

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):

\$23,150,000

City of Iron River Hospital Finance Authority (Michigan)

Hospital Revenue and Refunding Bonds, Series 2008

Iron County Community Hospitals, Inc.

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

463003AA1

463003AL7

463003AT0

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) 50 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: January – December 2008 (FY2008)

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

Fiscal Period Covered: January – December 2008 (FY2008)

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

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

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

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

Period Covered: _____

F. Other Secondary Market Information (Specify): _____

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

Issuer Contact:

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

Dissemination Agent Contact, if any:

Name Shelley I. Aronson Title President
Employer First River Advisory I. 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 Glenn E. Dobson Title Chief Financial Officer
Employer Iron County Community Hospitals, Inc.
Address 1400 West Ice Lake Road City Iron River State MI Zip Code 49935
Telephone (906) 265-0436 Fax (906) 265-3098
Email Address gdobson@icch.org Obligor Web Site Address www.icch.org

Investor Relations Contact, if any:

Name _____ Title _____
Telephone _____ Email Address _____

IRON COUNTY COMMUNITY HOSPITALS, INC.

1400 WEST ICE LAKE ROAD

IRON RIVER, MI 49935

OFFICER'S CERTIFICATE

DATED: MAY 13, 2009

This Officer's Certificate is delivered pursuant to Section 5.10(b)(iii) of the Loan Agreement between Iron County Community Hospitals, Inc. (the Corporation) and the City of Iron River Hospital Finance Authority (the Issuer), dated as of June 1, 2008. All capitalized terms used herein are as defined in the Loan Agreement, in the Trust Indenture between the Issuer and Wells Fargo Bank, N.A., as Bond Trustee, dated as of June 1, 2008, or in the Master Indenture and Security Agreement between the Corporation and Wells Fargo Bank, N.A., as Master Trustee, dated as of June 1, 2008.

As required by Section 5.10(a) of the Loan Agreement, attached is the Annual Report referenced therein. The Annual Report contains audited financial statements for the Fiscal Year (FY) ended December 31, 2008, as required by Section 5.10(b)(i) of the Loan Agreement, updates of certain financial and statistical data contained in the Official Statement relating to the Series 2008 Bonds dated May 30, 2008, as required by Section 5.10(b)(ii) of the Loan Agreement, and management's comments on financial condition and other matters as required by Section 5.10(b)(iv) of the Loan Agreement.

As required by Section 5.10(b)(iii) of the Loan Agreement, the undersigned certifies that:

1. I am the Chief Financial Officer of the Corporation and duly authorized to deliver this Officer's Certificate;
2. the Obligated Group has complied with the Debt Service Coverage Ratio covenant specified in Section 5.1(b)(iii) of the Master Indenture, as demonstrated by the calculations below:

<i>Debt Service Coverage Ratio Calculation for FY2008 (based on unaudited figures) Based on FY2008 Annual Debt Service Requirements Per Section 501(b)(iii) of the Master Indenture (\$000s omitted, except for Debt Service Coverage Ratio)</i>		
Excess (Deficit) of Revenues over Expenses		(748)
Plus:	Interest	398
Plus:	Depreciation	1,120
Plus:	Loss on extinguishment of Indebtedness	123
Plus:	Loss on disposal of Capital Assets	1
Net Income Available for Debt Service		893
Annual Debt Service Requirements for FY2008		705
Debt Service Coverage Ratio		1.27
Requirement		1.10

3. the Obligated Group has complied with the Liquidity Covenant specified in Section 501(c) of the Master Indenture, as demonstrated by the calculations below:

<i>Liquidity Covenant Calculation at December 31, 2008 (based on unaudited figures) Per Section 501(c) of the Master Indenture (\$000s omitted, except for Days Cash on Hand)</i>					
			<i>Minus</i>	<i>Plus</i>	
		<i>FY2008</i>			<i>Twelve- Month Period</i>
	Cash and Cash Equivalents				1,824
	Plus: Investments				3,510
	Minus: Short-Term Indebtedness				0
FA	Financial Assets				5,334
	Operating Expenses	28,468			28,468
	Minus Depreciation	1,120			1,120
DOE	Daily Operating Expenses				75
FA ÷ DOE	Days Cash on Hand				71
	Requirement				60

- the Obligated Group has complied with the Trade Payables Covenant specified in Section 501(e) of the Master Indenture, as demonstrated by the calculations below:

<i>Average Age of Trade Accounts Payable, FY2008</i> <i>Master Indenture §501(e)</i>		
Trade Accounts Payable at FYE	AP	\$2,490,617
Average Daily Trade Accounts Payable	ADAP	\$69,409
Average Age of Trade Accounts Payable (days)	AP / ADAP	35.9
Requirement		90.0

and

- no Event of Default has occurred and/or is continuing.

In addition, pursuant to Section 5.10(b)(iv) of the Loan Agreement, management offers the following comments on the Obligated Group's financial condition and other matters. These comments are the same as those delivered in connection with the Obligated Group's quarterly continuing disclosure report for FY2008Q4, also ended December 31, 2008. These comments should be read in conjunction with the comments set forth in the Officer's Certificate which related to FY2008Q3. The next set of management's comments will be delivered in connection with the Obligated Group's quarterly continuing disclosure report for FY2009Q1.

- Construction of the Improvement Project is substantially on budget but approximately one month behind schedule due to unusually severe winter weather conditions. No material issues have been encountered.
- Management expects the Deficit of Revenue over Expenses reported herewith to improve materially after the final Medicare cost report is filed and the audited financial statements are completed.
- A general surgeon was hired and commenced practice in February 2009, after the close of FY2008. The presence of this surgeon on a full-time basis is expected to reverse the adverse trend in inpatient admissions and surgical volumes.
- A gynecologist and two otorhinolaryngologists commenced part-time practice during FY2008Q3.

5. Management's chargemaster review has been completed and is producing the expected positive effects.

IRON COUNTY COMMUNITY HOSPITALS, INC.
for itself and as Obligated Group Agent on behalf of the Obligated Group

A handwritten signature in black ink, appearing to read "G. E. Dobson", is written over a horizontal line.

By: Glenn E. Dobson, Vice President and Chief Financial Officer

IRON COUNTY COMMUNITY HOSPITALS, INC.

ANNUAL REPORT FOR THE FISCAL YEAR ENDED DECEMBER 31, 2008 (FY2008)

Unless otherwise noted, all data apply to the Fiscal Year Ended December 31, 2008, or are accurate as of December 31, 2008, as appropriate. OS pages refer to the Official Statement relating to the Securities, dated May 30, 2008. The source of all data is the Corporation's records.

SERVICE VOLUMES AND UTILIZATION

<i>Historical Inpatient Utilization</i>					
	<i>Fiscal Years Ended December 31</i>				
	<i>2008</i>	<i>2007</i>	<i>2006</i>	<i>2005</i>	<i>2004</i>
Days in Period	366	365	365	365	366
Licensed Beds ¹	25	25	25	25	30
Admissions	977	1,075	1,084	1,114	1,207
Patient Days	3,507	3,763	3,768	4,017	4,196
Average Daily Census	9.6	10.3	10.3	11.0	11.5
Average Length of Stay	3.6	3.5	3.5	3.6	3.5
Occupancy Rate (%)	38.3	41.2	41.3	44.0	38.2
Observation Bed Admissions	282	221	168	147	101
Observation Bed Patient Days	404	316	226	217	143
Swing Bed Admissions	69	68	70	92	112
Swing Bed Patient Days	580	386	420	696	892
Respite Care Admissions	22	19	31	41	23
Respite Care Patient Days	65	30	66	108	63
¹ Reflects the reduction to 25 beds as of July 1, 2004 in connection with The Corporation's designation as a CAH					

The Corporation's CAH designation became effective as of July 1, 2004, whereupon the number of licensed and staffed beds was reduced from 36 to 25. The number of licensed beds in FY2004 is a weighted average of 182 days at 36 beds and 184 days at 25 beds.

MUNICIPAL SECONDARY MARKET DISCLOSURE

**City of Iron River Hospital Finance Authority / Iron County Community Hospitals, Inc.
Fiscal Year Ended December 31, 2008**

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<i>Historical Outpatient Services Volumes</i>					
	<i>Fiscal Years Ended December 31</i>				
	<i>2008</i>	<i>2007</i>	<i>2006</i>	<i>2005</i>	<i>2004</i>
Emergency Department procedures	8,696	8,728	8,690	8,945	8,391
Outpatient visits	43,913	44,743	42,755	39,398	37,223
Outpatient Department procedures	5,650	7,248	5,911	5,268	5,099
Hemodialysis treatments	2,107	2,464	2,578	1,931	1,642
Diabetic education procedures	851	1,009	739	867	1,478
Home Care visits	6,594	6,283	5,257	5,354	4,180
EMS runs	1,332	1,144	936	N/A	N/A
Employed practitioner charges	18,079	19,022	17,025	14,859	12,225

MUNICIPAL SECONDARY MARKET DISCLOSURE

City of Iron River Hospital Finance Authority / Iron County Community Hospitals, Inc.
 Fiscal Year Ended December 31, 2008

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<i>Historical Ancillary Services Volumes (measured in Procedures)</i>					
	<i>Fiscal Years Ended December 31</i>				
	<i>2008</i>	<i>2007</i>	<i>2006</i>	<i>2005</i>	<i>2004</i>
Surgeries	664	924	969	814	930
Laboratory – IR	82,622	83,845	81,846	79,579	89,076
Laboratory – CF	42,666	42,926	37,765	34,692	22,115
Radiology – IR	9,798	10,037	10,445	9,795	9,441
Radiology – CF	1,770	2,019	1,807	1,700	1,572
MRI	547	565	509	537	532
CT scanning	3,154	2,944	3,450	3,028	2,306
Ultrasound	1,776	1,411	1,517	1,157	1,268
Nuclear medicine	644	625	841	723	788
Electrocardiograms – IR	4,334	4,050	4,295	3,686	3,281
Electrocardiograms – CF	418	400	417	376	373
Echocardiograms	1,130	1,025	1,343	778	744
Electroencephalograms and Electromyelograms	32	272	306	226	444
Rehabilitation Services – IR	12,485	10,366	12,238	14,239	15,636
Rehabilitation Services – CF	6,986	6,374	6,978	6,752	4,249
Occupational therapy	1,214	1,110	1,270	1,342	1,797
Respiratory therapy	62,070	64,687	62,604	71,071	64,786
Cardiac rehabilitation	527	210	262	236	269
IR = at the Hospital Facility in Iron River, CF = at the CFFHC in Crystal Falls					

MUNICIPAL SECONDARY MARKET DISCLOSURE

City of Iron River Hospital Finance Authority / Iron County Community Hospitals, Inc.
Fiscal Year Ended December 31, 2008

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FINANCIAL INFORMATION

<i>Payor Mix by Gross Revenue</i>					
	<i>Fiscal Years Ended December 31</i>				
	<i>2007</i>	<i>2006</i>	<i>2005</i>	<i>2004</i>	<i>2003</i>
Medicare	58.0%	58.6%	60.3%	56.9%	58.8%
Medicaid, including UPHP	8.6%	9.4%	9.5%	11.1%	10.0%
BCBSM	20.5%	16.6%	15.5%	17.2%	16.9%
Self-Pay	3.8%	4.6%	3.8%	3.9%	3.7%
MCPs, commercial insurers and other	9.1%	10.8%	10.9%	10.9%	10.6%
Totals	100.0%	100.0%	100.0%	100.0%	100.0%

MUNICIPAL SECONDARY MARKET DISCLOSURE

City of Iron River Hospital Finance Authority / Iron County Community Hospitals, Inc.
Fiscal Year Ended December 31, 2008

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<i>Summary of Statements of Operations</i> (<i>\$000s omitted</i>)					
	<i>Fiscal Years Ended December 31</i>				
	<i>2008</i>	<i>2007</i>	<i>2006</i>	<i>2005</i>	<i>2004</i>
Net Patient Service Revenue	\$27,331	\$27,764	\$26,480	\$22,916	\$19,587
Other Revenue	<u>239</u>	<u>207</u>	<u>226</u>	<u>221</u>	<u>116</u>
Total Revenue	27,570	27,971	26,706	23,137	19,703
Depreciation Expense	1,120	1,052	952	988	791
Interest Expense	398	319	337	303	201
Bad Debt Expense	1,579	1,428	1,305	865	834
Other Operating Expenses	<u>25,371</u>	<u>24,271</u>	<u>23,135</u>	<u>19,722</u>	<u>17,268</u>
Total Operating Expenses	\$28,468	\$27,070	\$25,729	\$21,879	\$19,094
Income (Loss) from Operations	(\$898)	\$901	\$977	\$1,258	\$609
Net Nonoperating Revenue	<u>150</u>	<u>499</u>	<u>380</u>	<u>177</u>	<u>96</u>
Excess (Deficit) of Revenue / Expenses	<u>(\$748)</u>	<u>\$1,400</u>	<u>\$1,358</u>	<u>\$1,436</u>	<u>\$705</u>
Net Income Available for Debt Service (EBIDA) ¹	\$770	\$2,771	\$2,647	\$2,727	\$1,697
¹ Equal to Excess of Revenue over Expenses + Depreciation Expense + Interest Expense, which may differ from the calculation of Net Income Available for Debt Service due to certain adjustments permitted by the Master Indenture					

MUNICIPAL SECONDARY MARKET DISCLOSURE**City of Iron River Hospital Finance Authority / Iron County Community Hospitals, Inc.
Fiscal Year Ended December 31, 2008****Page 6**

<i>Statement of Operations Ratios¹</i>					
	<i>Fiscal Years Ended December 31</i>				
	<i>2008</i>	<i>2007</i>	<i>2006</i>	<i>2005</i>	<i>2004</i>
EBIDA Margin	2.8%	9.7%	9.8%	11.7%	8.6%
Operating Cash Flow Margin	2.2%	8.1%	8.5%	11.0%	8.1%
Operating Margin	(3.3)%	3.2%	3.7%	5.4%	3.1%
Excess Margin	(2.7)%	4.9%	5.0%	6.2%	3.6%
Bad Debt Expense / Total Operating Revenue	5.8%	5.1%	4.9%	3.8%	3.7%

¹ Calculated from the Corporation's audited financial statements, using definitions cited in *U.S. Not-For-Profit 2007 Small Hospital Median Ratios Show Modest Improvements* dated October 5, 2007, published by Standard & Poor's Ratings Services, except for the *Pro Forma* Debt to Cash Flow Ratio, whose definition is cited in *Not-for-Profit Hospital Medians for Fiscal Year 2006*, published by Moody's Investors Service in August 2007.

MUNICIPAL SECONDARY MARKET DISCLOSURE

City of Iron River Hospital Finance Authority / Iron County Community Hospitals, Inc.
Fiscal Year Ended December 31, 2008

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Balance Sheet Summary					
(\$000s omitted)					
	Fiscal Years Ended December 31				
	2008	2007	2006	2005	2004
Cash and Cash Equivalents ¹	\$1,824	\$1,998	\$1,436	\$1,214	\$1,155
Net Patient Accounts Receivable	3,389	3,730	3,459	3,137	2,913
Other Current Assets	<u>1,150</u>	<u>709</u>	<u>1,231</u>	<u>1,164</u>	<u>1,087</u>
Total Current Assets	6,363	6,437	6,126	5,516	5,155
Investments ^{1,2}	3,510	4,631	4,492	3,698	2,591
Net Property and Equipment	16,155	9,867	9,824	9,344	8,925
Other Non-Current Assets ²	<u>14,512</u>	<u>1,384</u>	<u>208</u>	<u>330</u>	<u>871</u>
Total Assets	\$40,540	\$22,319	\$20,651	\$18,888	\$17,542
Current Liabilities	\$5,756	\$2,781	\$3,288	\$2,726	\$2,638
Long-Term Debt, net of Current Portion	22,546	5,525	5,739	5,966	6,184
Other Non-Current Liabilities	0	0	0	0	0
Unrestricted Net Assets	<u>12,238</u>	<u>14,012</u>	<u>11,623</u>	<u>10,196</u>	<u>8,721</u>
Total Liabilities and Net Assets	\$40,540	\$22,319	\$20,651	\$18,888	\$17,542
¹ Used in "Days' Cash on Hand," "Pro Forma Cushion Ratio" and "Unrestricted Cash / Pro Forma Debt" calculations ² FY2007 figures reflect the reclassification of \$58,000 from Investments to Other Non-Current Assets in FY2008 Note: some figures might not add precisely due to rounding					

MUNICIPAL SECONDARY MARKET DISCLOSURE

**City of Iron River Hospital Finance Authority / Iron County Community Hospitals, Inc.
Fiscal Year Ended December 31, 2008**

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<i>Balance Sheet Ratios¹</i>					
	<i>Fiscal Years Ended December 31</i>				
	<i>2008</i>	<i>2007</i>	<i>2006</i>	<i>2005</i>	<i>2004</i>
Days' Cash on Hand ²	71.4	93.0	87.3	85.8	74.9
Days in Accounts Receivable	45.4	49.0	47.7	50.0	54.4
Average Payment Period (days) ³	77.0	39.0	48.4	47.6	52.7
Cash Flow / Total Liabilities ⁴	1.3	29.5	25.6	27.9	17.0
Average Age of Plant	12.1	12.0	12.2	11.4	13.0

¹ Calculated from the Corporation's audited financial statements, using definitions cited in *U.S. Not-For-Profit 2007 Small Hospital Median Ratios Show Modest Improvements* dated October 5, 2007, published by Standard & Poor's Ratings Services, except for the *Pro Forma* Debt to Cash Flow Ratio, whose definition is cited in *Not-for-Profit Hospital Medians for Fiscal Year 2006*, published by Moody's Investors Service in August 2007

² FY2007 figure revised due to the reclassification reported in FY2008

³ FY2008 figure affected by \$2,547,000 in construction-related payables

⁴ FY2008 figure affected by issuance of the Series 2008 Bonds

Iron County Community Hospitals, Inc. and Affiliate

Iron River, Michigan

Combined Financial Statements and Additional Information

Years Ended December 31, 2008 and 2007

Iron County Community Hospitals, Inc. and Affiliate

Combined Financial Statements and Additional Information

Years Ended December 31, 2008 and 2007

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Independent Auditor's Report

Board of Trustees
Iron County Community Hospitals, Inc.
Iron River, Michigan

We have audited the accompanying combined balance sheets of Iron County Community Hospitals, Inc. and Affiliate as of December 31, 2008 and 2007, and the related combined statements of operations and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of Iron County Community Hospitals, Inc.'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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Iron County Community Hospitals, Inc. and Affiliate as of December 31, 2008 and 2007, and the results of their operations, changes in their net assets, and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

Wipfli LLP

Wipfli LLP

April 20, 2009
Green Bay, Wisconsin

Iron County Community Hospitals, Inc. and Affiliate

Combined Balance Sheets

December 31, 2008 and 2007

<i>Assets</i>	2008	2007
Current assets:		
Cash and cash equivalents	\$ 1,824,134	\$ 1,997,800
Assets limited as to use required for current liabilities	2,548,480	0
Accounts receivable - Net	3,388,562	3,729,945
Other receivables	115,619	8,965
Inventories	519,473	490,008
Prepaid expenses and other assets	124,623	115,185
Amounts due from third-party reimbursement programs	390,609	94,695
Total current assets	8,911,500	6,436,598
Assets limited as to use	10,490,349	58,284
Investments	3,509,727	4,630,596
Property and equipment - Net	16,155,255	9,867,436
Other assets:		
Prepaid pension costs	867,247	813,130
Unamortized debt issue costs	250,552	59,245
Other	355,289	453,369
Total other assets	1,473,088	1,325,744
TOTAL ASSETS	\$ 40,539,919	\$ 22,318,658

<i>Liabilities and Net Assets</i>	2008	2007
Current liabilities:		
Current maturities of long-term debt	\$ 247,533	\$ 209,867
Current portion of obligations under capital leases	420,093	0
Accounts payable:		
Trade	1,161,239	1,261,801
Construction	2,547,335	0
Accrued and other liabilities	1,379,847	1,309,731
Total current liabilities	5,756,047	2,781,399
Long-term debt, less current maturities	22,546,332	5,525,434
Total liabilities	28,302,379	8,306,833
Net assets - Unrestricted	12,237,540	14,011,825
TOTAL LIABILITIES AND NET ASSETS	\$ 40,539,919	\$ 22,318,658

Iron County Community Hospitals, Inc. and Affiliate

Combined Statements of Operations and Changes in Net Assets

Years Ended December 31, 2008 and 2007

	2008	2007
Revenue:		
Net patient service revenue	\$ 27,331,230	\$ 27,764,222
Other revenue	238,974	206,889
Total revenue	27,570,204	27,971,111
Expenses:		
Salaries and wages	11,075,626	10,137,711
Employee benefits	3,180,673	3,074,370
Supplies and other	11,114,646	11,059,181
Provision for bad debts	1,579,228	1,427,991
Depreciation and amortization	1,120,126	1,051,606
Interest	397,778	319,371
Total expenses	28,468,077	27,070,230
Income (loss) from operations	(897,873)	900,881
Other income (expense):		
Investment income	65,823	438,051
Contributions	207,329	61,487
Loss on bond defeasance	(122,840)	0
Loss on disposal of property and equipment	(589)	(623)
Total other income	149,723	498,915
Excess (deficiency) of revenue over expenses	(748,150)	1,399,796
Other changes in unrestricted net assets:		
Change in net unrealized gains and losses on investments other than trading securities	(1,080,252)	175,644
Adjustment to adopt new accounting standard	0	813,130
Change in pension obligation other than pension expense	54,117	0
Increase (decrease) in unrestricted and total net assets	(1,774,285)	2,388,570
Net assets at beginning	14,011,825	11,623,255
Net assets at end	\$ 12,237,540	\$ 14,011,825

See accompanying notes to combined financial statements.

Iron County Community Hospitals, Inc. and Affiliate

Combined Statements of Cash Flows

Years Ended December 31, 2008 and 2007

	2008	2007
Increase (decrease) in cash and cash equivalents:		
Cash flows from operating activities:		
Cash received from patients and third-party payors	\$ 25,929,791	\$ 26,854,384
Cash paid to employees and suppliers	(25,229,812)	(25,176,271)
Interest and dividends received	65,823	438,051
Interest paid - Net of amount capitalized	(397,778)	(319,371)
Other cash received	83,900	60,864
Net cash provided by operating activities	451,924	1,857,657
Cash flows from investing activities:		
Capital expenditures	(4,439,341)	(1,084,304)
Increase in assets limited as to use	(12,980,545)	0
(Increase) decrease in investments	40,617	(226)
Proceeds from property and equipment disposals	1,001	0
Net cash used in investing activities	(17,378,268)	(1,084,530)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	22,721,540	0
Principal payments on long-term debt	(105,045)	(210,236)
Early retirement of long-term debt	(5,557,931)	0
Principal payments on obligations under capital leases	(51,020)	(1,004)
Payment of debt issue costs	(254,866)	0
Net cash provided by (used in) financing activities	16,752,678	(211,240)
Net increase (decrease) in cash and cash equivalents	(173,666)	561,887
Cash and cash equivalents at beginning	1,997,800	1,435,913
Cash and cash equivalents at end	\$ 1,824,134	\$ 1,997,800

Iron County Community Hospitals, Inc. and Affiliate

Combined Statements of Cash Flows (Continued)

Years Ended December 31, 2008 and 2007

	2008	2007
Reconciliation of increase (decrease) in net assets to net cash provided by operating activities:		
Increase (decrease) in net assets	\$ (1,774,285)	\$ 2,388,570
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,120,126	1,051,606
Provision for bad debts	1,579,228	1,427,991
Loss on disposal of property and equipment	589	623
Change in net unrealized gains and losses on investments other than trading securities	1,080,252	(175,644)
Adjustment to adopt new accounting standard	0	(813,130)
Change in pension obligation other than pension expense	(54,117)	0
Changes in operating assets and liabilities:		
Accounts receivable	(1,344,499)	(1,697,032)
Inventories	(29,465)	(29,558)
Prepaid expenses and other assets	144,402	(392,810)
Amounts due from third-party reimbursement programs	(295,914)	580,305
Accounts payable - Trade	(44,509)	(464,938)
Accrued and other liabilities	70,116	(18,326)
Total adjustments	2,226,209	(530,913)
Net cash provided by operating activities	\$ 451,924	\$ 1,857,657

Noncash investing and financing activities:

Accounts payable related to property and equipment purchases	\$ 2,548,480	\$ 57,198
Acquisition of equipment under capital lease	471,113	0

Iron County Community Hospitals, Inc. and Affiliate

Notes to Combined Financial Statements

Note 1 **Summary of Significant Accounting Policies**

The Entity

Iron County Community Hospitals, Inc. (the "Health System") is a nonprofit, nonstock corporation that is licensed as a 25-bed acute care facility. The Health System provides comprehensive inpatient, outpatient, emergency, and medical services. In addition, the Health System employs physicians and operates clinics in Crystal Falls and Iron River, Michigan. All services are provided to the residents of Iron County, Michigan, and the surrounding areas.

The affiliate of the Health System is Iron County Community Health Foundation (the "Foundation"), a separate not-for-profit corporation that was incorporated during 2007 for the purpose of raising funds for the Health System. The Health System is the sole corporate member of the Foundation. Activity in the Foundation commenced during 2008.

Principles of Combination

The combined financial statements include the accounts of the Health System and the Foundation (collectively the "Corporation"). All significant intercompany accounts and transactions have been eliminated in combination.

Financial Statement Presentation

The combined financial statements have been presented in accordance with generally accepted reporting practices for the health care industry.

Use of Estimates in Preparation of Financial Statements

The preparation of the accompanying combined financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that directly affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates may also affect the reported amounts of revenue and expenses during the reporting period. Actual results may differ from these estimates.

Iron County Community Hospitals, Inc. and Affiliate

Notes to Combined Financial Statements

Note 1 **Summary of Significant Accounting Policies** (Continued)

Cash Equivalents

The Corporation considers highly liquid debt instruments with an original maturity of three months or less to be cash equivalents excluding amounts whose use is limited or held as short-term investments in the Corporation's investment portfolio. The carrying amount reported in the combined balance sheets for cash equivalents approximates fair value.

Accounts Receivable and Credit Policy

Accounts receivable are uncollateralized patient obligations, most of whom are local residents insured under third-party payor agreements, and are stated at the amount management expects to collect from outstanding balances. The Corporation bills third-party payors on the patients' behalf, or if a patient is uninsured, the patient is billed directly. Once claims are settled with the primary payor, any secondary insurance is billed, and patients are billed for copay and deductible amounts that are the patients' responsibility. Payments on accounts receivable are applied to the specific claim identified on the remittance advice or statement. The Corporation does not have a policy to charge interest on past due accounts.

The carrying amounts of accounts receivable are reduced by allowances that reflect management's best estimate of the amounts that will not be collected. Management provides for contractual adjustments under terms of third-party reimbursement agreements through a reduction of gross revenue and a credit to accounts receivable. In addition, management provides for probable uncollectible amounts, primarily uninsured patients and amounts patients are personally responsible for, through a charge to operations and a credit to a valuation allowance based on its assessment of historical collection likelihood and the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable.

Accounts receivable are recorded in the accompanying combined balance sheets net of allowances for contractual adjustments and doubtful accounts.

Iron County Community Hospitals, Inc. and Affiliate

Notes to Combined Financial Statements

Note 1 **Summary of Significant Accounting Policies** (Continued)

Inventories

Inventories of supplies are valued at the lower of cost, determined on the first-in, first-out (FIFO) method, or market.

Assets Limited as to Use

Assets limited as to use include cash and cash equivalents set aside by the Board of Directors for future capital improvements, over which the Board retains control and may at its discretion subsequently use for other purposes; assets held by a financial institution, which are limited as to use under a bond indenture; and assets held in trust under deferred compensation arrangements.

Investments

Investments include cash and cash equivalents, corporate bonds, U.S. government and agency bonds, certificates of deposit, and marketable equity securities. Investments in marketable debt and equity securities are valued at fair value based on quoted market prices determined at the balance sheet date. Investments in certificates of deposit are valued at cost plus accrued interest which approximates fair value. Donated investments are reported at fair value at the date of receipt, which is then treated as cost. Investment income or loss (including realized gains and losses on investments, interest, and dividends) is included in the excess (deficiency) of revenue over expenses unless the income is restricted by donor or law. Unrealized gains and losses on investments are excluded from the excess (deficiency) of revenue over expenses unless the investments are trading securities.

The Corporation monitors the difference between the cost and fair value of its investments. If investments experience a decline in value that the Corporation determines is other than temporary, the Corporation records a realized loss in investment income.

Iron County Community Hospitals, Inc. and Affiliate

Notes to Combined Financial Statements

Note 1 **Summary of Significant Accounting Policies** (Continued)

Property and Equipment

Property and equipment acquisitions are recorded at cost or, if donated, at fair value at date of donation. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Estimated useful lives range from 5 to 20 years for land improvements, 5 to 40 years for buildings and improvements, and 3 to 15 years for equipment. Such amortization is included in depreciation and amortization in the combined financial statements. Interest costs incurred on borrowed funds during the period of construction of capital assets are capitalized as a component as a cost of acquiring those assets.

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support and are excluded from the excess (deficiency) of revenue over expenses unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Unamortized Debt Issue Costs and Bond Discounts

Bond issue costs and original issue discounts related to issuance of long-term debt are amortized over the life of the related debt using the straight-line method.

Iron County Community Hospitals, Inc. and Affiliate

Notes to Combined Financial Statements

Note 1 **Summary of Significant Accounting Policies** (Continued)

Asset Retirement Obligations

Financial Accounting Standards Board (FASB) Interpretation No. (FIN) 47, *Accounting for Conditional Asset Retirement Obligations*, clarifies when an organization is required to recognize a liability for a conditional asset retirement obligation. The Corporation has considered FIN 47, specifically as it relates to its legal obligations to perform asset retirement activities, such as asbestos removal, on its existing properties. The Corporation believes there is an indeterminate settlement date for the asset retirement obligations because the range of time over which the Corporation may settle the obligations is unknown and cannot be estimated. As a result, the Corporation cannot reasonably estimate the liability related to these asset retirement activities as of December 31, 2008 and 2007.

New Accounting Pronouncements

The Corporation adopted FIN 48, *Accounting for Uncertainty in Income Taxes*, on January 1, 2008. FIN 48 requires an organization to determine whether it is more likely than not that a tax position will be sustained upon examination on the technical merits of the position assuming the taxing authority has full knowledge of all information. If the tax position does not meet the more likely than not recognition threshold, the benefit of that position is not recognized in the financial statements. The Corporation recorded no assets or liabilities related to uncertain tax positions as a result of the adoption of FIN 48.

Effective January 1, 2008, the Corporation adopted Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements*. SFAS No. 157 clarifies how organizations are required to use a fair value measure for recognition and disclosure by establishing a common definition of fair value, creating a framework for measuring fair value, and expanding disclosures about fair value measurements. SFAS No. 157 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include Level 1, defined as observable inputs such as quoted market prices in active markets; Level 2, defined as inputs other than quoted market prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions. The adoption of SFAS No. 157 did not have a material impact on the Corporation's results of operations or financial position.

Iron County Community Hospitals, Inc. and Affiliate

Notes to Combined Financial Statements

Note 1 **Summary of Significant Accounting Policies** (Continued)

Net Patient Service Revenue

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. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and are adjusted in future periods as final settlements are determined.

Excess (Deficiency) of Revenue Over Expenses

The combined statements of operations and changes in net assets include excess (deficiency) of revenue over expenses, which is considered the operating indicator. Changes in unrestricted net assets that are excluded from the operating indicator, consistent with industry practice, include unrealized gains and losses on investments other than trading securities, permanent transfer of assets to and from affiliates for other than goods and services, changes in pension obligations other than expense, and contributions of long-lived assets including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets.

Charity Care

The Health System provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Health System does not pursue collection of amounts determined to qualify as charity care, they are not included in net patient service revenue in the accompanying combined statements of operations and changes in net assets.

Iron County Community Hospitals, Inc. and Affiliate

Notes to Combined Financial Statements

Note 1 **Summary of Significant Accounting Policies** (Continued)

Donor-Restricted Gifts

Unconditional promises to give cash and other assets to the Corporation are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is deemed unconditional. The gifts are reported as either temporarily or permanently 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 as unrestricted net assets and reported in the statement of operations and changes in net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying combined financial statements.

Advertising Costs

The Corporation expenses advertising costs as incurred.

Unemployment Compensation

The Corporation is self-insured for unemployment compensation benefits. The Corporation has obtained a letter of credit, which expires December 31, 2009, to meet state funding requirements.

Income Taxes

Both the Health System and the Foundation are nonprofit corporations as described in Section 501(c)(3) of the Internal Revenue Code and are exempt from federal income taxes on related income pursuant to Section 501(a) of the code. The Health System and the Foundation are also exempt from state income taxes on related income.

Iron County Community Hospitals, Inc. and Affiliate

Notes to Combined Financial Statements

Note 2 Reimbursement Arrangements With Third-Party Payors

The Health System has agreements with third-party payors that provide for reimbursement at amounts that vary from its established rates. A summary of the basis of reimbursement with major third-party payors follows:

- *Medicare* - The Health System is certified as a critical access hospital with reimbursement based on cost for inpatient and outpatient services. Professional services provided by physicians and other clinicians continue to be reimbursed based on prospectively determined fee schedules.
- *Medicaid* - Inpatient services rendered to Medicaid program beneficiaries are reimbursed at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Professional services provided by physicians and other clinicians are reimbursed based on one of the following methods: a prospectively determined resource-based relative value system, fee schedule, or a cost-reimbursement methodology depending on the type of professional services provided. Outpatient services are paid based on a prospectively determined fee schedule for each type of service.
- *Blue Cross* - Inpatient and outpatient services rendered to Blue Cross subscribers are reimbursed on a controlled-charge basis.
- *Other* - The Health System also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Health System under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

Iron County Community Hospitals, Inc. and Affiliate

Notes to Combined Financial Statements

Note 2 **Reimbursement Arrangements With Third-Party Payors** (Continued)

- *Accounting for Contractual Arrangements* - The Health System is reimbursed for cost reimbursable items at an interim rate, and final settlements are determined after an audit of the Health System's related annual cost reports by the respective Medicare, Medicaid, and Blue Cross fiscal intermediaries. Estimated provisions to approximate the full expected settlements after review by the intermediaries are included in the accompanying combined financial statements. The Health System's cost reports have been audited by the Medicare, Medicaid, and Blue Cross fiscal intermediaries through June 30, 2004, December 31, 2004, and December 31, 2007, respectively.

Compliance

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations, particularly those relating to the Medicare and Medicaid programs, can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Recently, federal government activity has increased with respect to investigations and allegations concerning possible violations by health care providers or regulations, which could result in the imposition of significant fines and penalties, as well as significant repayments of previously billed and collected revenue from patients' services. Management believes the Health System is in substantial compliance with current laws and regulations.

Iron County Community Hospitals, Inc. and Affiliate

Notes to Combined Financial Statements

Note 3 Accounts Receivable

Accounts receivable consisted of the following at December 31:

	2008	2007
Accounts receivable	\$ 7,298,759	\$ 7,630,205
Less:		
Allowance for contractual adjustments	2,485,330	2,550,897
Allowance for doubtful accounts	1,424,867	1,349,363
Accounts receivable - Net	<u>\$ 3,388,562</u>	<u>\$ 3,729,945</u>

Note 4 Net Patient Service Revenue

Net patient service revenue consisted of the following:

	2008	2007
Gross patient service revenue:		
Inpatient	\$ 9,227,017	\$ 9,478,906
Outpatient	31,901,484	32,755,868
Totals	41,128,501	42,234,774
Less - Contractual adjustments and other	13,797,271	14,470,552
Net patient service revenue	<u>\$ 27,331,230</u>	<u>\$ 27,764,222</u>

Medicare and Medicaid revenue as a percent of gross patient service revenue approximated 68.9% and 66.6% in 2008 and 2007, respectively.

Iron County Community Hospitals, Inc. and Affiliate

Notes to Combined Financial Statements

Note 5 Charity Care

The Corporation maintains records to identify and monitor the level of charity care it provides to Health System patients. The amount of charges foregone for services and supplies furnished under the Corporation's charity care policy approximated \$249,000 and \$211,000 in 2008 and 2007, respectively.

Note 6 Assets Limited as to Use and Investments

Assets Limited as to Use

Assets limited as to use, stated at fair value, consisted of the following at December 31:

	2008	2007
Held by trustees under bond indenture agreements:		
Cash equivalents	\$ 7,456,963	\$ 20,681
Certificates of deposit	4,937,369	0
Bonds	604,300	0
<hr/>		
Total held by trustees under bond indenture agreements	12,998,632	20,681
<hr/>		
Held by trustees under deferred compensation agreements:		
Cash	15,501	1
Mutual fund	24,696	37,602
<hr/>		
Total held by trustees under deferred compensation agreements	40,197	37,603
<hr/>		
Total assets limited as to use	13,038,829	58,284
Less - Assets limited as to use required for current liabilities	2,548,480	0
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Assets limited as to use, less current portion	\$ 10,490,349	\$ 58,284

Iron County Community Hospitals, Inc. and Affiliate

Notes to Combined Financial Statements

Note 6 Assets Limited as to Use and Investments (Continued)

Investments

The Corporation's investments, stated at fair value, consisted of the following at December 31:

	2008	2007
Cash and cash equivalents	\$ 366,462	\$ 539,374
Certificates of deposit	51,707	100,000
Mutual funds	1,584,228	2,444,658
Corporate, U.S. government, and agency bonds	1,507,330	1,546,564
Total investments	\$ 3,509,727	\$ 4,630,596

Investment income consisted of the following:

	2008	2007
Interest and dividend income	\$ 194,171	\$ 320,766
Net realized gain (loss) on sales of securities	(128,348)	117,285
Total investment income	\$ 65,823	\$ 438,051

Other changes in unrestricted net assets - Change in net unrealized gains and losses on investments other than trading securities	\$ (1,080,252)	\$ 175,644
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Investments, in general, are exposed to various risks such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the value of certain investments will occur in the near term and such changes could materially affect the amounts reported in the combined financial statements.

Iron County Community Hospitals, Inc. and Affiliate

Notes to Combined Financial Statements

Note 6 Assets Limited as to Use and Investments (Continued)

During 2008, the credit and liquidity crisis in the United States and throughout the global financial system had a significant negative impact on domestic and global financial markets. Since December 31, 2008, financial markets have continued to experience volatility such that certain investments held by the Corporation at December 31, 2008, could be negatively impacted.

The following table shows unrealized losses and fair values of investments, aggregated by investment category and length of time that individual investment securities have been in a continuous unrealized loss position at December 31, 2008:

Description of Securities	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mutual funds	\$ 964,652	\$ (427,170)	\$ 644,271	\$ (526,943)	\$ 1,608,923	\$ (954,113)
Corporate, U.S. government, and agency bonds	1,023,352	(39,087)	377,938	(122,062)	1,401,290	(161,149)
Total	\$ 1,988,004	\$ (466,257)	\$ 1,022,209	\$ (649,005)	\$ 3,010,213	\$ (1,115,262)

Management assesses individual investment securities as to whether declines in market value are temporary or other than temporary. In assessing an issuer's financial condition, management evaluates various financial indicators. The length of time and extent to which the fair value of the investment is less than cost and the Corporation's ability and intent to retain the investment to allow for any anticipated recovery of the investment's fair value are key components as to whether management deems declines in fair value as temporary or other than temporary. If declines are determined to be other than temporary, the Corporation records a realized loss in investment income. At December 31, 2008 and 2007, unrealized losses on individual securities in the Corporation's investment portfolio were not significant in relation to the cost of the investments, and any declines in fair value below cost were deemed to be temporary.

Iron County Community Hospitals, Inc. and Affiliate

Notes to Combined Financial Statements

Note 7 Property and Equipment

Property and equipment consisted of the following at December 31:

	2008	2007
Land and land improvements	\$ 716,915	\$ 649,195
Buildings and improvements	10,991,562	10,988,167
Equipment	11,219,973	10,450,124
Total property and equipment	22,928,450	22,087,486
Less - Accumulated depreciation and amortization	13,592,018	12,606,786
Net depreciated value	9,336,432	9,480,700
Construction in progress	6,818,823	386,736
Property and equipment - Net	\$ 16,155,255	\$ 9,867,436

At December 31, 2008, construction in progress included costs for the addition to and renovation of the Iron County Community Hospital facility. The total cost of the project is approximately \$13,900,000. The addition and renovation are being funded using proceeds from the Series 2008 Revenue and Refunding Bonds.

Iron County Community Hospitals, Inc. and Affiliate

Notes to Combined Financial Statements

Note 8 Long-Term Debt

Long-term debt consisted of the following at December 31:

	2008	2007
5% land contract dated August 2003, due in monthly payments of \$1,310 including interest, secured by real estate, due August 2013	\$ 69,413	\$ 81,336
Series 2008 City of Iron River Hospital Finance Authority Hospital Revenue and Refunding Bonds, Iron County Community Hospital, Inc. project, dated June 2008; principal payments due in monthly sinking fund deposits in varying amounts through 2040; with rates of interest varying from 6.0% to 6.5% and payable monthly	23,150,000	0
Series 2004 City of Iron River Hospital Finance Authority Hospital Revenue Bonds, Iron County Community Hospital, Inc. project, dated December 2004, variable rate of interest, refinanced in 2008 with Series 2008 City of Iron River Hospital Finance Authority Hospital Revenue and Refunding Bonds	0	2,260,940
Series 2002 City of Iron River Hospital Finance Authority Hospital Revenue Bonds, Iron County Community Hospital, Inc. project, dated June 2002, variable rate of interest, refinanced in 2008 with Series 2008 City of Iron River Hospital Finance Authority Hospital Revenue and Refunding Bonds	0	3,393,025
Totals	23,219,413	5,735,301
Less:		
Current maturities	247,533	209,867
Unamortized bond discount	425,548	0
Long-term portion	\$ 22,546,332	\$ 5,525,434

Iron County Community Hospitals, Inc. and Affiliate

Notes to Combined Financial Statements

Note 8 Long-Term Debt (Continued)

The Health System and the Foundation together form an Obligated Group for the Series 2008 Revenue and Refunding Bonds. The Series 2008 Revenue and Refunding Bonds are secured by a security interest in the gross revenue of the Obligated Group and a mortgage secured by the Corporation's real property.

The bond indenture requires the establishment of certain funds to be held by the trustee, which are unavailable for general corporate purposes. Required funds have been established and are classified as assets limited as to use in the combined financial statements. The bond indenture also provides for various restrictive covenants, including maintenance of various financial ratios and limitations on additional borrowing.

Required payments of principal on long-term debt at December 31, 2008, including current maturities, are summarized as follows:

2009	\$	247,533
2010		263,174
2011		278,848
2012		294,557
2013		315,301
Thereafter		21,820,000
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Total	\$	23,219,413

Total interest cost capitalized as property and equipment was \$559,618 for the year ended December 31, 2008. Interest earnings from the unexpended proceeds of tax-exempt borrowings directly related to the capital project of \$66,186 for the year ended December 31, 2008, was offset against the capitalized interest cost. There was no interest cost capitalized for the year ended December 31, 2007.

Iron County Community Hospitals, Inc. and Affiliate

Notes to Combined Financial Statements

Note 9 Leases

The Corporation has entered into various operating lease agreements for certain medical equipment with unrelated organizations under both short-term arrangements and noncancelable operating leases. The Corporation also leases certain equipment under lease agreements classified as capital leases.

Minimum future rental payments under these lease agreements consisted of the following at December 31, 2008:

	Capital Leases	Operating Leases
2009	\$ 420,093	\$ 285,079
2010	0	65,557
2011	0	45,600
2012	0	19,000
Total minimum lease payments	420,093	<u>\$ 415,236</u>
Amounts representing interest	0	
Present value of net minimum lease payments	420,093	
Less - Current portion	420,093	
<u>Long-term obligations under capital leases</u>	<u>\$ 0</u>	

Cost of equipment under capital lease obligations, which is included in equipment, was \$471,113 and \$0 at December 31, 2008 and 2007, respectively. Accumulated amortization for equipment under capital lease obligations was \$75,200 and \$0 at December 31, 2008 and 2007, respectively.

Rental expense totaled \$368,385 and \$481,472 in 2008 and 2007, respectively.

Iron County Community Hospitals, Inc. and Affiliate

Notes to Combined Financial Statements

Note 10 Malpractice Insurance

The Corporation's professional liability insurance for claim losses of less than \$1 million per claim and \$3 million per year covers professional liability claims reported during a policy year ("claims made" coverage). The professional liability insurance policy is renewable annually and has been renewed by the insurance carrier for the annual period extending through February 2010.

Under a claims-made policy, the risk for claims and incidents not asserted within the policy period remains with the Health System. Although there exists the possibility of claims arising from services provided to patients through December 31, 2008, which have not yet been asserted, the Health System is unable to determine the ultimate cost, if any, of such possible claims and, accordingly, no provision have been made for them.

Note 11 Fair Value of Financial Instruments

The following methods and assumptions were used by the Corporation in estimating fair value of its financial instruments:

- *Assets limited as to use* - These assets consist of primarily cash and cash equivalents, corporate bonds, certificates of deposit, and marketable equity securities. Assets limited as to use consisting of marketable debt and equity securities are valued at fair value based on quoted market prices determined at the balance sheet date. Assets limited as to use consisting of certificates of deposit are valued at cost plus accrued interest which approximates fair value.
- *Investments* - These assets consist of cash and cash equivalents, corporate bonds, U.S. government and agency bonds, certificates of deposit, and marketable equity securities. Investments in cash and cash equivalents approximate fair value. Investments in marketable debt and equity securities are valued at fair value based on quoted market prices determined at the balance sheet date. Investments in certificates of deposit are valued at cost plus accrued interest which approximates fair value.

Iron County Community Hospitals, Inc. and Affiliate

Notes to Combined Financial Statements

Note 11 Fair Value of Financial Instruments (Continued)

- *Long-term debt* - The fair value of the Corporation's Series 2008 City of Iron River Hospital Finance Authority Hospital Revenue and Refunding Bonds is based on quoted market prices and secondary market trades of comparable securities. The fair value of the Corporation's other long-term debt is estimated using a discounted cash flow analysis based on the Corporation's current incremental borrowing rate for similar types of borrowing arrangements.

The carrying amounts and fair values of the Corporation's financial instruments at December 31 are as follows:

	2008		2007	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Cash and cash equivalents	\$ 1,824,134	\$ 1,824,134	\$ 1,997,800	\$ 1,997,800
Assets limited as to use	13,038,829	13,038,829	58,284	58,284
Investments	3,509,727	3,509,727	4,630,596	4,630,596
Long-term debt	23,219,413	16,179,009	5,735,301	5,735,301

Note 12 Fair Value Measurements

As discussed in Note 1, the Corporation adopted SFAS No. 157, *Fair Value Measurements*, effective January 1, 2008. SFAS No. 157 did not materially affect the Corporation's financial position or net assets; however, additional disclosures are now required. This statement describes a fair value hierarchy that includes three levels of inputs to be used to measure fair value. In general, the Corporation determines fair values based on Level 1 inputs utilizing quoted market prices in active markets and fair values determined by Level 2 inputs utilizing market information that is observable, such as quoted market prices for similar items, broker/dealer quotes, or models using market interest rates or yield curves. The Corporation does not have any financial instruments valued using Level 3 inputs.

Iron County Community Hospitals, Inc. and Affiliate

Notes to Combined Financial Statements

Note 12 Fair Value Measurements (Continued)

Information regarding assets measured at fair value on a recurring basis as of December 31, 2008, is as follows:

	Fair Value Measurements Using			Total Assets at Fair Value
	Level 1	Level 2	Level 3	
Assets:				
Certificates of deposit	\$ 0	\$ 4,989,076	\$ 0	\$ 4,989,076
Debt securities	0	2,111,630	0	2,111,630
Mutual funds	1,608,924	0	0	1,608,924
Total assets	\$ 1,608,924	\$ 7,100,706	\$ 0	\$ 8,709,630

Note 13 Retirement Plans

The Corporation has a 401(k) profit sharing plan covering substantially all employees meeting minimum service and age requirements. The participants may elect to contribute up to 15% of their salary into the plan. The Corporation's contributions to the plan are based on a percentage of employee earnings during the year, ranging from 3% to 4% depending on participation in the plan. Pension expense for the years ended December 31, 2008 and 2007, was \$361,967 and \$327,286, respectively.

The Corporation's qualified employees of the Crystal Falls operating unit were covered before the merger with Iron County Community Hospitals, Inc. under the Michigan Municipal Employees Retirement System (MERS) Plan. Subsequent to the merger, the employees of the Corporation, a private nonprofit corporation, were no longer eligible to participate in the MERS public employee governmental plan. Therefore, as of the merger date, the accrued liabilities for retirement benefits and the related assets for that unit were frozen, and the Corporation converted all employees into its present pension plan. Under the terms of the Withdrawal Agreement dated December 8, 1998, the liability for future retirement benefits through that date rests with the MERS Plan along with the retention of the corresponding asset base pursuant to its reserve requirements. The excess assets over this retention base shall be distributed back to the Corporation, and the shortfall of assets over this retention base shall be contributed by the Corporation to MERS. No contributions to the MERS Plan were required for the years ended December 31, 2008 and 2007.

Iron County Community Hospitals, Inc. and Affiliate

Notes to Combined Financial Statements

Note 13 Retirement Plans (Continued)

The following table summarizes the benefit obligation, the fair value of plan assets, and the funded status of the plan as of December 31, the last plan measurement dates available:

	2007	2006
Projected benefit obligation	\$ (3,281,527)	\$ (3,229,467)
Fair value of plan assets as of December 31	4,148,774	4,042,597
Funded status at December 31	\$ 867,247	\$ 813,130

The assumptions used in the measurement of the Corporation's benefit obligation are shown in the following table:

	2007	2006
Expected return on plan assets	8%	8%
Rate of compensation increase	4.5% to 12.9%	4.5% to 12.9%
Cost of living adjustments	3% to 4%	3% to 4%

MERS has indicated that it will annually review the funded status of the plan to determine if a refund or additional contributions are necessary. Should the market value of assets fall below 110% of actuarial accrued liability, then the funding deficient provision as required by MERS policy will be operative.

Iron County Community Hospitals, Inc. and Affiliate

Notes to Combined Financial Statements

Note 14 Self-Funded Health Insurance

The Corporation sponsors a self-funded health care plan covering substantially all of its employees and their dependents. The health insurance expense is based upon actual claims paid, administration fees, and provisions for unpaid and unreported claims at year-end. Health insurance expense was \$1,804,753 and \$1,798,450 for the years ended December 31, 2008 and 2007, respectively. A liability of \$193,971 and \$200,405 for claims outstanding at December 31, 2008 and 2007, respectively, has been recorded in the accompanying combined balance sheets. Management believes this liability is sufficient to cover estimated claims including claims incurred but not yet reported.

Note 15 Functional Expenses

The Corporation provides general health care services to residents within its geographic location. Expenses related to providing these services consisted of the following:

	2008	2007
Health care services	\$ 23,731,769	\$ 23,001,468
General and administrative	4,736,308	4,068,762
Total expenses	<u>\$ 28,468,077</u>	<u>\$ 27,070,230</u>

Iron County Community Hospitals, Inc. and Affiliate

Notes to Combined Financial Statements

Note 16 Concentration of Credit Risk

Financial instruments that potentially subject the Corporation to credit risk consist principally of accounts receivable and cash deposits in excess of insured limits in financial institutions.

Accounts receivable consist of amounts due from patients, their insurers, or governmental agencies (primarily Medicare and Medicaid) for health care provided to the patients. The majority of the Health System's patients are from Iron County, Michigan, and the surrounding areas.

The mix of receivables from patients and third-party payors consisted of the following at December 31:

	2008	2007
Medicare	40%	44%
Medicaid	7%	9%
Blue Cross	19%	17%
Other third-party payors	9%	10%
Patients	25%	20%
Totals	100%	100%

The Corporation maintains depository relationships with area financial institutions including banks that are participating in the Federal Deposit Insurance Corporation's Transaction Account Guarantee Program. This program provides unlimited coverage through December 31, 2009, for certain non-interest-bearing transaction accounts.

Iron County Community Hospitals, Inc. and Affiliate

Notes to Combined Financial Statements

Note 17 **Commitments**

As indicated in Note 7, the Corporation began an addition and renovation project at the Iron County Community Hospital facility. The project will be funded with proceeds from the Series 2008 Revenue and Refunding Bonds. In 2008, the Corporation entered into a construction contract totaling \$10,650,000 related to this project. As of December 31, 2008, the Corporation had expended \$3,623,116 related to this contract.

Note 18 **Reclassifications**

Certain reclassifications have been made to the 2007 combined financial statements to conform to the 2008 classifications.

Additional Information



Independent Auditor's Report on Additional Information

Board of Trustees
Iron County Community Hospitals, Inc.
Iron River, Michigan

Our report on our audits of the combined financial statements of Iron County Community Hospitals, Inc. and Affiliate for December 31, 2008 and 2007, appears on page 1. Those audits were conducted for the purpose of forming an opinion on the combined financial statements taken as a whole. The additional information appearing on pages 31 through 34 is presented for purposes of additional analysis and is not a required part of the combined financial statements. Such information has been subjected to the auditing procedures applied in the audits of the combined financial statements and, in our opinion, is fairly presented in all material respects in relation to the combined financial statements taken as a whole.

Wipfli LLP

Wipfli LLP

April 20, 2009
Green Bay, Wisconsin

Iron County Community Hospitals, Inc. and Affiliate

Combining Balance Sheet

December 31, 2008 With Comparative Totals for 2007

<i>Assets</i>	Iron County	Iron County	Combined Totals	
	Hospitals, Inc.	Community Health Foundation	2008	2007
Current assets:				
Cash and cash equivalents	\$ 1,768,822	\$ 55,312	\$ 1,824,134	\$ 1,997,800
Assets limited as to use required for current liabilities	2,548,480	0	2,548,480	0
Accounts receivable - Net	3,388,562	0	3,388,562	3,729,945
Other receivables	115,619	0	115,619	8,965
Inventories	519,473	0	519,473	490,008
Prepaid expenses and other assets	124,623	0	124,623	115,185
Amounts due from third-party reimbursement programs	390,609	0	390,609	94,695
Total current assets	8,856,188	55,312	8,911,500	6,436,598
Assets limited as to use	10,490,349	0	10,490,349	58,284
Investments	3,509,727	0	3,509,727	4,630,596
Property and equipment - Net	16,117,555	37,700	16,155,255	9,867,436
Other assets:				
Prepaid pension costs	867,247	0	867,247	813,130
Unamortized debt issue costs	250,552	0	250,552	59,245
Other	355,289	0	355,289	453,369
Total other assets	1,473,088	0	1,473,088	1,325,744
TOTAL ASSETS	\$ 40,446,907	\$ 93,012	\$ 40,539,919	\$ 22,318,658

Iron County Community Hospitals, Inc. and Affiliate

Combining Balance Sheet (Continued)

December 31, 2008 With Comparative Totals for 2007

<i>Liabilities and Net Assets</i>	Iron County	Iron County	Combined Totals	
	Community Hospitals, Inc.	Community Health Foundation	2008	2007
Current liabilities:				
Current maturities of long-term debt	\$ 247,533	\$ 0	\$ 247,533	\$ 209,867
Current portion of obligations under capital leases	420,093	0	420,093	0
Accounts payable:				
Trade	1,161,239	0	1,161,239	1,261,801
Construction	2,547,335	0	2,547,335	0
Accrued and other liabilities	1,379,847	0	1,379,847	1,309,731
Total current liabilities	5,756,047	0	5,756,047	2,781,399
Long-term debt, less current maturities	22,546,332	0	22,546,332	5,525,434
Total liabilities	28,302,379	0	28,302,379	8,306,833
Net assets - Unrestricted	12,144,528	93,012	12,237,540	14,011,825
TOTAL LIABILITIES AND NET ASSETS	\$ 40,446,907	\$ 93,012	\$ 40,539,919	\$ 22,318,658

Iron County Community Hospitals, Inc. and Affiliate

Combining Statement of Operations and Changes in Net Assets

Year Ended December 31, 2008 With Comparative Totals for 2007

	Iron County	Iron County	Combined Totals	
	Community Hospitals, Inc.	Community Health Foundation	2008	2007
Revenue:				
Net patient service revenue	\$ 27,331,230	\$ 0	\$ 27,331,230	\$ 27,764,222
Other revenue	238,974	0	238,974	206,889
Total revenue	27,570,204	0	27,570,204	27,971,111
Expenses:				
Salaries and wages	11,075,626	0	11,075,626	10,137,711
Employee benefits	3,180,673	0	3,180,673	3,074,370
Supplies and other	11,114,646	0	11,114,646	11,059,181
Provision for bad debts	1,579,228	0	1,579,228	1,427,991
Depreciation and amortization	1,120,126	0	1,120,126	1,051,606
Interest	397,778	0	397,778	319,371
Total expenses	28,468,077	0	28,468,077	27,070,230
Income (loss) from operations	(897,873)	0	(897,873)	900,881
Other income (expense):				
Investment income	65,755	68	65,823	438,051
Contributions	114,385	92,944	207,329	61,487
Loss on bond defeasance	(122,840)	0	(122,840)	0
Loss on disposal of property and equipment	(589)	0	(589)	(623)
Total other income	56,711	93,012	149,723	498,915
Excess (deficiency) of revenue over expenses	(841,162)	93,012	(748,150)	1,399,796

Iron County Community Hospitals, Inc. and Affiliate

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

Year Ended December 31, 2008 With Comparative Totals for 2007

	Iron County	Iron County	Combined Totals	
	Community Hospitals, Inc.	Community Health Foundation	2008	2007
Other changes in unrestricted net assets:				
Change in net unrealized gains and losses on investments other than trading securities	\$ (1,080,252)	\$ 0	\$ (1,080,252)	\$ 175,644
Adjustment to adopt new accounting standard	0	0	0	813,130
Change in pension obligation other than pension expense	54,117	0	54,117	0
Increase (decrease) in unrestricted and total net assets	(1,867,297)	93,012	(1,774,285)	2,388,570
Net assets at beginning	14,011,825	0	14,011,825	11,623,255
Net assets at end	\$ 12,144,528	\$ 93,012	\$ 12,237,540	\$ 14,011,825