permitted Indebtedness

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: SEPTEMBER 28, 2011

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.

The calculation of the Debt Service Coverage Ratio for FY2011 is tabulated below:

<i>Debt Service Coverage Ratio Calculation, FY2011</i>		
Excess of Revenue over Expenses		4078008
Plus:	Interest	2,708,982
Plus:	Depreciation	527,973
Unrealized (Gains) Losses on Investment Securities		(1,305,265)
(Gains) Losses on the Disposition of Capital Assets		849
Net Income Available for Debt Service		6,010,547
Debt Service Requirements for FY2011		1,324,880
Debt Service Coverage Ratio		4.54

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

HILLSDALE COMMUNITY HEALTH CENTER

168 South Howell Street

Hillsdale, MI 49242

ANNOUNCEMENT

SEPTEMBER 28, 2011

The City of Hillsdale Hospital Finance Authority (the Issuer) today issued its \$22,000,000 Hospital Revenue and Refunding Bonds, Series 2011 (the Series 2011 Bonds), on behalf of Hillsdale Community Health Center (the Corporation). The Series 2011 Bonds were purchased directly by Fifth Third Bank (the Bank). The Corporation has also entered into an interest rate swap (the Swap) in the notional amount of \$22,000,000 with the Bank.

The Series 2011 Bonds are “Additional Bonds” as defined in the Trust Indenture, dated as of June 15, 1998 (the 1998 Trust Indenture), between the Issuer and U.S. Bank National Association, as successor trustee. The Corporation has designated and secured the Series 2011 Bonds and the Swap as “Parity Indebtedness” pursuant to the Amended and Restated Loan Agreement between itself and the Issuer dated as of September 1, 2011 and the 1998 Trust Indenture.

The Series 1998 Bonds, the Series 2011 Bonds and the Swap are now secured on a *pari passu* (parity) basis by a first mortgage lien on the Corporation’s main hospital facilities and security interests in certain personal property in addition to the lien on the Gross Revenues that had secured the Series 1998 Bonds since their issuance (collectively, the Collateral). The Corporation has entered into a Master Indenture with U.S. Bank National Association, as Master Trustee, dated as of September 1, 2011, in order to facilitate the sharing of the Collateral. Master Notes relating to the Series 1998 Bonds and Series 2011 Bonds have been issued to U.S. Bank National Association, as Bond Trustee, and to the Bank as swap counterparty.

The attached Officer’s Certificate relating to the incurrence of Permitted Indebtedness was delivered in connection with the issuance of the Series 2011 Bonds. This Officer’s Certificate, together with its exhibits, demonstrates the Corporation’s compliance with the requirements for the incurrence of this additional Parity Indebtedness.

HILLSDALE COMMUNITY HEALTH CENTER

168 South Howell Street

Hillsdale, MI 49242

OFFICER'S CERTIFICATE

INCURRENCE OF PERMITTED INDEBTEDNESS

The undersigned, Duke Anderson, the President and Chief Executive Officer of Hillsdale Community Health Center, a Michigan nonprofit corporation (the "Corporation"), executes and delivers this Officer's Certificate pursuant to the requirements of Section 5.5(a) of that certain Loan Agreement, dated as of June 15, 1998 (the "1998 Loan Agreement"), between the Corporation and the City of Hillsdale Hospital Finance Authority (the "Issuer"), in connection with the incurrence by the Corporation on the date hereof of Permitted Indebtedness. Capitalized terms used herein and not defined have the meanings ascribed thereto in the 1998 Trust Indenture (as defined below).

RECITALS

- A. The Corporation and the Issuer previously entered into the 1998 Loan Agreement in connection with the issuance by the Issuer, on behalf of the Corporation, of its \$12,175,000 Hospital Revenue Bonds, Series 1998 (Hillsdale Community Health Center) (the "Series 1998 Bonds"). The Series 1998 Bonds were issued pursuant to a Trust Indenture, dated as of June 15, 1998 (the "1998 Trust Indenture"), between the Issuer and U.S. Bank National Association, as successor trustee.
- B. On the date hereof, the Corporation and the Issuer have entered into an Amended and Restated Loan Agreement dated as of September 1, 2011 which amends and restates in its entirety the 1998 Loan Agreement in connection with the issuance by the Issuer, on behalf of the Corporation, of its \$22,000,000 Hospital Revenue and Refunding Bonds, Series 2011 (Hillsdale Community Health Center) (the "Series 2011 Bonds").
- C. The Corporation has entered into an interest rate swap with a financial institution (the "Counterparty") dated as of September 28, 2011 in the notional amount of \$22,000,000 (the "Swap"). The Swap constitutes Indebtedness pursuant to part (a)(i) of the definition of "Indebtedness" in the 1998 Trust Indenture.
- D. Section 5.5(a)(vi) of the 1998 Loan Agreement permits the Corporation to incur Indebtedness for which the Corporation can demonstrate in an Officer's Certificate the Required Pro Forma Coverage for such Indebtedness.
- E. According to part (b)(iii) of the definition of "Indebtedness" in the 1998 Trust Indenture, the notional (principal) amount of the Swap need not be included in the amount of Indebtedness for the purposes of calculating Debt Service Requirements thereon or in demonstrating the Required Pro Forma Coverage.
- F. The Corporation desires to incur the Indebtedness in respect of the Series 2011 Bonds as evidenced by the Amended and Restated Loan Agreement, and the Swap as evidenced by

an ISDA Master Agreement and related documentation (the “Swap Documents”). The Corporation further desires to designate and secure the Series 2011 Bonds and the Swap as Parity Indebtedness pursuant to the Amended and Restated Loan Agreement and the 1998 Trust Indenture.

G. Sections 5.3(c)(i) and 5.3(c)(ii) of the 1998 Loan Agreement authorize Permitted Liens in connection with the incurrence of Parity Indebtedness.

NOW, THEREFORE, the undersigned hereby certifies as follows:

1. The aggregate principal amount of Indebtedness to be incurred by the Corporation in respect of the Series 2011 Bonds and the Swap are, without duplication, \$22,000,000.
2. Attached hereto as Exhibit A is the calculation of the Debt Service Coverage Ratio to evidence compliance with the Required Pro Forma Coverage pursuant to clause (a) of such definition, which calculation is true and accurate in all material respects as of the date hereof. Attached hereto as Exhibit B is the calculation of Maximum Annual Debt Service Requirements on which the calculation of Required Pro Forma Coverage relies, which calculation is true and accurate in all material respects as of the date hereof. With respect to the figures set forth in Exhibits A and B, I hereby further certify as follows:
 - a. The two Most Recent Fiscal Years of the Corporation are 2010 and 2011.
 - b. Historic Net Income Available for Debt Service is calculated in the manner required by the 1998 Trust Indenture and the 1998 Loan Agreement.
 - c. Maximum Annual Debt Service Requirements are calculated in the manner required by the 1998 Trust Indenture and the 1998 Loan Agreement. Debt Service Requirements on the Corporation’s Series 1998 Bonds, on an Outstanding Purchase Money (Land) Contract and an Outstanding Capitalized Lease reflect fixed scheduled payments. The Corporation has applied special rules for calculating Debt Service Requirements on its other Outstanding Indebtedness (a Line of Credit) and on the Series 2011 Bonds to be issued, as follows.
 - i. The Corporation has previously delivered a notice dated June 24, 2011 (the “Additional Debt Notice”) relating to the incurrence of Indebtedness in the form of a Line of Credit, attached hereto as Exhibit C. The Corporation has determined that the Line of Credit fits the 1998 Bond Indenture definition of “Credit Facility,” and represents a valid, binding and enforceable commitment to refinance demands made under the Amended MOB Guaranty, as defined in such Additional Debt Notice. As permitted by Section 5.5(b)(i)(A) of the 1998 Loan Agreement, the Corporation hereby substitutes Debt Service Requirements on the Line of Credit for Debt Service Requirements on the Amended MOB Guaranty. The section of the Additional Debt Notice entitled “Debt Service Requirements on the Line of Credit” sets forth the methodology which the Corporation has utilized for the purpose of calculating Debt Service Requirements on the Line of Credit.
 - ii. Because the Series 2011 Bonds constitute Balloon Indebtedness, the Corporation, for purposes of calculating Debt Service Requirements thereon, has applied the provisions

of Section 5.5(b)(i)(C) of the 1998 Loan Agreement. Because the Series 2011 Bonds have not been Outstanding prior to the date hereof, the Corporation has utilized an average of the variable rate of interest which would have been payable on the Series 2011 Bonds for the prior twelve months, in a manner consistent with Section 5.5(b)(iii) of the 1998 Loan Agreement.

3. Historic Net Income Available for Debt Service for Fiscal Year 20011 and Fiscal Year 2010, each derived from the Corporation's audited financial statements, were \$6,010,547 and \$5,196,429, respectively. Dividing such Historic Net Income Available for Debt Service figures by Maximum Annual Debt Service Requirements of \$2,582,884 produces Debt Service Coverage Ratios of 2.33 and 2.01, respectively, each greater than the Required Pro Forma Coverage.
4. Except as described in this Officer's Certificate, there is no other Outstanding Indebtedness of the Corporation as of the date hereof.
5. Upon issuance of the Series 2011 Bonds by the Issuer, and upon execution and delivery of the Amended and Restated Loan Agreement by the Corporation, no Event of Default under the 1998 Trust Indenture or the Amended and Restated Loan Agreement will exist and be continuing.
6. Based on the foregoing certifications, the Indebtedness to be incurred by the Corporation in respect of the Series 2011 Bonds as evidenced by the Amended and Restated Loan Agreement constitute Permitted Indebtedness under Section 5.5(a)(vi) of the Amended and Restated Loan Agreement, and the Series 2011 Bonds and the Corporation's obligations under the Swap constitute Parity Indebtedness pursuant to the 1998 Loan Agreement and the 1998 Trust Indenture.

IN WITNESS WHEREOF, the undersigned has hereunto set his signature this 28th day of September, 2011.

HILLSDALE COMMUNITY HEALTH CENTER

By /s/ Duke Anderson
Duke Anderson
Its: President and Chief Executive Officer

EXHIBIT A

<i>Calculation of the Debt Service Coverage Ratio to Evidence Compliance with Section 5.5(a)(vi) of the Amended and Restated Loan Agreement</i>			
		<i>FY2011</i>	<i>FY2010</i>
Excess of Revenue over Expenses		4,078,008	2,652,480
Depreciation Expense		2,708,982	2,748,193
Interest Expense		527,973	584,004
Unrealized (Gains) Losses on Investment Securities		(1,305,265)	(878,255)
(Gains) Losses on the Disposition of Capital Assets		849	90,007
(Gains) Losses on Extinguishment of Debt		0	0
Historic Net Income Available for Debt Service	NIADS	6,010,547	5,196,429
Maximum Annual Debt Service Requirements	MADS	2,582,884	2,582,884
Debt Service Coverage Ratio	NIADS / MADS	2.33	2.01
Required Pro Forma Coverage (part (a) of the definition)		1.20	1.20

EXHIBIT B

<i>Maximum Annual Debt Service Requirements Calculations</i>						
<i>FY</i>	<i>Series 2011 Bonds</i>	<i>Series 1998 Bonds</i>	<i>Line of Credit</i>	<i>Land Contract</i>	<i>Cap. Lease</i>	<i>Annual Debt Service Requirements</i>
2012	992,607	841,350	291,586	12,134	21,392	2,159,070
2013	1,323,476	837,100	388,781	12,134	21,392	2,582,884
2014	1,323,476	837,100	388,781	12,134	5,348	2,566,840
2015	1,323,476	837,950	388,781	12,134	0	2,562,342
2016	1,323,476	837,363	388,781	12,134	0	2,561,755
2017	1,323,476	840,338	388,781	12,134	0	2,564,730
2018	1,323,476	836,588	388,781	12,134	0	2,560,980
2019	1,323,476	836,400	388,781	12,134	0	2,560,792
2020	1,323,476	837,263	388,781	12,134	0	2,561,655
2021	1,323,476	836,550	388,781	0	0	2,548,808
2022	1,323,476	839,263	97,195	0	0	2,259,935
2023	1,323,476	840,138	0	0	0	2,163,614
2024	1,323,476	839,175	0	0	0	2,162,651
2025	1,323,476	836,375	0	0	0	2,159,851
2026	1,323,476	836,738	0	0	0	2,160,214
2027	1,323,476	0	0	0	0	1,323,476
2028	1,323,476	0	0	0	0	1,323,476
2029	1,323,476	0	0	0	0	1,323,476
2030	1,323,476	0	0	0	0	1,323,476
2031	1,323,476	0	0	0	0	1,323,476
2032	330,869	0	0	0	0	330,869
Maximum Annual Debt Service Requirements						2,582,884
<i>Parameters</i>						
Principal Amount	22,000,000		3,200,000			
Interest Rate	1.83%		4.00%			
Years	20		10			

EXHIBIT C

[Additional Debt Notice]



Hillsdale Community Health Center

Hillsdale Community Health Center (the "Corporation") hereby notifies U.S. Bank National Association (the "Trustee"), as successor trustee under a certain Trust Indenture dated as of June 15, 1998 between the City of Hillsdale Hospital Finance Authority (the "Issuer") and the Trustee (the "Indenture") of its issuance of certain Non-Recourse Indebtedness. Unless defined herein, capitalized terms are defined in the Trust Indenture or in the Loan Agreement between the Issuer and the Corporation dated as of June 15, 1998 (the "Loan Agreement").

THE MOB GUARANTY

In 2002, the Corporation issued its Continuing Guaranty (the "MOB Guaranty") with respect to three term loans (the "MOB Loans") extended to Hallett Street Professional Development Company L.L.C. ("Hallett") by two banks (the "MOB Lenders") for the purpose of funding the development of a medical office building (the "MOB"). The members of Hallett are physicians independent of, though affiliated with the Corporation. Those physicians (or their professional corporations) are also tenants in the MOB, as is the Corporation. The Guaranty was amended as of September 19, 2008 (the "Amended MOB Guaranty") to reduce the amount guaranteed to 75 percent of the outstanding balance of MOB Loans. The aggregate outstanding balance of the MOB Loans is currently approximately \$4,144,000. The sum of 75 percent of such outstanding balance plus one month's interest on the MOB Loans is approximately \$3,126,000.

DEBT SERVICE REQUIREMENTS ON THE AMENDED MOB GUARANTY

The Amended MOB Guaranty fits the Indenture definition of a Guaranty, and the MOB Loans fit the Indenture definition of Guaranteed Indebtedness. Accordingly, Debt Service Requirements on the Amended MOB Guaranty have been included in the Corporation's annual calculation of its Debt Service Coverage Ratio, per Loan Agreement §5.5(b)(iv). Because Hallett's debt service coverage ratio has routinely been less than 1.10 times debt service requirements on the MOB Loans (the Guaranteed Indebtedness), the Corporation has applied the formula specified in Loan Agreement §5.5(b)(iv)(A) to its calculation of Debt Service Requirements. Further, because the MOB Loans fit the Indenture definition of Balloon Indebtedness, the Corporation has applied the provisions of Loan Agreement §5.5(b)(i)(D) to its calculation of Debt Service Requirements each Fiscal Year through that ended June 30, 2010.

INCURRENCE OF THE LINE OF CREDIT

The instrument of Non-Recourse Indebtedness is a \$3.2 million irrevocable line of credit (the "Line of Credit") extended by County National Bank ("CNB"). Loan Agreement §5.5(a)(iv) permits the Corporation to incur Non-Parity Indebtedness, which encompasses Non-Recourse Indebtedness and certain other forms of Indebtedness, without limit.



168 South Howell Street • Hillsdale, Michigan 49242-2081 • (517) 437-4451

SECURITY FOR THE LINE OF CREDIT

Though Non-Recourse Indebtedness, the Corporation has granted CNB certain collateral for drawings under the Line of Credit:

1. The Corporation has granted mortgage Liens in favor of CNB on seven parcels of real property that are not part of the Premises, defined in the Indenture as the real property currently subject to the "negative pledge." These Liens are Permitted Liens authorized by Loan Agreement §5.3(c)(xxii).
2. The Corporation has granted a Lien in favor of CNB on Financial Assets in the amount of \$1,064,000. This amount is less than the five percent of the Corporation's unrestricted Net Assets (\$21,292,978), according to the audited financial statements for its Most Recent Fiscal Year, which the Corporation is entitled to "sell, release , pledge" or otherwise encumber in accordance with Loan Agreement §5.4(a).
3. The Corporation has prepaid \$305,000, representing the next twelve months of rent on its space in the MOB, an ordinary operating expense. CNB is holding this deposit in a checking account (the "Rent Fund") from which monthly rent will be paid by the Corporation to Hallett, and into which the Corporation will contemporaneously deposit an amount representing the twelfth month's rent, so that twelve months of rent are continually maintained on deposit. The Corporation has granted a Lien in favor of CNB on the Rent Fund. Because the Rent Fund represents a good faith deposit, such lien is permitted by Loan Agreement §5.3(c)(v).

All of the security granted to CNB in connection with the Line of Credit is separate and distinct from the Collateral, as defined in the Indenture and further defined in the Security Agreement dated as of June 15, 1998 between the Corporation and the Issuer, and assigned by the Issuer to the Trustee.

OPERATION OF THE LINE OF CREDIT

The Line of Credit can be drawn, in whole or in part, at any time through July 1, 2016 for the purpose of funding demands by the MOB Lenders under the Amended MOB Guaranty. Amounts drawn under the Line of Credit must be repaid in fixed monthly installments of principal, plus interest at a variable rate, over a ten-year period. The monthly principal installments are calculated so that an amount drawn can be fully amortized over the ten-year period. Accordingly, the Line of Credit does not fit the Indenture definition of Balloon Indebtedness.

SUBSTITUTION OF DEBT SERVICE REQUIREMENTS

The Corporation has determined that the Line of Credit fits the Indenture definition of "Credit Facility," and represents a valid, binding and enforceable commitment to refinance demands made under the Amended MOB Guaranty. As permitted by Loan Agreement §5.5(b)(i)(A), Debt Service Requirements on the Line of Credit shall, henceforth, substitute for Debt Service Requirements on the Amended MOB Guaranty.

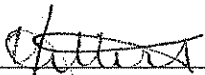
DEBT SERVICE REQUIREMENTS ON THE LINE OF CREDIT

Because interest on Line of Credit draws will accrue at a variable rate, the Corporation shall apply the provisions of Loan Agreement §5.5(b)(iii) relating to Variable Rate Indebtedness. For the purpose of determining Maximum Annual Debt Service Requirements ("MADS") on all Outstanding Long-Term Indebtedness in connection with calculations of its Debt Service Coverage Ratio to demonstrate compliance with Loan Agreement §5.1(a)(ii) and calculations of Required Pro Forma Coverage to demonstrate compliance with Loan Agreement §5.5(a)(vi) in connection with the incurrence of additional Parity Indebtedness, the Corporation will assume that the Line of Credit has been fully drawn and is Outstanding for the entire Fiscal Year in which MADS occurs. For the Fiscal Year ending June 30, 2011, during which the Line of Credit will be Outstanding, the following calculation parameters shall apply:

Principal amount \$3,200,000
Interest rate, per Loan Agreement §5.5(b)(iii). 4.00%
Period. 120 Months beginning July 2011
Day count. Actual/360

MADS on the Line of Credit will compute to approximately \$390,000. MADS on all Outstanding Long-Term Indebtedness with respect to the Fiscal Year ending June 30, 2011 will compute to approximately \$1.7 million.

Dated: June 24, 2011


by: Valerie A. Fetters
Chief Financial Officer

Acknowledged:

U.S. Bank National Association, as Trustee

by: Sandra Peterman
Vice President

HILLSDALE COMMUNITY HEALTH CENTER

ANNUAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2011 (FY2011)

Unless otherwise noted, all data apply to the Fiscal Year Ended June 30, 2011, or are accurate as of June 30, 2011, 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	1	General Surgery	3	Family Practice	6
Cardiology	1	Ophthalmology	2	Obstetrics/Gynecology	2
Endocrinology	1	Orthopedic Surgery	2	Pediatrics	3
Gastroenterology	1	Podiatry	2	Psychiatry	1
Oncology	1	Vascular Surgery	2	Emergency Medicine	2
Neurology	1			Radiology	1
Pulmonology	1			Chiropractic	3
Rheumatology	1				
Total Internal Medicine	8	Total Surgery	11	GRAND TOTAL	37

<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	2	5.4%
35 - 44	8	21.6%
45 - 54	16	43.2%
55 - 64	10	27.0%
65 and over	1	2.7%
TOTAL	37	
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, 2011

<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	42	6	0
Internal Medicine	8	54	7	1
Surgery	11	48	10	1
Obstetrics/Gynecology	2	57	2	0

<i>Active Staff Physicians, by Practice Location</i> <i>[OS Page A-14]</i>	
Physicians' Office Building	9
Other City of Hillsdale Locations	16
Hospital-Based	4
<i>Subtotal, City of Hillsdale Locations</i>	29
Hudson	2
Jonesville	2
Clinton	1
Battle Creek	2
Jackson	1
Total	37
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	

MUNICIPAL SECONDARY MARKET DISCLOSURE
City of Hillsdale Hospital Finance Authority / Hillsdale Community Health Center
Fiscal Year Ended June 30, 2011

<i>Gross Revenue Attributable to Physician Referrals</i> <i>[OS Page A-14]</i>		
	<i>\$000 Omitted</i>	<i>Percentage</i>
Active Staff	82,774	74.0%
Physicians holding consulting or courtesy privileges, plus <i>locum tenens</i> physicians	14,822	13.3%
Unassigned Revenue	14,207	12.7%
Total Revenue	111,803	100.0%

<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	51	C	\$6,792,857	6.1%	6.1%
2	Internal Medicine	57	C	\$6,249,140	5.6%	11.7%
3	Family Practice	39	C	\$5,884,007	5.3%	16.9%
4	Family Practice	50	C	\$5,792,196	5.2%	22.1%
5	Family Practice	38	C	\$5,224,593	4.7%	26.8%
6	Internal Medicine	55	C	\$5,126,990	4.6%	31.4%
7	Oncology	56	C	\$4,535,169	4.1%	35.4%
8	Pulmonology	41	C	\$3,972,136	3.6%	39.0%
9	Internal Medicine	59	C	\$3,964,979	3.5%	42.5%
10	Psychiatry	56	C	\$3,256,532	2.9%	45.4%
			C = Certified E = Eligible			

MUNICIPAL SECONDARY MARKET DISCLOSURE
City of Hillsdale Hospital Finance Authority / Hillsdale Community Health Center
Fiscal Year Ended June 30, 2011

SERVICE VOLUMES AND UTILIZATION

<i>Historical Medical/Surgical (Including CCU and Pediatrics) Utilization (excludes newborns) [OS Page A-17]</i>					
	<i>Fiscal Years Ended June 30</i>				
	<i>2011</i>	<i>2010</i>	<i>2009</i>	<i>2008</i>	<i>2007</i>
Days in Period	365	365	365	366	365
Licensed Beds	56	56	56	56	56
Available Beds	44	45	45	45	45
Admissions ¹	2,581	2,546	2,757	2,691	2,590
Patient Days	8,797	8,346	8,745	8,511	8,566
Avg. Daily Census	24.1	22.9	24.0	23.3	23.5
Average LOS	3.4	3.3	3.2	3.2	3.3
Occupancy Rate (%) ²	54.8	50.8	53.2	51.7	52.2
¹ FY2009 figure has been revised by an immaterial degree from that previously reported					
² Based on Available Beds rather than Licensed Beds					

MUNICIPAL SECONDARY MARKET DISCLOSURE
City of Hillsdale Hospital Finance Authority / Hillsdale Community Health Center
Fiscal Year Ended June 30, 2011

<i>Historical Obstetrics Utilization (excludes newborns) [OS Page A-18]</i>					
	<i>Fiscal Years Ended June 30</i>				
	<i>2011</i>	<i>2010</i>	<i>2009</i>	<i>2008</i>	<i>2007</i>
Days in Period	365	365	365	366	365
Licensed Beds	9	9	9	9	9
Available Beds	8	8	8	8	8
Admissions	383	385	423	459	432
Patient Days	774	781	961	967	895
Avg. Daily Census	2.1	2.1	2.6	2.6	2.5
Average LOS	2.0	2.0	2.3	2.1	2.1
Occupancy Rate (%) ¹	26.5	26.7	32.9	33.0	30.7
¹ 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>2011</i>	<i>2010</i>	<i>2009</i>	<i>2008</i>	<i>2007</i>
Days in Period	365	365	365	366	365
Licensed Beds	65	65	65	65	65
Available Beds	52	53	53	53	53
Admissions ¹	2,964	2,931	3,180	3,150	3,022
Patient Days	9,571	9,127	9,706	9,478	9,461
Avg. Daily Census	26.2	25.0	26.6	25.9	25.9
Average LOS	3.2	3.1	3.1	3.0	3.1
Occupancy Rate (%) ²	50.4	47.2	50.2	48.9	48.9
¹ FY2009 figure has been revised by an immaterial degree from that previously reported					
² Based on Available Beds rather than Licensed Beds					

MUNICIPAL SECONDARY MARKET DISCLOSURE
City of Hillsdale Hospital Finance Authority / Hillsdale Community Health Center
Fiscal Year Ended June 30, 2011

<i>Psychiatric Unit Utilization</i>					
	<i>Fiscal Years Ended June 30</i>				
	<i>2011</i>	<i>2010</i>	<i>2009</i>	<i>2008</i>	<i>2007</i>
Days in Period	365	365	366	365	
Licensed Beds	10	10	10	10	
Available Beds	10	10	10	10	
Admissions	408	377	385	311	
Patient Days	2,559	2,411	2,018	1,520	
Avg. Daily Census	7.0	6.6	5.5	4.2	
Average LOS	6.3	6.4	5.2	4.9	
Occupancy Rate (%) ¹	70.1	66.1	55.1	41.6	
¹ Based on Available Beds rather than Licensed Beds					

<i>Total Inpatient Utilization</i>					
	<i>Fiscal Years Ended June 30</i>				
	<i>2011</i>	<i>2010</i>	<i>2009</i>	<i>2008</i>	<i>2007</i>
Days in Period	365	365	365	366	365
Licensed Beds	75	75	75	75	65
Available Beds	62	63	63	63	53
Admissions ¹	3,372	3,308	3,565	3,461	3,022
Patient Days	12,130	11,538	11,724	10,998	9,461
Avg. Daily Census	33.2	31.6	32.1	30.0	25.9
Average LOS	3.6	3.5	3.3	3.2	3.1
Occupancy Rate (%) ²	44.3	42.1	42.8	40.1	39.9
¹ FY2009 figure has been revised by an immaterial degree from that previously reported					
² Based on Available Beds rather than Licensed Beds					

MUNICIPAL SECONDARY MARKET DISCLOSURE
City of Hillsdale Hospital Finance Authority / Hillsdale Community Health Center
Fiscal Year Ended June 30, 2011

<i>McGuire Unit Utilization</i> <i>[OS Page A-20]</i>					
	<i>Fiscal Years Ended June 30</i>				
	<i>2011</i>	<i>2010</i>	<i>2009</i>	<i>2008</i>	<i>2007</i>
Days in Period	365	365	365	365	366
Licensed Beds	21	21	21	21	21
Patient Days	7,368	7,186	7,174	7,300	7,161
Avg. Daily Census	20.2	19.7	19.7	20.0	19.6
Occupancy Rate (%)	96.1	93.8	93.6	95.2	93.2

<i>Surgical Procedures</i> <i>[OS Page A-20]</i>					
	<i>Fiscal Years Ended June 30</i>				
	<i>2011</i>	<i>2010</i>	<i>2009</i>	<i>2008</i>	<i>2007</i>
Inpatient	927	881	892	976	976
Outpatient	1,804	1,926	2,006	2,150	2,458
Total	2,731	2,807	2,898	3,126	3,434
Percent Outpatient (%)	66.1	68.6	69.2	68.8	71.6

<i>Emergency Department, Outpatient and Home Care Volumes</i> <i>[OS Pages 21 and 23]</i>					
	<i>Fiscal Years Ended June 30</i>				
	<i>2011</i>	<i>2010</i>	<i>2009</i>	<i>2008</i>	<i>2007</i>
Emergency Dept. Visits	25,426	24,466	26,680	29,809	31,016
Change / Previous Period	3.9%	(8.3)%	(10.5)%	(3.9)%	2.9%
Outpatient Registrations	118,745	117,816	121,514	124,045	121,513
Change / Previous Period	0.8%	(3.0)%	(2.0)%	2.1%	2.0%
Home Care Visits	9,118	9,858	10,049	9,204	9,805
Change / Previous Period	(7.5)%	(1.9)%	9.2%	(6.1)%	0.4%

MUNICIPAL SECONDARY MARKET DISCLOSURE
City of Hillsdale Hospital Finance Authority / Hillsdale Community Health Center
Fiscal Year Ended June 30, 2011

<i>Ancillary Services Provided to Acute Care Inpatients</i>					
<i>[OS Page 22]</i>					
	<i>Fiscal Years Ended June 30</i>				
	<i>2011</i>	<i>2010</i>	<i>2009</i>	<i>2008</i>	<i>2007</i>
Laboratory ^{1,7}	116,501	119,583	124,425	116,312	86,819
MRI Scanning ²	206	182	189	226	215
CT Scanning ^{2,7}	2,183	2,418	2,487	2,031	1,771
Ultrasonography ^{2,8}	1,414	1,392	2,725	3,007	2,904
Other Radiology ²	4,781	4,361	5,073	4,974	4,885
Nuclear Medicine ^{2,8}	158	147	244	270	240
Electrocardiography ¹	4,285	4,693	5,126	5,036	4,347
Electroencephalography ¹	55	38	27	39	41
Cardiovascular Lab ^{3,4}	34	19	17	37	34
Physical Therapy ⁵	2,062	1,915	1,957	1,679	1,895
Respiratory Therapy ⁶	62,300	50,771	49,485	38,845	38,109
¹ Tests ² Examinations ³ Procedures ⁴ Includes stress tests, Holter monitors, vascular studies and cardiac rehabilitation ⁵ Visits ⁶ Treatments ⁷ FY2009 figures have been revised by an immaterial degree from those previously reported ⁸ FY2010 figures reflect a change in counting methodology and do not correspond to prior FY's figures					

MUNICIPAL SECONDARY MARKET DISCLOSURE
City of Hillsdale Hospital Finance Authority / Hillsdale Community Health Center
Fiscal Year Ended June 30, 2011

<i>Ancillary Services Provided to Psychiatric Unit Inpatients, ED, Home Care and McGuire Unit Patients, and Outpatients [OS Page 23]</i>					
	<i>Fiscal Years Ended June 30</i>				
	<i>2011</i>	<i>2010</i>	<i>2009</i>	<i>2008</i>	<i>2007</i>
Laboratory ^{1,7}	299,742	312,492	314,725	301,533	271,487
MRI Scanning ²	2,732	2,808	3,463	3,655	3,818
CT Scanning ^{2,7}	7,986	8,366	7,374	6,613	6,144
Ultrasonography ^{2,8}	6,152	5,357	7,059	10,236	9,653
Other Radiology ²	26,489	26,146	25,868	28,239	28,740
Nuclear Medicine ^{2,8}	1,555	1,281	2,420	3,132	3,488
Electrocardiography ¹	3,851	3,740	3,789	3,914	4,555
Electroencephalography ¹	104	80	100	100	98
Cardiovascular Lab ^{3,4}	3,270	2,899	3,236	4,202	4,836
Physical Therapy ⁵	23,341	25,200	26,167	20,476	21,671
Respiratory Therapy ^{6,7}	28,194	29,815	25,970	22,035	19,182
Endoscopy ³	1,889	1,954	2,002	2,105	2,392
Sleep Studies ¹	695	620	687	488	528
¹ Tests					
² Examinations					
³ Procedures					
⁴ Includes stress tests, Holter monitors, vascular studies and cardiac rehabilitation					
⁵ Visits					
⁶ Treatments					
⁷ FY2009 figures have been revised by an immaterial degree from those previously reported					
⁸ FY2010 figures reflect a change in counting methodology and do not correspond to prior FY's figures					

MUNICIPAL SECONDARY MARKET DISCLOSURE
City of Hillsdale Hospital Finance Authority / Hillsdale Community Health Center
Fiscal Year Ended June 30, 2011

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>2011</i>	<i>2010</i>	<i>2009</i>	<i>2008</i>	<i>2007</i>
Medicare	62.0%	53.8%	62.3%	49.4%	70.3%
Medicaid	31.7%	42.6%	30.6%	37.7%	22.2%
Private Pay and Commercial Insurance	6.3%	3.6%	7.1%	12.9%	7.5%
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>2011</i>	<i>2010</i>	<i>2009</i>	<i>2008</i>	<i>2007</i>	<i>2011</i>	<i>2010</i>	<i>2009</i>	<i>2008</i>	<i>2007</i>
Medicare	49.3	48.3	48.1	45.2	47.0	61.9	59.4	59.5	59.3	57.6
Medicaid	15.4	14.6	12.9	13.0	12.0	12.9	12.1	11.1	11.6	12.3
Blue Cross	19.2	21.9	22.7	24.5	23.0	12.7	16.5	16.1	16.5	15.0
Commercial Insurance	10.6	9.8	11.2	12.6	14.0	6.7	7.0	7.7	7.9	10.0
Self-Pay	5.6	5.4	5.0	4.7	4.0	5.8	5.0	5.6	4.7	5.1
TOTALS	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Note: Columns may not add precisely due to rounding										

MUNICIPAL SECONDARY MARKET DISCLOSURE
City of Hillsdale Hospital Finance Authority / Hillsdale Community Health Center
Fiscal Year Ended June 30, 2011

<i>Gross Patient Revenue by Service</i>					
<i>[OS Page A-33]</i>					
	<i>Fiscal Years Ended June 30</i>				
	<i>2011</i>	<i>2010</i>	<i>2009</i>	<i>2008</i>	<i>2007</i>
Inpatient	38.7%	38.7%	39.6%	38.2%	36.5%
Outpatient	54.9%	55.1%	54.1%	55.8%	58.0%
McGuire Unit	4.8%	4.8%	4.9%	4.6%	4.5%
Home Care	1.6%	1.4%	1.4%	1.4%	1.0%
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, 2011

<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>2011</i>	<i>2010</i>	<i>2009</i>	<i>2008</i>	<i>2007</i>
Net Patient Service Revenue	60,897	56,682	54,929	54,639	50,201
Other Operating Revenue	881	<u>631</u>	<u>901</u>	<u>634</u>	<u>672</u>
Total Operating Revenue	61,778	57,313	55,830	55,273	50,873
Depreciation Expense	2,709	2,748	2,883	2,760	2,476
Interest Expense	528	584	678	720	737
Bad Debt Expense	5,133	5,368	4,152	5,234	2,745
Other Operating Expenses	<u>51,226</u>	<u>47,076</u>	<u>48,820</u>	<u>46,657</u>	<u>45,361</u>
Total Operating Expenses	59,596	55,776	56,533	55,372	51,319
Income (Loss) from Operations	2,182	1,537	(703)	(99)	(446)
Unrealized Investment Gains (Losses)	1,305	<u>878</u>	<u>(1,475)</u>	<u>(1,173)</u>	
Other Nonoperating Gains (Losses) ¹	591	<u>237</u>	<u>199</u>	<u>1,219</u>	<u>(692)</u>
Excess (Deficit) of Revenue over Expenses	4,078	2,652	(1,979)	(53)	(1,137)
Net Income Available for Debt Service (EBIDA) ²	7,315	5,106	3,057	4,600	2,076
Capital Expenditures	2,957	973	912	1,993	4,956
¹ FY2011, FY2010, FY2009 and FY2008 figures do not include physician recruitment/retention expenses, now included among Other Operating Expenses ² Calculated by management from the Corporation's audited financial statements, using definitions published by Standard & Poor's Ratings Services, as modified by Series 1998 Loan Agreement definitions with respect to FY2011, FY2010, FY2009 and FY2008					

MUNICIPAL SECONDARY MARKET DISCLOSURE
City of Hillsdale Hospital Finance Authority / Hillsdale Community Health Center
Fiscal Year Ended June 30, 2011

<i>Profitability Ratios</i> <i>[OS Page A-35]</i>					
	<i>Fiscal Years Ended June 30</i>				
	<i>2011</i>	<i>2010</i>	<i>2009</i>	<i>2008</i>	<i>2007</i>
Debt Service Coverage Ratio ^{1,2}	4.54	2.49	1.55	2.37	1.14
Excess Margin ²	6.40%	4.54%	(3.63)%	(0.10)%	(2.27)%
Operating Margin ²	3.53%	2.68%	(1.28)%	(0.18)%	(0.88)%
¹ The FY2011 figure is based on FY2011 Debt Service Requirements on the Series 1998 Bonds and other Long-Term Indebtedness of \$1,324,880. For the purpose of calculating such Debt Service Requirements, a Line of Credit was substituted for the Guaranty during FY2011. There were no drawings on the Line of Credit during FY2011. Prior FYs' figures are based on Debt Service Requirements in those FYs, which included Debt Service Requirements on the Guaranty. ² Calculated by management from the Corporation's audited financial statements, using definitions published by Standard & Poor's Corporation in <i>CreditWeek Municipal</i> , October 20, 1997 and in <i>CreditWeek</i> , October 1994					

<i>Cost and Productivity Measures</i> <i>[OS Page A-35]</i>					
	<i>Fiscal Years Ended June 30</i>				
	<i>2011</i>	<i>2010</i>	<i>2009</i>	<i>2008</i>	<i>2007</i>
Total FTEs	315.7	301.7	316.3	311.0	313.4
FTEs per Adjusted Admission ¹	0.042	0.040	0.044	0.042	0.041
FTEs per Adjusted Occupied Bed ¹	4.7	4.7	5.3	4.6	4.7
Adjusted Acute Care Patient-Days ¹	24,301	23,464	23,686	24,053	24,565
Paid-hours per Adjusted Patient-Day ¹	26.5	26.5	27.2	25.5	25.7
McGuire Unit Paid Hours per Patient-Day ¹	5.1	5.1	4.5	4.6	4.9
Capital Expense / Total Expenses ¹	5.4%	6.0%	6.3%	6.3%	6.3%
Bad Debt Expense / Operating Revenue ¹	8.3%	9.4%	7.4%	9.5%	5.4%
¹ 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					

MUNICIPAL SECONDARY MARKET DISCLOSURE
City of Hillsdale Hospital Finance Authority / Hillsdale Community Health Center
Fiscal Year Ended June 30, 2011

<i>Balance Sheet Summary</i>					
<i>(\$000s omitted)</i>					
<i>[OS Page A-36]</i>					
	<i>Fiscal Years Ended June 30</i>				
	<i>2011</i>	<i>2010</i>	<i>2009</i>	<i>2008</i>	<i>2007</i>
Cash and Temporary Investments ²	5,220	5,540	3,117	4,154	4,470
Net Patient Accounts Receivable	6,834	8,356	10,845	8,189	7,343
Other Current Assets	5,914	<u>4,013</u>	<u>3,461</u>	<u>3,900</u>	<u>3,406</u>
Total Current Assets	17,967	17,909	17,424	16,243	15,218
Non-Current Unrestricted Investments ²	13,248	9,566	8,428	9,855	10,175
Property and Equipment	13,959	13,712	15,577	17,156	18,116
Other Assets	<u>2,809</u>	<u>4,081</u>	<u>3,519</u>	<u>3,282</u>	<u>3,569</u>
Total Assets	47,984	45,267	44,948	46,537	47,079
Current Liabilities	10,162	10,686	12,340	11,207	11,642
Long-Term Debt	12,400	13,118	13,827	14,598	15,078
Net Assets	<u>25,422</u>	<u>21,464</u>	<u>18,781</u>	<u>20,732</u>	<u>20,359</u>
Total	47,984	45,267	44,948	46,537	47,079

¹

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, 2011

<i>Liquidity Ratios</i> <i>[OS Page A-37]</i>					
	<i>Fiscal Years Ended June 30</i>				
	<i>2011</i>	<i>2010</i>	<i>2009</i>	<i>2008</i>	<i>2007</i>
Current Ratio ¹	1.77	1.68	1.41	1.45	1.31
Quick Ratio ¹	2.49	2.20	1.81	1.98	1.89
Days in Patient Accounts Receivable ¹	41.0	53.8	72.1	54.7	53.4
Days Cash on Hand ¹	118.5	104.0	78.5	97.2	109.4
Cash-to-Debt ^{1,2}	141.4%	110.0%	80.1%	92.8%	93.1%
¹ 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 <i>CreditWeek</i> , October 1994, and by Moody's Investors Service in <i>Health Care Medians</i> , 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>2011</i>	<i>2010</i>	<i>2009</i>	<i>2008</i>	<i>2007</i>
Medicare	1.2566	1.1106	1.2279	1.2182	1.3189
Medicaid	0.7210	0.5512	0.6835	0.6354	0.6596
Blue Cross	0.6853	0.7679	0.7722	0.6723	0.7686

MUNICIPAL SECONDARY MARKET DISCLOSURE
City of Hillsdale Hospital Finance Authority / Hillsdale Community Health Center
Fiscal Year Ended June 30, 2011

<i>Top Ten DRGs, FY2011 [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>
885	Psychoses	381	10.2%	10.2%	6.33
795	Normal newborn	290	7.8%	18.0%	1.64
775	Vaginal delivery without complicating diagnoses	234	6.3%	24.3%	1.67
194	Simple pneumonia and pleurisy with complications/comorbidities	210	5.6%	29.9%	5.15
392	Esophagitis, gastroenteritis and miscellaneous digestive disorders without major complications/comorbidities	136	3.7%	33.6%	2.01
470	Major joint replacement or reattachment of lower extremity without major complications/comorbidities	119	3.2%	36.8%	2.89
192	Chronic obstructive pulmonary disease without major or other complications/comorbidities	97	2.6%	39.4%	11.89
766	Cesarean section without major or other comorbidities/complications	77	2.1%	41.5%	2.89
313	Chest pain	72	1.9%	43.4%	1.80
951	Other factors influencing health status	72	1.9%	45.3%	1.00

Hillsdale Community Health Center

Consolidated Financial Report

June 30, 2011

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 consolidated balance sheet of Hillsdale Community Health Center (the "Hospital") as of June 30, 2011 and 2010 and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Hillsdale Community Health Center at June 30, 2011 and 2010 and the consolidated 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 16, 2011

Hillsdale Community Health Center

Consolidated Balance Sheet

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 5,219,745	\$ 5,539,575
Accounts receivable (Note 2)	6,833,696	8,356,458
Estimated third-party payor settlements (Note 7)	2,049,833	377,063
Assets limited as to use (Note 3)	3,156,750	3,212,088
Other current assets	<u>707,252</u>	<u>423,661</u>
Total current assets	17,967,276	17,908,845
Assets Limited as to Use (Note 3)	1,148,342	1,115,315
Investments (Note 3)	13,227,631	9,545,179
Property and Equipment - Net (Note 5)	13,958,903	13,711,872
Other Assets (Note 6)	<u>1,681,743</u>	<u>2,986,285</u>
Total assets	<u>\$ 47,983,895</u>	<u>\$ 45,267,496</u>
Liabilities and Net Assets		
Current Liabilities		
Current portion of long-term debt (Note 9)	\$ 663,984	\$ 610,201
Accounts payable	3,766,554	3,364,924
Estimated third-party payor settlements (Note 7)	460,007	1,098,524
Accrued liabilities and other (Note 8)	<u>5,271,425</u>	<u>5,612,096</u>
Total current liabilities	10,161,970	10,685,745
Long-term Debt - Net of current portion (Note 9)	<u>12,400,396</u>	<u>13,118,101</u>
Total liabilities	22,562,366	23,803,846
Net Assets		
Unrestricted	25,380,994	21,292,978
Temporarily restricted (Note 11)	<u>40,535</u>	<u>170,672</u>
Total net assets	<u>25,421,529</u>	<u>21,463,650</u>
Total liabilities and net assets	<u>\$ 47,983,895</u>	<u>\$ 45,267,496</u>

Hillsdale Community Health Center

Consolidated Statement of Operations

	Year Ended	
	June 30, 2011	June 30, 2010
Operating Revenues		
Net patient service revenue	\$ 60,897,356	\$ 56,681,810
Other	880,781	631,106
Total operating revenues	61,778,137	57,312,916
Operating Expenses		
Salaries and wages	19,940,591	18,926,629
Employee benefits and payroll taxes	5,575,931	5,019,972
Operating supplies and expenses	25,709,354	23,129,636
Depreciation	2,708,982	2,748,193
Provision for bad debts	5,133,457	5,367,670
Interest expense	527,973	584,004
Total operating expenses	59,596,288	55,776,104
Operating Income	2,181,849	1,536,812
Nonoperating Income (Expenses)		
Investment income (Note 3)	557,701	245,373
Other income (expense)	33,193	(7,960)
Change in unrealized investment gain (Note 3)	1,305,265	878,255
Net nonoperating income	1,896,159	1,115,668
Excess of Revenue Over Expenses	4,078,008	2,652,480
Net Assets Released from Restriction	10,008	69,739
Increase in Unrestricted Net Assets	\$ 4,088,016	\$ 2,722,219

Hillsdale Community Health Center

Consolidated Statement of Changes in Net Assets

	Year Ended	
	June 30, 2011	June 30, 2010
Unrestricted Net Assets		
Excess of revenue over expenses	\$ 4,078,008	\$ 2,652,480
Net assets released from restriction	10,008	69,739
Increase in Unrestricted Net Assets	4,088,016	2,722,219
Temporarily Restricted Net Assets		
Restricted contributions	14,116	29,745
Change in provision for uncollectible pledges	(134,245)	-
Net assets released from restriction	(10,008)	(69,739)
Decrease in Temporarily Restricted Net Assets	(130,137)	(39,994)
Increase in Net Assets	3,957,879	2,682,225
Net Assets - Beginning of year	21,463,650	18,781,425
Net Assets - End of year	\$ 25,421,529	\$ 21,463,650

Hillsdale Community Health Center

Consolidated Statement of Cash Flows

	Year Ended	
	June 30, 2011	June 30, 2010
Cash Flows from Operating Activities		
Increase in net assets	\$ 3,957,879	\$ 2,682,225
Adjustments to reconcile increase in net assets to net cash from operating activities:		
Depreciation	2,708,982	2,748,193
Net change in unrealized gains on investments	(1,305,265)	(878,255)
Loss on disposal of equipment	849	90,007
Restricted contributions	(14,116)	(29,745)
Provision for bad debts	5,133,457	5,367,670
Amortization of physician contracts	219,471	83,476
Amortization of bond issue costs	15,268	15,269
Pledges receivable	-	17,064
Changes in assets and liabilities which (used) provided cash:		
Accounts receivable	(3,610,695)	(2,879,106)
Other current assets and other assets	337,924	140,293
Accounts payable	1,068,046	197,119
Accrued liabilities	(340,671)	(456,624)
Estimated third-party payor settlements	(2,311,287)	(1,792,030)
Net cash provided by operating activities	5,859,842	5,305,556
Cash Flows from Investing Activities		
Purchase of property and equipment	(2,956,862)	(973,282)
Proceeds from sale of property and equipment	-	707
Advances to physicians	(176,165)	(845,000)
Purchase of assets limited as to use and investments	(4,192,042)	(751,853)
Proceeds from sale and maturities of assets limited as to use and investments	1,837,166	192,870
Proceeds from land contracts	-	124,399
(Increase) decrease in deposits	(41,963)	27,306
Net cash used in investing activities	(5,529,866)	(2,224,853)
Cash Flows from Financing Activities		
Principal payment on long-term debt	(663,922)	(688,222)
Restricted contributions	14,116	29,745
Net cash used in financing activities	(649,806)	(658,477)
Net (Decrease) Increase in Cash and Cash Equivalents	(319,830)	2,422,226
Cash and Cash Equivalents - Beginning of year	5,539,575	3,117,349
Cash and Cash Equivalents - End of year	\$ 5,219,745	\$ 5,539,575

Hillsdale Community Health Center

Notes to Consolidated Financial Statements June 30, 2011 and 2010

Note I - 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. The Hospital has established an off-shore company, HCHC Assurance Company LTD, for the payment of medical malpractice claim settlements. All activity of HCHC Assurance Company LTD has been consolidated in these financial statements, with all intercompany balances and transactions eliminated in consolidation.

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.

Assets Limited as to Use - Assets limited as to use include assets designated by the board of trustees for future capital improvement, over which the board retains control, and may, at its discretion, subsequently use for other purposes. Amounts required to meet current liabilities of the Hospital have been reclassified in the consolidated balance sheet. Assets limited as to use also include assets relating to the Hospital's self-insured professional and general liability programs, assets restricted by debt agreements, assets related to deferred compensation agreements, and assets temporarily restricted by donor.

Hillsdale Community Health Center

Notes to Consolidated Financial Statements June 30, 2011 and 2010

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

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

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 6). These costs are being amortized over the life of the debt. Amortization expense was \$15,269 for the years ended June 30, 2011 and 2010.

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.

The Medicare program has initiated a recovery audit contractor (RAC) initiative, whereby claims subsequent to October 1, 2007 will be reviewed by contractors for validity, accuracy, and proper documentation. A demonstration project completed in several other states resulted in the identification of potential significant overpayments. The RAC program began in 2009 for Michigan hospitals and the Hospital has received requests for patient records in relation to the RAC initiative. The Hospital is unable to determine the extent of the liability for overpayments or underpayments found during the audits. The potential exists for overpayments or underpayments of claims liability for the Hospital at a future date.

Hillsdale Community Health Center

Notes to Consolidated Financial Statements June 30, 2011 and 2010

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

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 with 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 2011 and 2010 amounted to \$1,413,135 and \$1,145,520, respectively, based on established rates.

Excess of Revenue Over Expenses - The consolidated statement of operations includes excess of revenue over expenses. Changes in unrestricted net assets, which are excluded from excess of revenue over expenses, consistent with industry practice, include net assets released from restrictions for the acquisition of long-lived 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 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 consolidated 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 is a nonprofit, tax-exempt organization; accordingly, no tax provision is reflected in the consolidated financial statements. The Hospital's tax returns are not subject to examination by taxing authorities for years beginning prior to July 1, 2007.

Subsequent Events - The consolidated financial statements and related disclosures include evaluation of events up through and including September 16, 2011, which is the date the consolidated financial statements were available to be issued.

Hillsdale Community Health Center

Notes to Consolidated Financial Statements June 30, 2011 and 2010

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

New Accounting Pronouncements - During 2011, the Financial Accounting Standards Board (FASB) adopted Accounting Standards Update (ASU) 2011-07, *Health Care Entities (Topic 954) Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities*, establishing accounting and disclosures for healthcare entities that recognize significant amounts of patient service revenue at the time services are rendered even though the entities do not assess a patient's ability to pay. The amendments in the ASU change the presentation of the statement of operations and add new disclosures that are not required under current GAAP for entities within the scope of this update. The provision for bad debts associated with patient service revenue for certain entities is required to be presented on a separate line as a deduction from patient service revenue (net of contractual allowances and discounts) in the statement of operations. The ASU is effective for the Hospital for the year ending June 30, 2013.

During 2010, the Financial Accounting Standards Board (FASB) adopted new accounting guidance that will impact how healthcare organizations account for claims liabilities and charity care. The new guidance requires that the accrued liability for malpractice claims and similar liabilities and the related insurance recovery receivable be presented separately on the balance sheet on a gross basis. Prior guidance allowed the liability to be reported net of the estimated insurance recovery receivable. This new standard will be effective for the Hospital for the year ending June 30, 2012.

New guidance has also been adopted on how to measure the amount of charity care provided to patients. The new guidance requires that cost be used as the measurement basis for charity care disclosure purposes and that the cost be identified as the direct and indirect costs of providing the charity care. No other measurement basis should be used. Prior guidance did not dictate how charity care should be measured. This new standard will be effective for the Hospital for the year ending June 30, 2012 and should be applied retrospectively to all prior periods presented.

The adoption of these new standards is not expected to have a material effect on the Hospital's consolidated financial statements.

Hillsdale Community Health Center

Notes to Consolidated Financial Statements June 30, 2011 and 2010

Note 2 - Patient Accounts Receivable

The details of patient accounts receivable are as follows:

	2011	2010
Patient accounts receivable	\$ 21,819,696	\$ 24,190,458
Less allowance for uncollectible accounts	(5,688,000)	(5,800,000)
Less allowance for contractual adjustments and interim payment advances	(9,298,000)	(10,034,000)
Net patient accounts receivable	<u>\$ 6,833,696</u>	<u>\$ 8,356,458</u>

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	
	2011	2010
Medicare, including HMOs	21	23
Blue Cross/Blue Shield of Michigan	9	11
Medicaid, including HMOs	11	12
Commercial insurance	10	11
Self-pay	49	43
Total	<u>100</u>	<u>100</u>

Note 3 - Assets Limited as to Use and Investments

The details of assets limited as to use and investments are as follows:

	2011	2010
Assets limited as to use:		
Professional and general liability self-insurance	\$ 3,156,750	\$ 3,212,088
Debt service reserve and payment funds	957,714	957,714
Donor-restricted assets	90,535	86,427
Board-designated assets	20,860	20,861
Deferred compensation	79,233	50,313
Investments	<u>13,227,631</u>	<u>9,545,179</u>
Total	17,532,723	13,872,582
Less current portion	<u>(3,156,750)</u>	<u>(3,212,088)</u>
Net	<u>\$ 14,375,973</u>	<u>\$ 10,660,494</u>

Hillsdale Community Health Center

Notes to Consolidated Financial Statements June 30, 2011 and 2010

Note 3 - Assets Limited as to Use and Investments (Continued)

	2011	2010
Cash and cash equivalents	\$ 4,481,188	\$ 4,549,294
Corporate bonds	425,559	432,780
Mutual funds	6,641,946	5,009,553
Common stock	3,240,982	3,120,090
Certificates of deposit	2,743,048	760,865
Total	<u>\$ 17,532,723</u>	<u>\$ 13,872,582</u>

The details of investment income are as follows:

	2011	2010
Interest and dividend income	\$ 441,316	\$ 342,907
Net realized gains (losses) on investments	116,385	(97,534)
Net unrealized gains (losses) on investments	1,305,265	878,255
Net	<u>\$ 1,862,966</u>	<u>\$ 1,123,628</u>

Note 4 - Fair Value Measurements

Accounting standards require certain assets and liabilities be reported at fair value in the financial statements and provide a framework for establishing that fair value. The framework for determining fair value is based on a hierarchy that prioritizes the inputs and valuation techniques used to measure fair value.

The following tables present information about the Hospital's assets measured at fair value on a recurring basis at June 30, 2011 and 2010 and the valuation techniques used by the Hospital to determine those fair values.

In general, fair values determined by Level 1 inputs use quoted prices in active markets for identical assets or liabilities that the Hospital has the ability to access.

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset. These Level 3 fair value measurements are based primarily on management's own estimates using pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset.

Hillsdale Community Health Center

Notes to Consolidated Financial Statements June 30, 2011 and 2010

Note 4 - Fair Value Measurements (Continued)

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Hospital's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

Assets Measured at Fair Value on a Recurring Basis at June 30, 2011

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at June 30, 2011
Corporate bonds - Domestic	\$ -	\$ 425,559	\$ -	\$ 425,559
Mutual funds - Equity	2,448,520	-	-	2,448,520
Mutual funds - Fixed income	4,193,426	-	-	4,193,426
Common stock	3,240,982	-	-	3,240,982
Total	<u>\$ 9,882,928</u>	<u>\$ 425,559</u>	<u>\$ -</u>	<u>\$ 10,308,487</u>

Assets Measured at Fair Value on a Recurring Basis at June 30, 2010

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at June 30, 2010
Corporate bonds - Domestic	\$ -	\$ 432,780	\$ -	\$ 432,780
Mutual funds - Equity	1,467,297	-	-	1,467,297
Mutual funds - Fixed income	3,542,256	-	-	3,542,256
Common stock	3,120,090	-	-	3,120,090
Total	<u>\$ 8,129,643</u>	<u>\$ 432,780</u>	<u>\$ -</u>	<u>\$ 8,562,423</u>

Assets limited as to use and investments on the balance sheet at June 30, 2011 and 2010 included certificates of deposit of \$2,743,048 and \$760,865, respectively. Additionally, assets limited as to use and investments on the balance sheet at June 30, 2011 and 2010 included cash and cash equivalents of \$4,481,188 and \$4,549,294, respectively. Certificates of deposit and cash and cash equivalents are not measured at fair value on a recurring basis and therefore are not included in the table above.

The fair value of the various corporate bonds was determined primarily based on Level 2 inputs. The Hospital estimates the fair value of these investments using quoted prices for similar assets in active markets. The fair value of these assets was determined primarily based on quoted market prices from the Hospital's custodial banks.

Hillsdale Community Health Center

Notes to Consolidated Financial Statements June 30, 2011 and 2010

Note 5 - Property and Equipment

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

	2011	2010	Depreciable Life - Years
Land	\$ 103,162	\$ 103,162	-
Land improvements	321,510	272,885	5
Buildings	26,220,392	26,011,342	5-50
Equipment	14,340,506	16,313,105	5-10
Equipment under capital leases	828,332	785,522	5-10
Construction in progress	2,690,736	802,240	-
Total cost	44,504,638	44,288,256	
Accumulated depreciation	<u>(30,545,735)</u>	<u>(30,576,384)</u>	
Net property and equipment	<u>\$ 13,958,903</u>	<u>\$ 13,711,872</u>	

Accumulated depreciation on equipment under capital leases totaled \$801,566 and \$785,522 as of June 30, 2011 and 2010, respectively.

Note 6 - Other Assets

The details of other assets are as follows:

	2011	2010
Physician advances	\$ -	\$ 55,403
Scholarships	988,687	1,034,237
Physician receivables	384,754	1,480,793
Pledges receivable	-	134,245
Bond issuance costs	184,372	199,640
Deposits	123,930	81,967
Total other assets	<u>\$ 1,681,743</u>	<u>\$ 2,986,285</u>

Hillsdale Community Health Center

Notes to Consolidated Financial Statements June 30, 2011 and 2010

Note 7 - 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. A significant amount 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.

Note 8 - Accrued Liabilities

The details of accrued liabilities at June 30, 2011 and 2010 are as follows:

	<u>2011</u>	<u>2010</u>
Payroll and related items	\$ 1,221,575	\$ 1,186,085
Compensated absences	1,487,258	1,467,728
Interest	72,310	72,311
Professional and other liability claims (Note 13)	1,485,276	1,415,613
Self-insured health claims	615,644	527,615
Patient credit balances	389,362	942,744
Total accrued liabilities	<u>\$ 5,271,425</u>	<u>\$ 5,612,096</u>

Hillsdale Community Health Center

Notes to Consolidated Financial Statements June 30, 2011 and 2010

Note 9 - Long-term Debt

A summary of long-term debt obligations at June 30, 2011 and 2010 is as follows:

	<u>2011</u>	<u>2010</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 \$385,000 in 2012 to \$795,000 in 2026, collateralized by all assets and revenue of the Hospital	\$ 8,510,157	\$ 8,876,824
Michigan State Hospital Finance Authority, Healthcare Equipment and Loan Program (HELP), Series C, payable in monthly payments of \$19,988, plus interest at a variable rate of 1.0 percent at June 30, balance due in 2023, collateralized by all assets and revenue of the Hospital	2,969,279	3,209,257
Michigan State Hospital Finance Authority, Healthcare Equipment and Loan Program (HELP), Series C, payable in monthly payments of \$8,120, plus interest at a variable rate of 1.0 percent at June 30, balance due in July 2026, collateralized by all assets and revenue of the Hospital	1,457,683	1,555,121
Note payable, interest at 7.00 percent adjusting every five years to 1.00 percent over prime, payable in monthly installments of \$1,011, collateralized by property purchased	79,129	87,100
Capital equipment lease, payable in monthly payments of \$1,783	48,132	-
Total	<u>13,064,380</u>	<u>13,728,302</u>
Less current portion	<u>663,984</u>	<u>610,201</u>
Long-term portion	<u>\$ 12,400,396</u>	<u>\$ 13,118,101</u>

Currently, the HELP loan is secured by a letter of credit up to \$5,000,000, expiring in December 2011. Should the letter of credit be drawn upon, repayment terms require payments to be made on a monthly basis over 20 years. 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 Consolidated Financial Statements June 30, 2011 and 2010

Note 9 - Long-term Debt (Continued)

Subsequent to the fiscal year ended June 30, 2011, the Hospital obtained commitment from a financial institution to issue a non-bank qualified bond totaling \$22,000,000. These monies will be used to expand the main facility of the Hospital, as well as to refinance the two HELP loans included in the table above. The term of the bond issue will be 60 months and will include a variable rate of interest. The bond issue is expected to close on September 28, 2011.

The debt agreements in the table above collectively require the Hospital to comply with various financial covenants related to debt to equity ratio, days cash on hand ratio, cash flow coverage ratio, and funded indebtedness.

Principal payments on notes payable and lease payments on capital leases over the next five years and in aggregate as of June 30, 2011 are as follows:

Years Ending June 30	Amount
2012	\$ 663,984
2013	692,001
2014	709,637
2015	743,663
2016	783,769
Thereafter	9,471,326
Total	<u>\$ 13,064,380</u>

Note 10 - Operating Leases

The Hospital is obligated under certain operating leases, primarily for facilities, office equipment, and automobiles. Total rent expense under these leases was \$854,375 and \$1,314,147 for the years ended June 30, 2011 and 2010, respectively.

Future minimum rental commitments are as follows:

Years Ending June 30	Amount
2012	\$ 633,419
2013	63,653
2014	6,010
Total	<u>\$ 703,082</u>

Hillsdale Community Health Center

Notes to Consolidated Financial Statements June 30, 2011 and 2010

Note 11 - Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at June 30, 2011 and 2010:

	2011	2010
Healthcare programs	\$ 7,040	\$ 4,402
Purchase of equipment and expansion	33,495	166,270
Total temporarily restricted net assets	<u>\$ 40,535</u>	<u>\$ 170,672</u>

Note 12 - 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 \$540,000 and \$480,000 for the years ended June 30, 2011 and 2010, respectively.

Note 13 - 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. All activity of HCHC Assurance Company LTD has been consolidated in these financial statements.

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 any losses in excess of the recorded liability.

Hillsdale Community Health Center

Notes to Consolidated Financial Statements June 30, 2011 and 2010

Note 14 - 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, 2011 and 2010 total approximately \$0 and \$790,000, respectively. The Hospital has recorded a liability for future payments totaling approximately \$0 and \$666,000 for the years ended June 30, 2011 and 2010, 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, approximated \$36,000 and \$80,000 for 2011 and 2010, respectively.

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 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, 2010 was approximately \$4.1 million, of which the Hospital has guaranteed 75 percent. The Hospital has not recorded a liability related to the guarantee agreements for the years ended June 30, 2011 and 2010.

During 2011, the Hospital entered into a line of credit agreement with a local bank totaling \$3.2 million, with interest calculated using the prime rate. This line of credit was put in place to cover amounts due should the party default on the mortgage noted above. As of June 30, 2011, no amounts had been drawn on the line of credit. The line of credit expires on July 1, 2016.

Note 15 - Functional Expenses

The Hospital provides general healthcare services to residents within its geographic area. Expenses related to providing these services for the years ended June 30, 2011 and 2010 are as follows:

	2011	2010
Healthcare services	\$ 50,142,851	\$ 47,680,158
General and administrative	9,453,437	8,095,946
Total	<u>\$ 59,596,288</u>	<u>\$ 55,776,104</u>