

# 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 pursuant to Securities and Exchange Commission rule 15c2-12 or any analogous state statute.

**Issuer's and/or Other Obligated Person's Name:** The County of Chippewa Hospital Finance Authority (Issuer);  
Chippewa County War Memorial Hospital, Inc. (Obligated Person)

**CUSIP Numbers** (attach additional sheet if necessary):

Nine-digit number(s) to which the information relates: See attached additional sheet

Information relates to **all securities** issued by the issuer having the following six-digit number(s):

Number of pages of attached information: 42 (not including additional cover sheet)

Description of Material Event Notice/Financial Information (Check One):

1. \_\_\_\_\_ Principal and interest payment delinquencies
2. \_\_\_\_\_ Non-payment related defaults
3. \_\_\_\_\_ Unscheduled draws on debt service reserves reflecting financial difficulties
4. \_\_\_\_\_ Unscheduled draws on credit enhancements reflecting financial difficulties
5. \_\_\_\_\_ Substitution of credit or liquidity providers, or their failure to perform
6. \_\_\_\_\_ Adverse tax opinions or events affecting the tax-exempt status of the security
7. \_\_\_\_\_ Modifications to rights of security holders
8. \_\_\_\_\_ Bond calls
9. \_\_\_\_\_ Defeasances
10. \_\_\_\_\_ Release, substitution or sale of property securing repayment of the securities
11. \_\_\_\_\_ Rating changes
12. \_\_\_\_\_ Failure to provide annual financial information as required
13. \_\_\_\_\_ Other material event notice (specify)
14.  Financial information (**not** to be filed with the MSRB): Please check all appropriate boxes

CAFR: a.  includes  does not include Annual Financial Information

b. Audited? Yes  No

Annual Financial Information: Audited? Yes  No

Operating Data

Fiscal Period Covered: October 1, 2000 through September 30, 2001 (FY2001)

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

Signature: \_\_\_\_\_



Name: Shelley J. Aronson

Title: President

Employer: First River Advisory L.L.C.

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City, State, Zip Code: South Orange, NJ 07079

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**SHELLEY J. ARONSON**  
PRESIDENT

*Certified Independent Public Finance Advisor*

## MUNICIPAL SECONDARY MARKET DISCLOSURE INFORMATION COVER SHEET

ISSUER: The County of Chippewa Hospital Finance Authority  
OBLIGATED PERSON: Chippewa County War Memorial Hospital, Inc.  
SECURITIES: \$2,270,000 Hospital Revenue Bonds, Series 1997A  
\$14,000,000 Hospital Revenue Refunding Bonds, Series 1997B  
PERIOD: Fiscal Year Ended September 30, 2001

*Nine-Digit CUSIP Numbers to which the Information Relates*

Maturity (November 1)

CUSIP Number

*Series 1997A Bonds*

2004 ..... 169700BM2

*Series 1997B Bonds*

2004 ..... 169700BU4

2005 ..... 169700BV2

2006 ..... 169700BW0

2007 ..... 169700BX8

2014 ..... 169700BY6

First River Advisory L.L.C. has been appointed as Dissemination Agent by the Obligated Person pursuant to Section 7 of the Continuing Disclosure Agreement relating to the Securities. First River Advisory L.L.C. hereby represents that it is authorized by the Obligated Person to distribute this information publicly.

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by: Shelley J. Aronson  
President

**CHIPPEWA COUNTY WAR MEMORIAL HOSPITAL, INC.  
500 OSBORN BOULEVARD  
SAULT STE. MARIE, MI 49783**

**OFFICER'S CERTIFICATE**

**DATED:** February 1, 2002

This Officer's Certificate is delivered pursuant to Section 5.14(c) of the Loan Agreement between Chippewa County War Memorial Hospital, Inc. (the Hospital) and the County of Chippewa Hospital Finance Authority (the Authority), dated as of October 1, 1997. All capitalized terms used herein are as defined in the Loan Agreement or in the Trust Indenture between the Authority and NBD Bank (now known as Bank One Trust Company, N.A.), as Trustee, dated as of October 1, 1997.

In accordance with Section 5.14(b) of the Loan Agreement, attached are audited financial statements for the Fiscal Year ended September 30, 2001, including a balance sheet as of such date, a statement of activities and changes in net assets for the Fiscal Year, a statement of cash flows for the Fiscal Year and notes to the financial statements (the Annual Financial Statements). The undersigned certifies that:

1. I am the Chief Financial Officer of the Hospital and duly authorized to deliver this Officer's Certificate; and
2. the Hospital has complied with Section 5.14(c) of the Loan Agreement, for to the best of my knowledge, the Hospital is not in default in the performance of any covenant contained in either the Loan Agreement or the Hospital Facilities Lease Agreement dated as of November 1, 1986 between the Hospital and the County of Chippewa, Michigan, as amended and restated by the Amended and Restated Hospital Facilities Lease Agreement, dated November 21, 1997, between the same parties.

The Hospital hereby appoints First River Advisory L.L.C. as the Dissemination Agent pursuant to Section 7 of the Continuing Disclosure Agreement.



---

Wm. David Rencher,  
Chief Financial Officer

# CHIPPEWA COUNTY WAR MEMORIAL HOSPITAL, INC.

## ANNUAL REPORT FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2001 (FY2001)

Unless otherwise noted, all data apply to the Fiscal Year Ended September 30, 2001, or are accurate as of September 30, 2001, as appropriate. OS pages refer to the Official Statement relating to the Securities, dated November 14, 1997. The source of all data is the Corporation's records.

*Certain figures relating to FY1997 through FY1999 which were published in Disclosure Reports relating to FYs prior to FY2000 have been reclassified in a manner consistent with subsequent audited financial statements and other information. In addition, certain information erroneously published in such prior FYs' Disclosure Reports has been corrected. The set of financial ratios published in this Disclosure Report represent those published by Standard & Poor's Ratings Group in "2000 Median Health Care Ratios," on October 19, 2000, and differ from the financial ratios published in the OS. Such financial ratios have been calculated from the Corporation's audited financial statements for all FYs since FY1995.*

### FACILITIES AND SERVICES

<i>Licensed Bed Capacity [OS Page A-7]</i>	
Medical/Surgical	70
Intensive Care Unit	6
Obstetrics/Gynecology	6
Subtotal, Acute Care	82
Skilled Nursing	51
<b>TOTAL</b>	<b>133</b>

### MEDICAL STAFF

<i>Active Staff Specialization [OS Page A-9]</i>					
<i>PCPs</i>		<i>Specialists</i>		<i>Hospital-Based</i>	
Family Practice	12	Cardiology	3	Anesthesiology	2
Internal Medicine	6	General Surgery	3	Pathology	1
		Orthopedic Surgery	1	Radiology	1
		Obstetrics/Gynecology	2	Emergency Medicine	7
		Oncology	1		
		Ophthalmology	1		
		Otorhinolaryngology	1		
<b>Total</b>	<b>18</b>	<b>Total</b>	<b>12</b>	<b>Total</b>	<b>11</b>

**MUNICIPAL SECONDARY MARKET DISCLOSURE**  
**The County of Chippewa Hospital Finance Authority /**  
**Chippewa County War Memorial Hospital, Inc.**  
**Fiscal Year Ended September 30, 2001**  
**Page 2**

<i>Age Distribution of the Active Staff</i> <i>[OS Page A-10]</i>			
<i>Age Range</i>	<i>Number of Physicians</i>	<i>Percent of Physicians</i>	<i>Percent of Assigned Gross Revenue</i>
34 and under	7	17.1%	9.8%
35 - 44	10	24.4%	25.0%
45 - 54	16	39.0%	47.5%
55 - 64	8	19.5%	17.7%
65 and over	0	0.0%	0.0%
TOTAL	41		
Note: Columns may not add to 100.0% due to rounding			

<i>Gross Revenue Attributable to Physician Referrals</i> <i>(\$000s Omitted)</i> <i>[OS Page A-11]</i>			
	<i>PCPs</i>	<i>Specialists</i>	<i>Row Totals</i>
Inpatient Revenue	14,926	7,005	21,931
Outpatient Revenue	12,018	19,806	31,824
Total Assigned Revenue	26,944	26,811	53,755
Unassigned Revenue			14,655
Total Revenue			68,410
Note: This table has been modified to reflect current record-keeping practices.			

**MUNICIPAL SECONDARY MARKET DISCLOSURE**

**The County of Chippewa Hospital Finance Authority /**

**Chippewa County War Memorial Hospital, Inc.**

**Fiscal Year Ended September 30, 2001**

**Page 3**

<i>Leading Referring Physicians, Inpatient Services                      (\$000s omitted from Inpatient Revenue Column)                      [OS Page A-11]</i>						
<i>Rank</i>	<i>Specialty or Subspecialty</i>	<i>Age</i>	<i>Board-Certified / Eligible</i>	<i>Inpatient Revenue</i>	<i>Percent of Inpatient Revenue</i>	<i>Cumulative Percent</i>
1	Orthopedic Surgery	51	C	2,196	10.0%	10.0%
2	Internal Medicine	59	C	1,670	7.6%	17.6%
3	Internal Medicine	48	C	1,612	7.3%	25.0%
4	Family Practice	47	C	1,372	6.3%	31.2%
5	Family Practice	49	C	1,359	6.2%	37.4%
6	Family Practice	44	C	1,335	6.1%	43.5%
7	Internal Medicine	45	C	1,268	5.8%	49.3%
8	Family Practice	46	C	1,198	5.5%	54.8%
9	Internal Medicine	35	C	1,024	4.7%	59.4%
10	Internal Medicine	37	C	950	4.3%	63.8%
			C = Certified E = Eligible			

**MUNICIPAL SECONDARY MARKET DISCLOSURE**  
**The County of Chippewa Hospital Finance Authority /**  
**Chippewa County War Memorial Hospital, Inc.**  
**Fiscal Year Ended September 30, 2001**  
**Page 4**

<i>Leading Referring Physicians, Outpatient Services</i> <i>(\$000s omitted from Outpatient Revenue Column)</i> <i>[OS Page A-12]</i>						
<i>Rank</i>	<i>Specialty or Subspecialty</i>	<i>Age</i>	<i>Board-Certified / Eligible</i>	<i>Outpatient Revenue</i>	<i>Percent of Outpatient Revenue</i>	<i>Cumulative Percent</i>
1	Orthopedic Surgery	51	C	3,040	9.6%	9.6%
2	Otorhinolaryngology	39	C	2,149	6.8%	16.3%
3	General Surgery	49	C	2,053	6.5%	22.8%
4	Emergency Medicine	58	C	1,994	6.3%	29.0%
5	General Surgery	32	C	1,694	5.3%	34.3%
6	Oncology	35	C	1,536	4.8%	39.2%
7	Emergency Medicine	42	C	1,502	4.7%	43.9%
8	Internal Medicine	48	C	1,434	4.5%	48.4%
9	Emergency Medicine	58	C	1,433	4.5%	52.9%
10	Family Practice	44	C	1,348	4.2%	57.1%
			C = Certified E = Eligible			

<i>Additions to the Active and Hospital-Based Staff during FY2001</i> <i>[OS Page A-13]</i>			
<i>Specialty</i>	<i>Age</i>	<i>Hospital Employee</i>	<i>Affiliation</i>
Anesthesiology	51	✓	Hospital employee
Emergency Medicine	55		ECI
Family Practice	42		Bay Mills Tribe
Family Practice	31		Bay Mills Tribe
Cardiology	31		Great Lakes Heart
Cardiology	31		Great Lakes Heart
Internal Medicine	32		Bay Mills Tribe

**MUNICIPAL SECONDARY MARKET DISCLOSURE**  
**The County of Chippewa Hospital Finance Authority /**  
**Chippewa County War Memorial Hospital, Inc.**  
**Fiscal Year Ended September 30, 2001**  
**Page 5**

**SERVICE VOLUMES AND UTILIZATION**

**INPATIENT ACUTE CARE**

<i>Historical Acute Care Utilization</i> (excludes newborns but includes observation patients) [OS Page A-13]							
	<i>Fiscal Years Ended September 30</i>						
	<i>2001</i>	<i>2000</i>	<i>1999</i>	<i>1998</i>	<i>1997</i>	<i>1996</i>	<i>1995</i>
Days in Period	365	366	365	365	365	366	365
Licensed Beds	82	82	86	86	86	86	86
Admissions	2,481	2,309	2,266	2,218	2,384	2,553	2,352
Patient Days	9,268	8,924	8,520	8,730	8,445	9,520	8,742
Observation Patients*	939	813	851	769	794	594	623
Average Daily Census	25.4	24.4	23.3	23.9	23.1	26.0	24.0
Average Length of Stay	3.7	3.9	3.8	3.9	3.5	3.7	3.7
Occupancy Rate (%)	31.0	29.7	27.1	27.8	26.9	30.2	27.9
* Neither Average Daily Census, Average Length of Stay nor Occupancy Rate calculations reflect Observation Patients							

**SNF**

<i>Historical SNF Utilization</i> [OS Page A-14]							
	<i>Fiscal Years Ended September 30</i>						
	<i>2001</i>	<i>2000</i>	<i>1999</i>	<i>1998</i>	<i>1997</i>	<i>1996</i>	<i>1995</i>
Days in Period	365	366	365	365	365	366	365
Licensed Beds	51	51	51	51	51	51	51
Patient Days	18,219	18,255	18,154	18,320	18,362	18,492	18,449
Average Daily Census	49.9	49.9	49.7	50.2	50.3	50.5	50.5
Occupancy Rate (%)	97.9	97.8	97.5	98.4	98.6	99.1	99.1

**MUNICIPAL SECONDARY MARKET DISCLOSURE**  
**The County of Chippewa Hospital Finance Authority /**  
**Chippewa County War Memorial Hospital, Inc.**  
**Fiscal Year Ended September 30, 2001**  
**Page 6**

**OUTPATIENT AND ANCILLARY SERVICES**

<i>Emergency Room / Community Care Clinic (CCC) Volumes</i> <i>[OS Page A-14]</i>							
	<i>Fiscal Years Ended September 30</i>						
	<i>2001</i>	<i>2000</i>	<i>1999</i>	<i>1998</i>	<i>1997</i>	<i>1996</i>	<i>1995</i>
Truly Emergent Visits	14,419	13,663	14,098	13,321	12,410	13,266	14,958
Change / Previous Period	5.5%	(3.1)%	5.8%	7.3%	(6.5)%	(11.3)%	2.5%
CCC Visits*	9,606	9,108	6,910	6,034	5,584	2,745	0
Change / Previous Period	5.5%	31.8%	14.5%	8.1%	103.4%		
Total ER Visits	24,025	22,771	21,008	19,355	17,994	16,011	14,958
Change / Previous Period	5.5%	8.4%	8.5%	7.6%	12.4%	7.0%	2.5%

\* Data reflect commencement of operations in March 1996

<i>Ancillary Services Provided to Inpatients</i> <i>[OS Page A-15]</i>							
	<i>Fiscal Years Ended September 30</i>						
	<i>2001</i>	<i>2000</i>	<i>1999</i>	<i>1998</i>	<i>1997</i>	<i>1996</i>	<i>1995</i>
Laboratory <sup>1</sup>	78,035	70,919	67,582	65,094	66,232	62,223	50,392
Electrocardiography <sup>1</sup>	4,826	3,714	3,271	3,173	2,913	3,025	2,644
Radiology & Ultrasound <sup>1</sup>	4,406	4,350	4,379	2,791	3,176	3,629	3,199
MRI Scanning <sup>1</sup>	74	52	37	54	25	27	0
CT Scanning <sup>1</sup>	901	1,017	988	640	642	720	480
Nuclear Medicine <sup>1</sup>	497	398	289	389	325	397	272
Cardiopulmonary <sup>1</sup>	31,030	27,569	23,630	25,290	24,984	26,056	25,235
Physical Therapy <sup>2</sup>	9,388	9,977	10,652	13,617	11,015	11,868	9,331
Occupational Therapy <sup>3</sup>	4,699	3,948	3,407	2,864	1,539	132	0
Speech Therapy <sup>3</sup>	297	554	438	837	1,166	397	0

<sup>1</sup> Procedures  
<sup>2</sup> Modalities  
<sup>3</sup> Visits

**MUNICIPAL SECONDARY MARKET DISCLOSURE**  
**The County of Chippewa Hospital Finance Authority /**  
**Chippewa County War Memorial Hospital, Inc.**  
**Fiscal Year Ended September 30, 2001**  
**Page 7**

<i>Ancillary Services Provided to Outpatients</i> <i>[OS Page A-15]</i>							
	<i>Fiscal Years Ended September 30</i>						
	<i>2001</i>	<i>2000</i>	<i>1999</i>	<i>1998</i>	<i>1997</i>	<i>1996</i>	<i>1995</i>
Laboratory <sup>1</sup>	241,298	227,598	221,698	166,514	139,362	127,204	103,201
Electrocardiography <sup>1</sup>	9,148	8,264	7,075	6,974	6,297	5,104	5,973
Radiology & Ultrasound <sup>1</sup>	29,456	26,687	24,562	21,406	20,173	19,570	20,923
MRI Scanning <sup>1</sup>	1,689	1,345	1,049	1,023	791	709	0
CT Scanning <sup>1</sup>	3,751	3,672	3,027	2,520	2,240	2,330	1,813
Nuclear Medicine <sup>1</sup>	4,237	2,497	1,515	1,517	1,296	1,212	1,201
Cardiopulmonary <sup>1</sup>	2,439	3,558	3,825	4,587	4,860	4,738	4,847
Physical Therapy <sup>2</sup>	45,422	40,184	45,512	40,896	32,761	31,988	30,997
Occupational Therapy <sup>3</sup>	14,648	9,933	7,879	2,426	2,565	511	0
Speech Therapy <sup>3</sup>	16,419	15,312	9,870	1,315	895	61	0
Home Health Therapy <sup>3</sup>	6,811	5,687	10,010	13,241	16,029	10,899	0
<sup>1</sup> Procedures <sup>2</sup> Modalities <sup>3</sup> Visits							

<i>Surgical Procedures</i> <i>[OS Page A-16]</i>							
	<i>Fiscal Years Ended September 30</i>						
	<i>2001</i>	<i>2000</i>	<i>1999</i>	<i>1998</i>	<i>1997</i>	<i>1996</i>	<i>1995</i>
Inpatient	914	903	725	635	596	671	636
Outpatient	2,606	2,142	1,768	1,692	1,873	1,859	1,838
Total	3,520	3,045	2,493	2,327	2,469	2,530	2,474
Percent Outpatient	74.0%	70.3%	70.9%	72.7%	75.9%	73.5%	74.3%

**MUNICIPAL SECONDARY MARKET DISCLOSURE**  
**The County of Chippewa Hospital Finance Authority /**  
**Chippewa County War Memorial Hospital, Inc.**  
**Fiscal Year Ended September 30, 2001**  
**Page 8**

**COMPETING FACILITIES**

<i>Inpatient Acute Care Market Share for County Residents, All DRGs</i> <i>[OS Page A-21]</i>							
	<i>Calendar Years Ended December 31</i>						
	<i>2000</i>	<i>1999</i>	<i>1998</i>	<i>1997</i>	<i>1996</i>	<i>1995</i>	<i>1994</i>
War Memorial Hospital	62.3%	54.2%	54.3%	52.3%	65.8%	63.0%	63.3%
Northern Michigan	16.2%	20.4%	24.6%	26.6%	20.1%	20.2%	20.1%
Marquette General	11.0%	10.7%	6.7%	6.7%	5.1%	5.5%	3.8%
Newberry	0.6%	1.2%	1.6%	1.6%	1.2%	1.7%	1.6%
Mackinac Straits	0.0%	0.8%	0.3%	0.3%	0.1%	0.2%	0.0%
All Other Hospitals	9.9%	12.5%	12.5%	12.5%	7.7%	9.4%	11.1%
Source: MHA Interactive Data System, 1994-2000 Note: Columns may not add to 100.0% due to rounding							

**FINANCIAL MATTERS**

**THIRD-PARTY REIMBURSEMENT METHODOLOGIES**

<i>Medicaid SNF Reimbursement Rates</i> <i>[OS Page A-24]</i>						
	<i>Fiscal Years Ended/Ending September 30</i>					
	<i>2002</i>	<i>2001</i>	<i>2000</i>	<i>1999</i>	<i>1998</i>	<i>1997</i>
Variable Cost Component	\$136.17	\$136.17	N/A	\$127.68	N/A	\$118.15
Plant Cost Component	5.41	5.41	N/A	5.41	N/A	5.41
Continuous Quality Improvement Incentive	4.42	4.42	N/A	4.42	N/A	3.90
Wage Pass-through Add-on	0.00	0.00	N/A	0.00	N/A	0.00
OBRA Training & Testing Add-on	0.00	0.00	N/A	0.00	N/A	0.00
Medicaid Reimbursement Rate	\$146.00	\$146.00	\$0.00	\$137.51	\$0.00	\$127.46

**MUNICIPAL SECONDARY MARKET DISCLOSURE**  
**The County of Chippewa Hospital Finance Authority /**  
**Chippewa County War Memorial Hospital, Inc.**  
**Fiscal Year Ended September 30, 2001**  
**Page 9**

<i>SNF Revenue Basis</i> <i>[OS Page A-25]</i>						
	<i>Fiscal Years Ended/Ending September 30</i>					
	<i>2002</i>	<i>2001</i>	<i>2000</i>	<i>1999</i>	<i>1998</i>	<i>1997</i>
Charge for Semi-Private Room <sup>1</sup>	\$175.00	\$166.00	N/A	\$145.00	N/A	\$135.00
Medicaid Reimbursement Rate	\$146.00	\$146.00	N/A	\$137.52	N/A	\$127.46
Discount from Semi-Private Room Charge	16.6%	12.0%	N/A	5.2%	N/A	5.6%

<sup>1</sup> The FY2001 figures corrects an error which appeared on the FY2000 Disclosure Report

<i>SNF Payor Mix</i> <i>(expressed as percentages of gross revenue)</i> <i>[OS Page A-25]</i>							
	<i>Fiscal Years Ended September 30</i>						
	<i>2001</i>	<i>2000</i>	<i>1999</i>	<i>1998</i>	<i>1997</i>	<i>1996</i>	<i>1995</i>
Medicare	7.7%	5.9%	15.4%	17.8%	15.4%	12.7%	14.8%
Medicaid	72.8%	68.5%	62.1%	62.3%	68.3%	76.9%	64.9%
Other	19.5%	25.6%	22.5%	19.9%	16.3%	10.4%	20.3%

Note: The percentages in the corresponding table in the OS were expressed in terms of patient-days, rather than gross revenue

**MUNICIPAL SECONDARY MARKET DISCLOSURE**  
**The County of Chippewa Hospital Finance Authority /**  
**Chippewa County War Memorial Hospital, Inc.**  
**Fiscal Year Ended September 30, 2001**  
**Page 10**

**SOURCES OF ACUTE CARE REVENUE**

<i>Payor Mix</i> <i>[OS Page A-26]</i>							
	<i>Fiscal Years Ended September 30</i>						
	<i>2001</i>	<i>2000</i>	<i>1999</i>	<i>1998</i>	<i>1997</i>	<i>1996</i>	<i>1995</i>
<i>By Acute Care Admissions</i>							
Medicare	43.9	41.4	42.9	43.1	39.4	37.3	37.4
Medicaid	13.9	14.7	15.8	17.6	12.4	14.7	14.8
Blue Cross	27.8	28.8	24.5	25.5	27.6	25.2	25.3
Other	14.4	15.1	16.8	13.8	20.6	22.8	22.5
Totals	100.0	100.0	100.0	100.0	100.0	100.0	100.0
<i>By Acute Care Patient-Days</i>							
Medicare	57.4	52.8	56.8	58.8	49.7	51.0	53.1
Medicaid	10.4	10.9	11.8	11.5	9.8	9.0	10.4
Blue Cross	20.5	22.9	19.0	19.3	23.9	19.6	19.5
Other	11.7	13.4	12.4	10.4	16.6	20.4	17.0
Totals	100.0	100.0	100.0	100.0	100.0	100.0	100.0

**COST STRUCTURE**

<i>Cost Structure Measures</i> <i>[OS Page A-26]</i>								
		<i>Fiscal Years Ended September 30</i>						
		<i>2001</i>	<i>2000</i>	<i>1999</i>	<i>1998</i>	<i>1997</i>	<i>1996</i>	<i>1995</i>
Per Case	Adjusted Cost	\$4,572	\$4,689	\$4,903	\$4,586	\$4,220	\$4,322	\$3,932
	Case-Mix Adjusted Operating Cost	\$4,588	\$4,994	\$5,532	\$5,217	\$4,805	\$4,771	\$4,381
Note: The figures for FY1996 and FY1995 differ from those published in the OS due to revisions attributable to appealed third-party cost reports relating to those FYs. Such appeals resulted in increased reimbursement.								

**MUNICIPAL SECONDARY MARKET DISCLOSURE**  
**The County of Chippewa Hospital Finance Authority /**  
**Chippewa County War Memorial Hospital, Inc.**  
**Fiscal Year Ended September 30, 2001**  
**Page 11**

<i>Labor Productivity Measures</i> <i>[OS Page A-26]</i>							
	<i>Fiscal Years Ended September 30</i>						
	<i>2001</i>	<i>2000</i>	<i>1999</i>	<i>1998</i>	<i>1997</i>	<i>1996</i>	<i>1995</i>
Adjusted FTEs per Occupied Bed	5.32	4.70	4.95	4.67	4.74	4.13	4.16
SNF FTEs per Occupied Bed	1.00	0.78	0.74	0.69	0.68	0.64	0.64
Total FTEs	495.7	464.8	426.9	393.1	366.4	349.5	327.6
Percentage of Non-Productive Hours	14.3%	13.9%	13.9%	13.9%	14.4%	15.6%	15.0%

**MUNICIPAL SECONDARY MARKET DISCLOSURE**  
**The County of Chippewa Hospital Finance Authority /**  
**Chippewa County War Memorial Hospital, Inc.**  
**Fiscal Year Ended September 30, 2001**  
**Page 12**

**RECENT FINANCIAL PERFORMANCE**

<i>Balance Sheet Summary</i> (\$000s omitted) [OS Page A-27]							
	<i>Fiscal Years Ended September 30</i>						
	<i>2001</i>	<i>2000</i>	<i>1999</i>	<i>1998</i>	<i>1997</i>	<i>1996</i>	<i>1995</i>
Cash, Cash Equivalents and Short-term Investments*	3,238	2,920	1,548	2,625	3,377	3,740	2,258
Net Patient Accounts Receivable	6,510	5,922	5,902	4,629	3,381	2,434	2,507
Other Current Assets	<u>3,621</u>	<u>3,177</u>	<u>3,882</u>	<u>2,717</u>	<u>2,635</u>	<u>2,658</u>	<u>3,163</u>
Total Current Assets	13,369	12,019	11,332	9,970	9,394	8,832	7,927
Board-Designated Investments*	4,000	3,692	3,540	4,438	0	0	0
FHA Sinking Fund*	0	0	0	0	5,959	4,921	3,361
Other Restricted Funds	1,662	1,824	1,749	2,050	0	0	0
Net Property and Equipment	13,580	13,985	14,479	14,483	13,380	12,884	13,359
Other Assets	<u>478</u>	<u>515</u>	<u>553</u>	<u>590</u>	<u>1,044</u>	<u>1,149</u>	<u>1,230</u>
Total Assets	<u>33,089</u>	<u>32,036</u>	<u>31,653</u>	<u>31,531</u>	<u>29,777</u>	<u>27,786</u>	<u>25,876</u>
Current Liabilities	5,826	5,227	5,047	5,069	4,710	3,243	3,130
Long-Term Obligations	14,133	14,607	15,337	15,528	14,288	14,855	15,431
Other Liabilities	1,012	986	948	998	1,040	1,061	410
Unrestricted Net Assets	12,119	11,177	10,098	9,936	9,571	8,468	6,756
Temporarily Restricted Net Assets	<u>0</u>	<u>38</u>	<u>223</u>	<u>0</u>	<u>168</u>	<u>158</u>	<u>148</u>
Total Liabilities and Net Assets	<u>33,089</u>	<u>32,036</u>	<u>31,653</u>	<u>31,531</u>	<u>29,777</u>	<u>27,786</u>	<u>25,876</u>
Note: This table has been modified in order to clarify the corresponding table published in the OS * Used in "Days' Cash on Hand," "Cushion Ratio" and "Cash / Long-Term Debt" calculations							

**MUNICIPAL SECONDARY MARKET DISCLOSURE**  
**The County of Chippewa Hospital Finance Authority /**  
**Chippewa County War Memorial Hospital, Inc.**  
**Fiscal Year Ended September 30, 2001**  
**Page 13**

<i>Liquidity Ratios</i> <i>[OS Page A-28]</i>							
	<i>Fiscal Years Ended September 30</i>						
	<i>2001</i>	<i>2000</i>	<i>1999</i>	<i>1998</i>	<i>1997</i>	<i>1996</i>	<i>1995</i>
Days' Cash on Hand	72.3	75.4	64.5	98.0	138.1	144.9	96.6
Cushion Ratio <sup>1</sup>	3.4	3.5	2.7	4.2	6.2	5.8	3.7
Cash / Long-Term Debt	51.2%	45.3%	33.2%	45.5%	65.3%	58.3%	36.4%
Days in Patient Accounts Receivable	62.2	64.2	71.4	61.9	47.0	35.4	38.9
Payment Period (Days)	58.2	59.6	63.9	70.3	69.7	54.2	53.8

Note: Calculated from the Corporation's audited financial statements, using definitions published by Standard & Poor's Ratings Group in *2000 Median Health Care Ratios*, October 19, 2000

<sup>1</sup> Calculated using maximum annual debt service of \$2,124,172 in FY2001 (based on the Series 1997 Bonds, a HELP loan from the Michigan State Hospital Finance Authority and a capitalized lease); \$1,900,662 in FY2000 and FY1999 (based on the Series 1997 Bonds and the HELP loan); \$1,679,739 in FY1998 (based on the Series 1997 Bonds alone); and \$1,500,204 in FY1997, FY1996 and FY1995 (based on the FHA-Insured Loan which was refinanced by the Series 1997B Bonds)

<i>Capitalization Ratios</i> <i>[OS Page A-28]</i>							
	<i>Fiscal Years Ended September 30</i>						
	<i>2001</i>	<i>2000</i>	<i>1999</i>	<i>1998</i>	<i>1997</i>	<i>1996</i>	<i>1995</i>
Debt / Capitalization	53.8%	56.7%	60.3%	61.0%	59.9%	63.7%	69.6%
Average Age of Net Fixed Assets (Years)	10.5	9.7	9.4	10.6	10.3	9.3	8.3

Note: Calculated from the Corporation's audited financial statements, using definitions published by Standard & Poor's Ratings Group in *2000 Median Health Care Ratios*, October 19, 2000

<i>Gross Patient Revenue by Service</i> <i>[OS Page A-28]</i>							
	<i>Fiscal Years Ended September 30</i>						
	<i>2001</i>	<i>2000</i>	<i>1999</i>	<i>1998</i>	<i>1997</i>	<i>1996</i>	<i>1995</i>
Inpatient	30.3%	31.8%	34.5%	N/A	N/A	42.3%	40.6%
Outpatient	64.9%	62.8%	59.1%	N/A	N/A	51.0%	52.5%
SNF	4.8%	5.4%	6.4%	N/A	N/A	6.7%	7.0%

**MUNICIPAL SECONDARY MARKET DISCLOSURE**  
**The County of Chippewa Hospital Finance Authority /**  
**Chippewa County War Memorial Hospital, Inc.**  
**Fiscal Year Ended September 30, 2001**  
**Page 14**

<i>Summary of Unrestricted Revenue and Expenses</i> (\$000s omitted) [OS Page A-29]							
	<i>Fiscal Years Ended September 30</i>						
	<i>2001</i>	<i>2000</i>	<i>1999</i>	<i>1998</i>	<i>1997</i>	<i>1996</i>	<i>1995</i>
Net Patient Service Revenue	38,222	33,685	30,191	27,295	26,259	25,065	23,542
Other Operating Revenue	<u>1,045</u>	<u>1,021</u>	<u>757</u>	<u>739</u>	<u>482</u>	<u>500</u>	<u>344</u>
Total Operating Revenue	39,267	34,706	30,948	28,034	26,742	25,565	23,886
Depreciation Expense	2,380	2,323	2,172	1,715	1,596	1,613	1,602
Interest Expense	859	861	911	925	1,175	1,225	1,251
Other Operating Expenses	<u>35,700</u>	<u>31,155</u>	<u>27,898</u>	<u>25,382</u>	<u>23,503</u>	<u>20,594</u>	<u>19,984</u>
Total Operating Expenses	38,939	34,339	30,981	28,022	26,274	23,432	22,837
Income from Operations	328	367	(33)	12	468	2,133	1,049
Net Nonoperating Revenue (Loss)	<u>481</u>	<u>365</u>	<u>402</u>	<u>656</u>	<u>543</u>	<u>458</u>	<u>487</u>
Revenue and Gains in Excess of Expenses	810	732	369	668	1,010	2,592	1,536
Net Assets Released from Restrictions Used for Purchase of Property and Equipment	0	231	189	99	21	24	27
Change in Net Unrealized Gains/(Losses)	132	116	(396)	338	72	0	0
Extraordinary Items	<u>0</u>	<u>0</u>	<u>0</u>	<u>(740)</u>	<u>0</u>	<u>(904)</u>	<u>0</u>
Increase in Unrestricted Net Assets	<u>942</u>	<u>1,079</u>	<u>162</u>	<u>365</u>	<u>1,103</u>	<u>1,712</u>	<u>1,562</u>
Note: This table has been modified in order to clarify the corresponding table published in the OS							

**MUNICIPAL SECONDARY MARKET DISCLOSURE**

**The County of Chippewa Hospital Finance Authority /**

**Chippewa County War Memorial Hospital, Inc.**

**Fiscal Year Ended September 30, 2001**

**Page 15**

<i>Profitability, Cash Flow and Operational Ratios</i> <i>[OS Page A-29]</i>							
	<i>Fiscal Years Ended September 30</i>						
	<i>2001</i>	<i>2000</i>	<i>1999</i>	<i>1998</i>	<i>1997</i>	<i>1996</i>	<i>1995</i>
Profit Margin	2.0%	2.7%	1.8%	2.7%	3.8%	10.0%	6.4%
Operating Margin	0.8%	1.1%	(0.1)%	0.0%	1.7%	8.3%	4.4%
EBIDA Margin	10.2%	11.8%	11.6%	11.9%	13.9%	21.0%	18.1%
Debt Service Coverage Ratio (S&P) <sup>1</sup>	1.91	2.18	1.92	2.03	2.53	3.64	2.94
Debt Service Coverage Ratio (Indenture) <sup>2,3</sup>	2.34	2.80	2.41	2.48	2.76	3.94	3.76
Interest Coverage	4.7	4.8	4.0	3.7	3.2	4.5	3.5
Cash Flow / Total Liabilities	15.2%	14.7%	11.9%	11.0%	13.0%	21.9%	16.5%
Maximum Annual Debt Service / Total Revenue <sup>3</sup>	5.4%	5.5%	6.1%	6.0%	5.6%	5.9%	6.3%
Nonoperating Revenue / Total Revenue	1.2%	1.7%	1.9%	2.6%	2.1%	1.9%	2.1%
Bad Debt Expense / Total Operating Revenue	2.4%	3.4%	3.0%	2.7%	1.2%	1.8%	5.1%

Note: Calculated from the Corporation's audited financial statements, using definitions published by Standard & Poor's Ratings Group in *2000 Median Health Care Ratios*, October 19, 2000

1 Calculated according to the published Standard & Poor's definition

2 Calculated according to the definition specified in the Trust Indenture relating to the Series 1997 Bonds

3 Calculated using maximum annual debt service of \$2,124,172 in FY2001 (based on the Series 1997 Bonds, a HELP loan from the Michigan State Hospital Finance Authority and a capitalized lease); \$1,900,662 in FY2000 and FY1999 (based on the Series 1997 Bonds and the HELP loan); \$1,679,739 in FY1998 (based on the Series 1997 Bonds alone); and \$1,500,204 in FY1997, FY1996 and FY1995 (based on the FHA-Insured Loan which was refinanced by the Series 1997B Bonds)

<i>Case-Mix Indices</i> <i>[OS Page A-30]</i>							
	<i>Fiscal Years Ended September 30</i>						
	<i>2001</i>	<i>2000</i>	<i>1999</i>	<i>1998</i>	<i>1997</i>	<i>1996</i>	<i>1995</i>
Medicare	1.1960	1.1925	1.1544	1.1290	1.1730	1.1755	1.1801
Medicaid	0.8464	0.6965	0.7780	0.7580	0.6314	0.7126	0.7063
Blue Cross	0.7873	0.7697	0.7021	0.7788	0.6791	0.7150	0.6312

**MUNICIPAL SECONDARY MARKET DISCLOSURE**  
**The County of Chippewa Hospital Finance Authority /**  
**Chippewa County War Memorial Hospital, Inc.**  
**Fiscal Year Ended September 30, 2001**  
**Page 16**

<i>Top Ten DRGs, FY2000</i> <i>[OS Page A-30]</i>					
<i>DRG</i>	<i>Description</i>	<i>Discharges</i>	<i>Percent</i>	<i>Cumulative Percent</i>	<i>ALOS</i>
391	Normal newborns	308	10.7%	10.7%	2.1
373	Vaginal delivery without complicating diagnosis	275	9.6%	20.3%	1.9
89	Simple pneumonia and pleurisy, age >17, with complications	100	3.5%	23.8%	4.2
88	Chronic obstructive pulmonary disease	81	2.8%	26.6%	3.2
14	Specific cerebrovascular disorders except trans-ischemic attacks (CVAs)	77	2.7%	29.3%	3.8
127	Heart failure and shock	66	2.3%	31.6%	3.4
371	Cesarean sections without complications	50	1.7%	33.3%	3.2
132	Atherosclerosis with complications	57	2.0%	35.3%	1.7
121	Circulatory disorders with acute myocardial infarction and cardiovascular complications, discharged alive	55	1.9%	37.2%	3.7
416	Septicemia, age >17	53	1.8%	39.1%	4.3

# **The Chippewa County War Memorial Hospital, Inc.**

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**Financial Report  
With Additional Information  
September 30, 2001**

# The Chippewa County War Memorial Hospital, Inc.

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## Contents

<b>Report Letter</b>	1
<b>Financial Statements</b>	
Balance Sheet	2
Statement of Operations	3
Statement of Changes in Net Assets	4
Statement of Cash Flows	5
Notes to Financial Statements	6-18
<b>Report Letter</b>	19
<b>Additional Information</b>	
Schedule of Unrestricted Revenue	20
Selected Patient Service Data (Unaudited)	21

## Independent Auditor's Report

Board of Trustees  
The Chippewa County War Memorial Hospital, Inc.

We have audited the accompanying balance sheet of The Chippewa County War Memorial Hospital, Inc. as of September 30, 2001 and 2000, and the related statements of operations, changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform our 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Chippewa County War Memorial Hospital, Inc. at September 30, 2001 and 2000, and the results of its operations, changes in net assets, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

*Plante & Moran, LLP*

December 13, 2001

# The Chippewa County War Memorial Hospital, Inc.

## Balance Sheet

	September 30	
	2001	2000
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 1,268,581	\$ 248,344
Short-term investments	1,969,570	2,671,409
Accounts receivable (Note 2)	7,218,078	6,604,892
Estimated third-party payor settlements receivable	877,071	723,986
Prepaid expenses and other current assets	2,035,896	1,770,423
Total current assets	13,369,196	12,019,054
<b>Investments (Note 4)</b>	5,662,040	5,516,700
<b>Property and Equipment (Note 5)</b>	13,579,576	13,984,625
<b>Deferred Charges</b>	478,154	515,436
Total assets	<b><u>\$ 33,088,966</u></b>	<b><u>\$ 32,035,815</u></b>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Current maturities of long-term debt (Note 7)	\$ 1,335,349	\$ 1,135,407
Accounts payable	1,556,504	1,508,424
Estimated third-party payor settlements payable	65,150	-
Accrued liabilities	2,868,585	2,583,306
Total current liabilities	5,825,588	5,227,137
<b>Accrued Postretirement Benefit Obligation (Note 6)</b>	1,011,700	986,396
<b>Long-Term Debt (Note 7)</b>	14,132,747	14,607,126
Total liabilities	20,970,035	20,820,659
<b>Net Assets</b>		
Unrestricted	12,118,931	11,177,387
Temporarily restricted	-	37,769
Total net assets	12,118,931	11,215,156
Total liabilities and net assets	<b><u>\$ 33,088,966</u></b>	<b><u>\$ 32,035,815</u></b>

# The Chippewa County War Memorial Hospital, Inc.

## Statement of Operations

	Year Ended September 30	
	2001	2000
<b>Unrestricted Revenue</b>		
Net patient service revenue	\$ 38,222,154	\$ 33,685,465
Other operating revenue	1,007,078	986,872
Net assets released from restrictions for operations	37,769	33,660
Total unrestricted revenue	39,267,001	34,705,997
<b>Expenses</b>		
Nursing services	5,044,030	4,638,717
Professional services	16,950,615	14,065,126
Administrative and support services	12,774,669	11,274,282
Depreciation	2,379,825	2,322,712
Interest	858,885	861,380
Provision for uncollectible accounts	930,865	1,176,635
Total expenses (Note 10)	38,938,889	34,338,852
<b>Operating Income</b>	328,112	367,145
<b>Other Income</b>	481,469	364,802
<b>Revenue over Expenses</b>	809,581	731,947
<b>Change in Net Unrealized Gains (Note 4)</b>	131,963	116,137
<b>Net Assets Released from Restrictions Used for Purchase of Property and Equipment</b>	-	231,088
<b>Increase in Unrestricted Net Assets</b>	<b>\$ 941,544</b>	<b>\$ 1,079,172</b>

# The Chippewa County War Memorial Hospital, Inc.

## Statement of Changes in Net Assets

	Year Ended September 30	
	2001	2000
<b>Unrestricted Net Assets</b>		
Operating income	\$ 328,112	\$ 367,145
Other income	481,469	364,802
Change in net unrealized gains (Note 4)	131,963	116,137
Net assets released from restrictions used for purchase of property and equipment	<u>-</u>	<u>231,088</u>
Increase in unrestricted net assets	941,544	1,079,172
<b>Temporarily Restricted Net Assets</b>		
Contributions	-	79,629
Net assets released from restrictions	<u>(37,769)</u>	<u>(264,748)</u>
Decrease in temporarily restricted net assets	<u>(37,769)</u>	<u>(185,119)</u>
Increase in net assets	903,775	894,053
<b>Net Assets - Beginning of year</b>	11,215,156	10,321,103
<b>Net Assets - End of year</b>	<b><u>\$ 12,118,931</u></b>	<b><u>\$ 11,215,156</u></b>

# The Chippewa County War Memorial Hospital, Inc.

## Statement of Cash Flows

	Year Ended September 30	
	2001	2000
<b>Cash Flows from Operating Activities</b>		
Cash received from patients and third-party payors	\$ 36,598,314	\$ 33,541,892
Cash paid to suppliers and employees	(34,676,124)	(30,130,661)
Interest received	478,760	428,933
Interest paid	(829,749)	(832,244)
Other cash receipts	1,007,078	986,872
Net cash provided by operating activities (Note 11)	2,578,279	3,994,792
<b>Cash Flows from Investing Activities</b>		
Purchase of property and equipment	(1,974,776)	(1,828,808)
(Increase) decrease in investments	691,171	(1,646,151)
Net cash used in investing activities	(1,283,605)	(3,474,959)
<b>Cash Flows from Financing Activities</b>		
Proceeds from restricted contributions	-	79,629
Proceeds from issuance of long-term debt	917,000	448,585
Principal payments on long-term debt	(1,191,437)	(1,148,050)
Net cash used in financing activities	(274,437)	(619,836)
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	1,020,237	(100,003)
<b>Cash and Cash Equivalents - Beginning of year</b>	248,344	348,347
<b>Cash and Cash Equivalents - End of year</b>	<b>\$ 1,268,581</b>	<b>\$ 248,344</b>

# The Chippewa County War Memorial Hospital, Inc.

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## Notes to Financial Statements September 30, 2001 and 2000

### Note 1 – Nature of Business and Significant Accounting Policies

**Reporting Entity** – The Chippewa County War Memorial Hospital, Inc. (Hospital), located in Sault Ste. Marie, Michigan, is a not-for-profit hospital. The Hospital provides acute and long-term health care to residents of Sault Ste. Marie, Michigan, and the surrounding area. Admitting physicians are primarily practitioners in the local area.

**Use of Estimates** – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect reported amounts and disclosures in the financial statements. Actual results could differ from those estimates.

**Cash and Cash Equivalents** – Cash and cash equivalents include temporary investments with a maturity of three months or less except for those amounts included in assets limited as to use.

**Short-Term Investments** – Short-term investments represent investments with original maturity dates of more than three months and money market funds set aside to pay the portion of the principal and interest on the Series 1997A and 1997B bonds (Note 7) that are included in current liabilities.

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

**Assets Limited As to Use** – Assets limited as to use include assets held by a bank trust department under debt agreements and assets set aside by the Board of Trustees for funded depreciation.

**Property and Equipment** – Property and equipment acquisitions are recorded at cost. Depreciation is computed on the straight-line basis over the estimated useful lives of the assets. Cost of maintenance and repairs are charged to expense when incurred. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

# The Chippewa County War Memorial Hospital, Inc.

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## Notes to Financial Statements September 30, 2001 and 2000

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

Gifts of long-lived assets such as land, buildings and equipment are reported as unrestricted support, and are excluded from the excess of revenue over expenses, unless explicit donor stipulations specify how 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.

**Deferred Charges** – Deferred charges represent financing costs and timing differences related to reimbursement from third-party payor programs. These charges will be amortized over the period the related debt is outstanding or reimbursement from third-party payor programs is affected.

**Temporarily Restricted Net Assets** – Temporarily restricted net assets are those whose use by the Hospital has been limited by donors for the development of a Speech and Hearing Clinic that provides speech and hearing services. Funds may be used for the purchase of equipment, renovations to the Hospital and recruitment of a physician.

**Contributions** – The Hospital reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of operations as net assets released from restrictions. Donor-restricted contributions whose restrictions are met with the same year as received are reported as unrestricted contributions in the accompanying financial statements.

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

# The Chippewa County War Memorial Hospital, Inc.

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## Notes to Financial Statements September 30, 2001 and 2000

### 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. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs.

**Revenue Over Expenses** – The statement of operations includes excess of revenue over expenses. Changes in unrestricted net assets that are excluded from excess of revenue over expenses, consistent with industry practice, include permanent transfers of assets to and from affiliates for other than goods and services, unrealized gains and losses on investments and contributions of long-lived assets (including assets acquired using contributions, which by donor restriction, were to be used for the purpose of acquiring such assets).

**Charity Care** – The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. Charity care amounts represent less than 1 percent of patients served.

**Professional Liability Insurance** – The Hospital accrues the estimated ultimate expense, including litigation and settlement expense, for any reported and unreported incidents of alleged improper professional service during the year that are in excess of applicable insurance coverage (Note 9).

**Postretirement Health Benefits** – The Hospital sponsors a defined benefit postretirement health care plan covering substantially all retirees. The plan is contributory with retiree contributions adjusted periodically (Note 6).

**Tax Status** – The Hospital is a nonprofit organization under Code Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code.

# The Chippewa County War Memorial Hospital, Inc.

## Notes to Financial Statements September 30, 2001 and 2000

### Note 2 – Accounts Receivable

Accounts receivable consist of the following:

	<u>2001</u>	<u>2000</u>
Patients, insurance companies and governmental agencies	\$ 12,873,068	\$ 10,706,126
Less:		
Allowance for uncollectible accounts	(1,782,417)	(1,464,207)
Allowance for contractual adjustments and interim payment advances	<u>(4,580,387)</u>	<u>(3,320,043)</u>
Patient accounts receivable, net	6,510,264	5,921,876
Other accounts receivable	<u>707,814</u>	<u>683,016</u>
Total accounts receivable	<u><u>\$ 7,218,078</u></u>	<u><u>\$ 6,604,892</u></u>

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors was as follows:

	<u>2001</u>	<u>2000</u>
Medicare	21.2%	21.7%
Medicaid	8.0%	6.9%
Blue Cross	13.8%	14.3%
Commercial	18.4%	17.4%
Patients	8.3%	8.1%
Unbilled	<u>30.3%</u>	<u>31.6%</u>
Total	<u><u>100.0%</u></u>	<u><u>100.0%</u></u>

# The Chippewa County War Memorial Hospital, Inc.

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## Notes to Financial Statements September 30, 2001 and 2000

### Note 3 – Cost Report Settlements

The Hospital has agreements with third-party payors that provide for reimbursement to the Hospital at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the differences between the Hospital's established rates for services and amounts reimbursed by third-party payors. A summary of the basis of reimbursement with these third-party payors follows:

**Medicare** – Inpatient acute-care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Prior to August 1, 2000, some outpatient services related to Medicare beneficiaries were paid based upon a cost-reimbursement method but most outpatient services were reimbursed on an established fee-for-service methodology. Subsequent to August 1, 2000, all outpatient services are paid based on an established fee-for-service methodology subject to hold-harmless provisions. Long-term care services are reimbursed at prospectively determined rates per patient day.

**Medicaid** – Inpatient acute-care services rendered to Medicaid program beneficiaries are also paid at prospectively determined rates per discharge that are determined in a manner similar to the Medicare program. Capital costs relating to Medicaid patients are paid on a cost reimbursement method. The Hospital is reimbursed for outpatient services on an established fee-for-service methodology.

Long-term care services are reimbursed at established per diem rates plus cost for allowable ancillary services.

**Blue Cross** – Inpatient acute-care services are reimbursed at cost plus an allowable return. Outpatient services related to Blue Cross beneficiaries are paid based upon a percentage of charges.

Advances and cost report settlements result from the adjustment of interim payments to final reimbursement under these programs, which is subject to audit by fiscal intermediaries. Although these audits may result in some changes in these amounts, they are not expected to have a material effect on the accompanying financial statements.

# The Chippewa County War Memorial Hospital, Inc.

## Notes to Financial Statements September 30, 2001 and 2000

### Note 4 – Investments

Investments are composed of the following:

	<u>2001</u>	<u>2000</u>
Assets limited as to use:		
Designated by Board of Trustees for replacement, improvement and expansion of property and equipment:		
Money market funds	\$ 116,215	\$ 47,363
Certificate of deposit	100,000	-
Common stock	812,070	918,140
Corporate bonds	1,044,130	988,130
United States government obligations	1,879,422	1,688,399
Accrued interest	<u>47,721</u>	<u>50,279</u>
Total	3,999,558	3,692,311
Bond indenture assets (Note 7) held by bank trust department:		
Money market funds	4,688	8,125
United States government obligations	1,405,295	1,554,237
Accrued interest	<u>1,158</u>	<u>38,186</u>
Total	<u>1,411,141</u>	<u>1,600,548</u>
Total assets limited as to use	5,410,699	5,292,859
Other investments	<u>251,341</u>	<u>223,841</u>
Total investments	<u>\$ 5,662,040</u>	<u>\$ 5,516,700</u>

Assets held under the bond indenture agreements at September 30, 2001 and 2000 are composed of debt service reserve funds.

# The Chippewa County War Memorial Hospital, Inc.

## Notes to Financial Statements September 30, 2001 and 2000

### Note 4 – Investments (Continued)

Investment income and gains for assets limited as to use, cash equivalents, and other investments are comprised of the following for the years ending September 30, 2001 and 2000:

	2001	2000
Income:		
Interest and dividend income	\$ 439,174	\$ 425,740
Realized gains/(losses)	42,295	(60,938)
Total	<u>\$ 481,469</u>	<u>\$ 364,802</u>
Other changes in unrestricted net assets:		
Change in net unrealized gains	<u>\$ 131,963</u>	<u>\$ 116,137</u>

### Note 5 – Property and Equipment

Cost of property and equipment related depreciable lives are summarized below:

	2001	2000	Depreciable Life-Years
Land	\$ 598,606	\$ 598,606	-
Land improvements	182,987	182,987	10-20
Buildings	18,629,097	18,557,775	10-50
Equipment	19,052,320	17,217,941	3-20
Construction in progress	<u>136,005</u>	<u>66,930</u>	-
Total cost	38,599,015	36,624,239	
Accumulated depreciation	<u>25,019,439</u>	<u>22,639,614</u>	
Net carrying amount	<u>\$ 13,579,576</u>	<u>\$ 13,984,625</u>	

# The Chippewa County War Memorial Hospital, Inc.

## Notes to Financial Statements September 30, 2001 and 2000

### Note 6 – Postretirement Benefit Obligation

The Hospital sponsors a defined benefit postretirement health care benefit plan for retired employees. Substantially all of the Hospital's employees may become eligible for benefits once they have ten years of service and reached age 55. Under provisions of the plan, retirees under the age of 65 are required to pay 70 percent of the cost of health insurance premiums, while retirees over the age of 65 are required to pay 50 percent of the cost of health insurance premiums.

The following table sets forth the plan's funded status reconciled with the amount shown in the balance sheet at September 30, 2001 and 2000:

	<u>2001</u>	<u>2000</u>
Projected benefit obligation for services rendered to date	\$ 1,177,594	\$ 1,245,067
Plan assets at fair market value	<u>-</u>	<u>-</u>
Unfunded status	<u>\$ 1,177,594</u>	<u>\$ 1,245,067</u>
Accrued benefit cost - Long-term	<u>\$ 1,011,700</u>	<u>\$ 986,396</u>
Net periodic benefit cost	<u>\$ 128,785</u>	<u>\$ 135,080</u>
Employer contribution	<u>\$ -</u>	<u>\$ -</u>
Benefits paid	<u>\$ 103,481</u>	<u>\$ 96,255</u>
<u>Weighted Average Assumptions</u>		
Weighted average discount rate	7.25%	7.50%
Expected rate of return on plan assets	- %	- %

The Hospital's policy is to fund postretirement benefit costs as claims and premiums are paid.

# The Chippewa County War Memorial Hospital, Inc.

## Notes to Financial Statements September 30, 2001 and 2000

### Note 6 – Postretirement Benefit Obligation (Continued)

For measurement purposes, an annual rate of increase of 9.00 percent in the per capita cost of covered health care benefits was assumed for 2002 decreasing gradually to 5.25 percent by 2006 and remaining level thereafter. Assumed health care trend costs significantly impact reported amounts. The effect of a one percentage-point change in the assumed rates would alter the amounts of benefit obligation and the sum of the service costs and interest cost components of postretirement benefit expense as follows for 2001:

	One Percentage-Point	
	Increase	Decrease
Effect on the postretirement benefit obligation	16.91%	(13.58%)
Effect on the sum of service cost and interest cost components	20.58%	(16.11%)

# The Chippewa County War Memorial Hospital, Inc.

## Notes to Financial Statements September 30, 2001 and 2000

### Note 7 – Long-Term Debt

Long-term debt consists of the following:

	<u>2001</u>	<u>2000</u>
Revenue bonds payable to the County of Chippewa Hospital Finance Authority - Series 1997A and 1997B. The bonds have interest rates that vary from 4.750% to 5.625% and are payable in annual amounts ranging from \$410,000 to \$1,255,000. Interest is payable on May 1 and November 1 of each year	\$ 13,640,000	\$ 14,555,000
Note payable to Michigan State Hospital Finance Authority consists of a note issued in connection with the Hospital Equipment Loan Program. The note is collateralized by an irrevocable bank letter of credit, which in turn, is collateralized by equipment. The note is due in monthly installments of \$16,744 plus interest at a variable rate which was 3.5% at September 30, 2001. The letter of credit expires June 10, 2006	954,382	1,155,305
Note payable bearing interest at 8.25% due in monthly installments of \$18,576. This note is collateralized by equipment with an original cost of \$917,000	860,970	-
Other	<u>12,744</u>	<u>32,228</u>
Total	15,468,096	15,742,533
Less current maturities	<u>1,335,349</u>	<u>1,135,407</u>
Long-term portion	<u>\$ 14,132,747</u>	<u>\$ 14,607,126</u>

# The Chippewa County War Memorial Hospital, Inc.

## Notes to Financial Statements September 30, 2001 and 2000

### Note 7 – Long-Term Debt (Continued)

In connection with the revenue bonds, the Hospital has agreed to various covenants. These covenants include restrictions on additional indebtedness and maintenance of financial ratios. The revenue bonds also have mandatory sinking fund requirements that require the hospital to fund amounts for term bonds maturing during the years ended September 30, 2005 and 2015.

Minimum principal payments and sinking fund requirements on long-term debt to maturity as of September 30, 2001 are as follows:

	<u>Principal</u>	<u>Sinking Fund</u>	<u>Total</u>
2002	\$ 370,349	\$ 965,000	\$ 1,335,349
2003	371,031	1,015,000	1,386,031
2004	385,608	1,070,000	1,455,608
2005	401,433	1,130,000	1,531,433
2006	299,675	795,000	1,094,675
2007 and after	<u>-</u>	<u>8,665,000</u>	<u>8,665,000</u>
Total	<u>\$ 1,828,096</u>	<u>\$ 13,640,000</u>	<u>\$ 15,468,096</u>

### Note 8 – Pension Plan

The Hospital maintains a defined contribution pension plan covering substantially all employees. Under the plan, the Hospital is required to contribute up to 5 percent of eligible employee compensation. Pension expense was \$500,579 and \$432,530 for the years ended September 30, 2001 and 2000, respectively.

# The Chippewa County War Memorial Hospital, Inc.

## Notes to Financial Statements September 30, 2001 and 2000

### Note 9 – Professional Liability Insurance

The Hospital is insured against potential professional liability claims under a claims-made policy, whereby only the claims reported to the insurance carrier during the policy period are covered regardless of when the incident giving rise to the claim occurred. The Hospital bears the risk of the ultimate costs of any individual claim exceeding the policy limited for claims asserted in the policy year.

Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during the claims-made term, but reported subsequently, will be uninsured.

At September 30, 2001 and 2000, management believes that any potential claims for malpractice would not have a material effect on the financial statements and, accordingly, no accrual was made for this contingency.

### Note 10 – Functional Expenses

The Hospital is an acute and long-term care facility that provides inpatient and outpatient health care services to patients in Michigan's eastern Upper Peninsula. Expenses related to providing these services are as follows:

	<u>2001</u>	<u>2000</u>
Health care services	\$ 35,377,603	\$ 31,091,010
General and administrative	<u>3,561,286</u>	<u>3,247,842</u>
Total expenses	<u>\$ 38,938,889</u>	<u>\$ 34,338,852</u>

# The Chippewa County War Memorial Hospital, Inc.

## Notes to Financial Statements September 30, 2001 and 2000

### Note 11 – Cash Flows

A reconciliation of the increase in net assets to net cash provided by operating activities is presented below:

	2001	2000
Increase in net assets	\$ 903,775	\$ 894,053
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	2,417,107	2,359,994
Provision for uncollectible accounts	930,865	1,176,635
Net realized and unrealized (gains) losses on investments	(174,258)	(55,199)
Restricted contributions	-	(79,629)
(Increase) decrease in assets:		
Accounts receivable	(1,544,051)	(1,368,180)
Estimated third-party payor settlements receivable	(153,085)	1,216,461
Prepaid expenses and other current assets	(265,473)	(340,559)
Accrued interest income	39,586	3,193
Increase (decrease) in liabilities:		
Accounts payable	48,080	(80,300)
Accrued liabilities	285,279	229,498
Cost report settlements payable	65,150	-
Accrued postretirement benefit obligation	25,304	38,825
Net cash provided by operating activities	<u>\$ 2,578,279</u>	<u>\$ 3,994,792</u>

## **Additional Information**

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Board of Trustees  
The Chippewa County War Memorial Hospital, Inc.

We have audited the financial statements of The Chippewa County War Memorial Hospital, Inc. for the years ended September 30, 2001 and 2000. Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The additional information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information, except for that portion marked "unaudited" on which we express no opinion, has been subjected to the procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Plante & Moran, LLP*

December 13, 2001

# The Chippewa County War Memorial Hospital, Inc.

## Schedule of Unrestricted Revenue

	Year Ended September 30				
	2001			2000	
	Inpatient	Outpatient	Long-Term Care	Total	Total
<b>Routine and Special Care Service</b>					
Routine service and nursing care	\$ 4,988,402	\$ -	\$ -	\$ 4,988,402	\$ 4,772,474
Long-term care	-	-	2,977,126	2,977,126	2,684,450
Critical care	1,145,964	-	-	1,145,964	936,641
Nursery	282,209	-	-	282,209	265,525
Total routine and special care service	6,416,575	-	2,977,126	9,393,701	8,659,090
<b>Ancillary Service</b>					
Operating and recovery rooms	3,201,544	6,479,054	5,433	9,686,031	7,813,258
Anesthesiology	505,920	2,595,261	-	3,101,181	3,186,934
Radiology	1,656,693	13,106,133	32,819	14,795,645	10,542,835
Laboratory	1,262,918	5,477,883	44,549	6,785,350	6,439,200
Respiratory therapy	717,536	166,516	51,028	935,080	789,154
Physical therapy	653,977	3,048,591	58,735	3,761,303	2,770,972
Electrocardiology	853,855	2,808,935	5,442	3,668,232	2,536,539
Medical supplies	534,886	509,378	36,325	1,080,589	993,739
Pharmacy	4,259,282	4,484,514	92,177	8,835,973	7,166,184
Emergency room	630,910	2,798,310	46	3,429,266	2,981,139
Rural health clinic	-	760,969	-	760,969	579,414
Physician offices	-	2,176,850	-	2,176,850	1,495,648
Total ancillary service	14,277,521	44,412,394	326,554	59,016,469	47,295,016
Total patient service revenue	\$ 20,694,096	\$ 44,412,394	\$ 3,303,680	68,410,170	55,954,106
<b>Revenue Deductions</b>					
Contractual allowances				26,979,405	20,696,845
Other allowances				3,208,611	1,571,796
Total revenue deductions				30,188,016	22,268,641
Net patient service revenue				38,222,154	33,685,465
<b>Other Operating Revenue</b>					
Rental income				188,608	209,175
Cafeteria				231,909	221,529
Miscellaneous				586,561	556,168
Total other operating revenue				1,007,078	986,872
Net Assets Released from Restrictions Used for Operations				37,769	33,660
<b>Total Unrestricted Revenue</b>				\$ 39,267,001	\$ 34,705,997

# The Chippewa County War Memorial Hospital, Inc.

## Selected Patient Service Data (Unaudited)

	Year Ended September 30	
	2001	2000
<b>Routine and Special Care Services</b>		
Admissions:		
Acute	2,481	2,309
Nursery	392	385
Average Length of Stay:		
Acute	3.74	3.86
Nursery	2.12	2.11
Patient Days:		
Acute	9,268	8,924
Nursery	830	813
Skilled nursing facility	18,219	18,255
Swing beds	683	1,369
Selected Ancillary Services:		
Radiology procedures	45,011	40,018
Surgical Cases:		
Inpatient	914	903
Outpatient	2,606	2,142
Emergency visits	14,419	13,663
Utilization by Payor:		
Medicare	32.8%	32.8%
Medicaid	10.9%	11.0%
Blue Cross	30.0%	30.7%
Other	26.3%	25.5%
Total	100.0%	100.0%