

The Chippewa County War Memorial Hospital, Inc.

**Financial Report
With Additional Information
September 30, 2003**

The Chippewa County War Memorial Hospital, Inc.

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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, 2003 and 2002, and the related statements of operations and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Chippewa County War Memorial Hospital, Inc. at September 30, 2003 and 2002, and the results of its operations, changes in net assets, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Plante & Moran, PLLC

December 17, 2003

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The Chippewa County War Memorial Hospital, Inc.

Balance Sheet

	September 30	
	2003	2002
Assets		
Current Assets		
Cash and cash equivalents	\$ 411,368	\$ 969,680
Short-term investments	1,367,418	1,736,514
Accounts receivable (Note 2)	8,721,759	8,479,258
Estimated third-party payor settlements receivable	1,455,500	1,965,200
Prepaid expenses and other current assets	2,449,763	2,494,650
Total current assets	14,405,808	15,645,302
Investments (Note 4)	6,080,895	5,858,733
Property and Equipment (Note 5)	13,757,935	14,127,029
Deferred Charges	325,104	417,425
Total assets	<u>\$ 34,569,742</u>	<u>\$ 36,048,489</u>
Liabilities and Net Assets		
Current Liabilities		
Current maturities of long-term debt (Note 8)	\$ 1,485,239	\$ 1,398,476
Note payable (Note 7)	890,314	800,000
Accounts payable	3,542,104	2,765,726
Estimated third-party payor settlements payable	815,834	585,351
Accrued liabilities	3,311,176	3,192,891
Total current liabilities	10,044,667	8,742,444
Accrued Postretirement Benefit Obligation (Note 6)	1,059,622	1,027,055
Long-Term Debt (Note 8)	11,318,046	12,790,712
Total liabilities	22,422,335	22,560,211
Net Assets - Unrestricted	12,147,407	13,488,278
Total liabilities and net assets	<u>\$ 34,569,742</u>	<u>\$ 36,048,489</u>

The Chippewa County War Memorial Hospital, Inc.

Statement of Operations and Changes in Net Assets

	Year Ended September 30	
	2003	2002
Unrestricted Revenue		
Net patient service revenue	\$ 46,533,950	\$ 42,704,834
Other operating revenue	1,136,818	1,048,289
Total unrestricted revenue	47,670,768	43,753,123
Expenses		
Salaries and wages	19,391,014	18,744,949
Fringe benefits	6,663,540	6,027,556
Professional fees	1,454,318	1,011,898
Supplies	5,482,858	4,689,030
Drug costs	2,998,806	2,387,710
Food	458,063	454,260
Purchased service	3,812,783	2,982,268
Insurance	344,541	263,227
Bad debts	1,398,434	1,048,077
Other expenses	3,878,629	3,103,949
Depreciation	2,608,735	2,486,206
Interest	770,090	827,879
Total expenses (Note 11)	49,261,811	44,027,009
Operating Loss	(1,591,043)	(273,886)
Investment Income (Note 4)	231,541	324,319
Revenue Over (Under) Expenses	(1,359,502)	50,433
Contribution of Real Estate	-	1,366,400
Change in Net Unrealized Gains (Losses) (Note 4)	18,631	(47,486)
Increase (Decrease) in Net Assets	(1,340,871)	1,369,347
Net Assets - Beginning of year	13,488,278	12,118,931
Net Assets - End of year	<u>\$ 12,147,407</u>	<u>\$ 13,488,278</u>

The Chippewa County War Memorial Hospital, Inc.

Statement of Cash Flows

	Year Ended September 30	
	2003	2002
Cash Flows from Operating Activities		
Cash received from patients and third-party payors	\$ 45,696,383	\$ 39,859,242
Cash paid to suppliers and employees	(43,512,435)	(38,603,854)
Interest received	240,772	309,796
Interest paid	(740,954)	(769,607)
Other cash receipts	1,136,818	1,048,289
Net cash provided by operating activities (Note 12)	2,820,584	1,843,866
Cash Flows from Investing Activities		
Purchase of property and equipment	(2,239,641)	(1,667,259)
Decrease in investments	156,334	3,400
Net cash used in investing activities	(2,083,307)	(1,663,859)
Cash Flows from Financing Activities		
Proceeds from issuance of short-term debt	90,314	800,000
Proceeds from issuance of long-term debt	-	73,750
Principal payments on long-term debt	(1,385,903)	(1,352,658)
Net cash used in financing activities	(1,295,589)	(478,908)
Net Decrease in Cash and Cash Equivalents	(558,312)	(298,901)
Cash and Cash Equivalents - Beginning of year	969,680	1,268,581
Cash and Cash Equivalents - End of year	\$ 411,368	\$ 969,680

The Chippewa County War Memorial Hospital, Inc.

Notes to Financial Statements September 30, 2003 and 2002

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.

Notes to Financial Statements September 30, 2003 and 2002

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. The assets are recorded at fair market value at the time received. 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 which are amortized over the period the related debt is outstanding.

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 within 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.

Notes to Financial Statements September 30, 2003 and 2002

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 (Under) Expenses – The statement of operations includes excess of revenue over (under) expenses. Changes in unrestricted net assets that are excluded from excess of revenue over (under) 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 that, 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 10).

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, 2003 and 2002

Note 2 – Accounts Receivable

Accounts receivable consist of the following:

	<u>2003</u>	<u>2002</u>
Patients, insurance companies and governmental agencies	\$ 16,701,715	\$ 13,881,731
Less:		
Allowance for uncollectible accounts	(2,080,771)	(1,592,410)
Allowance for contractual adjustments and interim payment advances	<u>(6,458,202)</u>	<u>(4,668,214)</u>
Patient accounts receivable, net	8,162,742	7,621,107
Other accounts receivable	<u>559,017</u>	<u>858,151</u>
Total accounts receivable	<u>\$ 8,721,759</u>	<u>\$ 8,479,258</u>

Accounts receivable for patients, insurance companies and governmental agencies are based on gross charges. An allowance for uncollectible accounts is established on an aggregate basis by using historical loss rate factors applied to unpaid accounts based on aging. Loss rate factors are based on historical loss experience and adjusted for economic conditions and other trends affecting the Hospital's ability to collect outstanding amounts. Uncollectible amounts are written off against the allowance for uncollectible accounts in the period they are deemed to be uncollectible. The allowance for contractual adjustments and interim payment advances is based on expected payment rates from payors based on current reimbursement methodologies. This amount also includes amounts received as interim payments against unpaid claims by certain payors.

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>2003</u>	<u>2002</u>
Medicare	30.0%	29.0%
Medicaid	10.0%	10.0%
Blue Cross	26.0%	26.0%
Commercial	18.0%	20.0%
Patients	<u>16.0%</u>	<u>15.0%</u>
Total	<u>100.0%</u>	<u>100.0%</u>

The Chippewa County War Memorial Hospital, Inc.

Notes to Financial Statements September 30, 2003 and 2002

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. 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.

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, 2003 and 2002

Note 4 – Investments

Investments are composed of the following:

	<u>2003</u>	<u>2002</u>
Assets limited as to use:		
Designated by Board of Trustees for replacement, improvement and expansion of property and equipment:		
Money market funds	\$ 96,007	\$ 89,381
Certificate of deposit	100,000	100,000
Common stock	691,321	656,133
Corporate bonds	806,825	839,216
United States government obligations	2,616,485	2,425,528
Accrued interest	<u>46,662</u>	<u>48,584</u>
Total	4,357,300	4,158,842
Bond indenture assets (Note 8) held by bank trust department:		
Money market funds	4,112	35,990
United States government obligations	1,380,514	1,410,244
Accrued interest	<u>12,628</u>	<u>2,316</u>
Total	<u>1,397,254</u>	<u>1,448,550</u>
Total assets limited as to use	5,754,554	5,607,392
Other investments	<u>326,341</u>	<u>251,341</u>
Total investments	<u>\$ 6,080,895</u>	<u>\$ 5,858,733</u>

Assets held under the bond indenture agreements at September 30, 2003 and 2002 are composed of debt service reserve funds.

The Chippewa County War Memorial Hospital, Inc.

Notes to Financial Statements September 30, 2003 and 2002

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, 2003 and 2002:

	2003	2002
Income:		
Interest and dividend income	\$ 249,162	\$ 311,817
Realized gains (losses)	(17,621)	12,502
Total	<u>\$ 231,541</u>	<u>\$ 324,319</u>
Other changes in unrestricted net assets:		
Change in net unrealized gains (losses)	<u>\$ 18,631</u>	<u>\$ (47,486)</u>

Note 5 – Property and Equipment

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

	2003	2002	Depreciable Life-Years
Land	\$ 598,606	\$ 598,606	-
Land improvements	172,817	172,817	10-20
Buildings	20,730,175	20,112,890	10-50
Equipment	21,471,988	20,098,838	3-20
Construction in progress	<u>898,729</u>	<u>649,523</u>	-
Total cost	43,872,315	41,632,674	
Accumulated depreciation	<u>30,114,380</u>	<u>27,505,645</u>	
Net carrying amount	<u>\$ 13,757,935</u>	<u>\$ 14,127,029</u>	

Construction in progress at September 30, 2003 is composed of costs related to renovations to the Hospital that are being funded from internal operations.

The Chippewa County War Memorial Hospital, Inc.

Notes to Financial Statements September 30, 2003 and 2002

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, 2003 and 2002:

	<u>2003</u>	<u>2002</u>
Projected benefit obligation for services rendered to date	\$ 1,600,573	\$ 1,284,035
Plan assets at fair market value	<u>-</u>	<u>-</u>
Unfunded status	<u>\$ 1,600,573</u>	<u>\$ 1,284,035</u>
Accrued benefit cost - Long-term	<u>\$ 1,059,622</u>	<u>\$ 1,027,055</u>
Net periodic benefit cost	<u>\$ 178,970</u>	<u>\$ 151,182</u>
Employer contribution	<u>\$ -</u>	<u>\$ -</u>
Benefits paid	<u>\$ 146,403</u>	<u>\$ 135,827</u>
<u>Weighted Average Assumptions</u>		
Weighted average discount rate	6.25%	6.75%
Expected rate of return on plan assets	N/A	N/A

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, 2003 and 2002

Note 6 – Postretirement Benefit Obligation (Continued)

For measurement purposes, an annual rate of increase of 8.25 percent in the per capita cost of covered health care benefits was assumed for 2003 decreasing gradually to 5.25 percent by 2007 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 2003:

	One-Percentage Point	
	Increase	Decrease
Effect on the postretirement benefit obligation	20.76%	16.33%
Effect on the sum of service cost and interest cost components	23.04%	17.86%

Note 7 – Note Payable

The Hospital has a \$1,000,000 unsecured line of credit with payments of interest only due monthly at an annual rate of 3.75 percent. The principal balance is due August 2004. The balance as of September 30, 2003 and 2002 is \$890,314 and \$800,000, respectively.

The Chippewa County War Memorial Hospital, Inc.

Notes to Financial Statements September 30, 2003 and 2002

Note 8 – Long-Term Debt

Long-term debt consists of the following:

	<u>2003</u>	<u>2002</u>
Revenue bonds payable to the County of Chippewa Hospital Finance Authority - Series 1997A and 1997B. The bonds have interest rates that vary from 4.2% 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	\$ 11,660,000	\$ 12,675,000
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 that ranged from 2.45% to 1.20% throughout the fiscal year. The letter of credit expires June 10, 2006	552,537	753,459
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	531,934	689,470
Other	<u>58,814</u>	<u>71,259</u>
Total	12,803,285	14,189,188
Less current maturities	<u>1,485,239</u>	<u>1,398,476</u>
Long-term portion	<u>\$ 11,318,046</u>	<u>\$ 12,790,712</u>

The Chippewa County War Memorial Hospital, Inc.

Notes to Financial Statements September 30, 2003 and 2002

Note 8 – 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, 2004 and 2015.

Minimum principal payments and sinking fund requirements on long-term debt to maturity as of September 30, 2003 are as follows:

	<u>Principal</u>	<u>Sinking Fund</u>	<u>Total</u>
2004	\$ 415,239	\$ 1,070,000	\$ 1,485,239
2005	417,554	1,130,000	1,547,554
2006	310,492	795,000	1,105,492
2007	-	840,000	840,000
2008	-	890,000	890,000
2009 and after	-	6,935,000	6,935,000
Total	<u>\$ 1,143,285</u>	<u>\$ 11,660,000</u>	<u>\$ 12,803,285</u>

Note 9 – 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 \$619,334 and \$563,887 for the years ended September 30, 2003 and 2002, respectively.

The Chippewa County War Memorial Hospital, Inc.

Notes to Financial Statements September 30, 2003 and 2002

Note 10 – 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, 2003 and 2002, 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 11 – 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>2003</u>	<u>2002</u>
Health care services	\$ 44,207,544	\$ 39,833,391
General and administrative	<u>5,054,267</u>	<u>4,193,618</u>
Total expenses	<u>\$ 49,261,811</u>	<u>\$ 44,027,009</u>

The Chippewa County War Memorial Hospital, Inc.

Notes to Financial Statements September 30, 2003 and 2002

Note 12 – Cash Flows

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

	2003	2002
Increase (decrease) in net assets	\$ (1,340,871)	\$ 1,369,347
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation and amortization	2,701,056	2,546,935
Provision for uncollectible accounts	1,398,434	1,048,077
Contribution of real estate	-	(1,366,400)
Net realized and unrealized (gains) losses on investments	(1,010)	34,984
(Increase) decrease in assets:		
Accounts receivable	(1,640,935)	(2,309,257)
Estimated third-party payor settlements receivable	509,700	(1,088,129)
Prepaid expenses and other current assets	44,887	(458,754)
Accrued interest income	(8,390)	(2,021)
Increase (decrease) in liabilities:		
Accounts payable	776,378	1,209,222
Accrued liabilities	118,285	324,306
Cost report settlements payable	230,483	520,201
Accrued postretirement benefit obligation	32,567	15,355
Net cash provided by operating activities	<u>\$ 2,820,584</u>	<u>\$ 1,843,866</u>

Note 13 – Subsequent Event

On November 4, 2003, the Hospital entered into two loan agreements with a local bank to finance certain property and equipment purchased during the year ended September 30, 2003. These notes are collateralized by property and equipment and bear interest at 3.85 percent. The first note in the amount of \$545,502 is due in monthly installments of \$5,483, including interest, with any remaining balance due in November 2013. The second loan in the amount of \$1,089,767 is due in monthly payments of \$19,995, including interest, with any remaining balance due in November 2008.

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, 2003 and 2002. 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 audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

December 17, 2003

The Chippewa County War Memorial Hospital, Inc.

Schedule of Unrestricted Revenue

	Year Ended September 30				
	2003				2002
	Inpatient	Outpatient	Long-Term Care	Total	Total
Routine and Special Care Service					
Routine service and nursing care	\$ 5,586,887	\$ -	\$ -	\$ 5,586,887	\$ 5,088,086
Long-term care	-	-	3,646,624	3,646,624	3,207,476
Critical care	1,416,982	-	-	1,416,982	1,420,567
Nursery	243,951	-	-	243,951	245,820
Total routine and special care service	7,247,820	-	3,646,624	10,894,444	9,961,949
Ancillary Service					
Operating and recovery rooms	5,745,723	6,731,101	5,390	12,482,214	11,762,826
Anesthesiology	608,049	3,162,084	-	3,770,133	3,727,929
Radiology	2,456,933	15,747,291	40,422	18,244,646	15,600,850
Laboratory	2,156,674	8,259,610	81,472	10,497,756	7,576,580
Respiratory therapy	688,421	151,366	118,717	958,504	809,855
Physical therapy	966,952	5,482,739	184,337	6,634,028	4,870,299
Electrocardiology	1,254,518	3,477,563	3,749	4,735,830	4,823,952
Medical supplies	756,020	723,336	42,641	1,521,997	1,382,585
Pharmacy	5,271,858	7,973,014	203,718	13,448,590	11,407,849
Emergency room	880,166	3,581,169	-	4,461,335	3,561,469
Rural health clinic	-	911,591	-	911,591	881,393
Physician offices	-	2,302,774	-	2,302,774	2,122,285
Total ancillary service	20,785,314	58,503,638	680,446	79,969,398	68,527,872
Total patient service revenue	<u>\$ 28,033,134</u>	<u>\$ 58,503,638</u>	<u>\$ 4,327,070</u>	90,863,842	78,489,821
Revenue Deductions					
Contractual allowances				41,666,747	32,637,308
Other allowances				2,663,145	3,147,679
Total revenue deductions				<u>44,329,892</u>	<u>35,784,987</u>
Net patient service revenue				46,533,950	42,704,834
Other Operating Revenue					
Rental income				188,843	188,340
Cafeteria				300,781	272,054
Miscellaneous				647,194	587,895
Total other operating revenue				<u>1,136,818</u>	<u>1,048,289</u>
Total Unrestricted Revenue				<u>\$ 47,670,768</u>	<u>\$ 43,753,123</u>

The Chippewa County War Memorial Hospital, Inc.

Selected Patient Service Data (Unaudited)

	Year Ended September 30	
	2003	2002
Routine and Special Care Services		
Admissions:		
Acute	2,552	2,683
Nursery	344	352
Average Length of Stay:		
Acute	3.58	3.52
Nursery	2.03	2.06
Patient Days:		
Acute	9,133	9,448
Nursery	697	725
Skilled nursing facility	18,258	18,455
Swing beds	399	476
Selected Ancillary Services:		
Radiology procedures	51,325	47,729
Surgical Cases:		
Inpatient	931	888
Outpatient	2,752	2,910
Emergency visits	14,409	14,927
Utilization by Payor:		
Medicare	35.1%	35.2%
Medicaid	11.6%	10.8%
Blue Cross	28.5%	27.6%
Other	24.8%	26.4%
Total	100.0%	100.0%