

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):

\$14,000,000

The County of Chippewa (MI) Hospital Finance Authority

Hospital Revenue Refunding Bonds, Series 1997B

Chippewa County War Memorial Hospital, Inc.

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

169700BV2

169700BW0

169700BX8

169700BY6

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) 39 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: October 2004 – September 2005 (FY2005)

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

Fiscal Period Covered: October 2004 – September 2005 (FY2005)

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

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

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

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

Period Covered: _____

F. Other Secondary Market Information (Specify): _____

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

Issuer Contact:

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

Dissemination Agent Contact, if any:

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

Obligor Contact, if any:

Name Kevin R. Kalchik, C.P.A. Title Chief Financial Officer
Employer Chippewa County War Memorial Hospital
Address 500 Osborn Boulevard City Sault Ste. Marie State MI Zip Code 49783
Telephone (906) 635-4456 Fax (906) 635-4467
Email Address kevinkalchik@wmhos.org Obligor Web Site Address www.warmemorialhospital.org

Investor Relations Contact, if any:

Name _____ Title _____
Telephone _____ Email Address _____

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

OFFICER'S CERTIFICATE

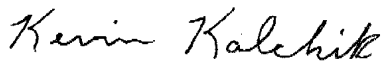
DATED: June 13, 2006

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 J.P. Morgan 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, 2005, 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.
2. Though the Hospital has failed to comply with Sections 5.14(b) and 5.14(c) of the Loan Agreement due to the tardiness of the filing of the documents specified therein, Section 6.01(b) provides that such non-compliance shall not constitute an Event of Default under certain circumstances. Such circumstances are applicable to this situation.
3. To the best of my knowledge, the Hospital is not in default in the performance of any other 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.



Kevin R. Kalchik, C.P.A.,
Chief Financial Officer

CHIPPEWA COUNTY WAR MEMORIAL HOSPITAL, INC.

ANNUAL REPORT FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2005 (FY2005)

Unless otherwise noted, all data apply to the Fiscal Year Ended September 30, 2005, or are accurate as of September 30, 2005, 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.

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 FY2000.

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
TOTAL	133

MUNICIPAL SECONDARY MARKET DISCLOSURE

The County of Chippewa Hospital Finance Authority /
Chippewa County War Memorial Hospital, Inc.

Fiscal Year Ended September 30, 2005

Page 2

MEDICAL STAFF

<i>Active Staff Specialization [OS Page A-9]</i>					
<i>PCPs</i>		<i>Specialists</i>		<i>Hospital-Based</i>	
Family Practice	10	Allergy	1	Anesthesiology	3
Internal Medicine	5	Cardiology	1	Pathology	1
		General Surgery	4	Radiology	1
		Orthopedic Surgery	3	Emergency Medicine	1
		Obstetrics/Gynecology	2		
		Oncology	1		
		Neurology	1		
		Ophthalmology	4		
		Otolaryngology	1		
		Urology	1		
Total	15	Total	19	Total	6

<i>Age Distribution of the Active Staff [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	4	10.0%	3.1%
35 - 44	9	22.5%	40.4%
45 - 54	18	45.0%	43.8%
55 - 64	8	20.0%	10.6%
65 and over	1	2.5%	2.1%
TOTAL	40		
Note: Columns may not add to 100.0% due to rounding			

MUNICIPAL SECONDARY MARKET DISCLOSURE

The County of Chippewa Hospital Finance Authority /
Chippewa County War Memorial Hospital, Inc.

Fiscal Year Ended September 30, 2005

Page 3

Gross Revenue Attributable to Physician Referrals <i>(\$000s Omitted)</i> <i>[OS Page A-11]</i>			
	<i>PCPs</i>	<i>Specialists</i>	<i>Row Totals</i>
Inpatient Revenue	10,254	25,735	35,989
Outpatient Revenue	18,521	42,428	60,949
Total Assigned Revenue	28,775	68,163	96,938
Unassigned Revenue			1,690
Total Revenue			98,628

Note: This table has been modified to reflect current record-keeping practices.

Leading Referring Physicians, Inpatient Services <i>(\$000s omitted from Inpatient Revenue Column)</i> <i>[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	39	C	4,437	12.3%	12.3%
2	Orthopedic Surgery	45	C	4,343	12.1%	24.4%
3	Orthopedic Surgery	55	C	2,465	6.8%	31.2%
4	Family Practice	50	C	2,396	6.7%	37.9%
5	Family Practice	53	C	1,875	5.2%	43.1%
6	Family Practice	47	C	1,854	5.2%	48.3%
7	Internal Medicine	63	C	1,722	4.8%	53.1%
8	Internal Medicine	38	C	1,684	4.7%	57.7%
9	Internal Medicine	49	C	1,657	4.6%	62.3%
10	General Surgery	58	C	1,490	4.1%	66.5%
			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, 2005

Page 4

<i>Leading Referring Physicians, Outpatient Services (\$000s omitted from Outpatient Revenue Column) [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	39	C	3,675	6.0%	6.0%
2	Orthopedic Surgery	55	C	3,307	5.4%	11.5%
3	General Surgery	53	C	3,014	4.9%	16.4%
4	General Surgery	36	C	2,932	4.8%	21.2%
5	Emergency Medicine	62	C	2,604	4.3%	25.5%
6	Oncology	39	C	2,516	4.1%	29.6%
7	Family Practice	47	C	2,439	4.0%	33.6%
8	Emergency Medicine	62	C	2,175	3.6%	37.2%
9	Internal Medicine	63	C	2,050	3.4%	40.5%
10	Family Practice	40	C	1,957	3.2%	43.8%
			C = Certified E = Eligible			

<i>Additions to the Active and Hospital-Based Staff during FY2005 [OS Page A-13]</i>			
<i>Specialty</i>	<i>Age</i>	<i>Hospital Employee</i>	<i>Affiliation</i>
Family Practice	31	No	Group practice
Cardiology	36	Yes	Independent

SERVICE VOLUMES AND UTILIZATION

INPATIENT ACUTE CARE

<i>Historical Acute Care Utilization (excludes newborns but includes observation patients) [OS Page A-13]</i>					
	<i>Fiscal Years Ended September 30</i>				
	<i>2000</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>	<i>2001</i>
Days in Period	365	366	365	365	365
Licensed Beds	82	82	82	82	82
Admissions	2,663	2,737	2,552	2,683	2,481
Patient Days	10,208	10,125	9,133	9,448	9,268
Observation Patients ¹	846	864	1,027	698	939
Average Daily Census	28.0	27.7	25.0	25.9	25.4
Average Length of Stay	3.8	3.7	3.6	3.5	3.7
Occupancy Rate (%)	34.1	33.7	30.5	31.6	31.0
¹ Neither Average Daily Census, Average Length of Stay nor Occupancy Rate calculations reflect Observation Patients					

SNF

<i>Historical SNF Utilization [OS Page A-14]</i>					
	<i>Fiscal Years Ended September 30</i>				
	<i>2005</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>	<i>2001</i>
Days in Period	365	366	365	365	365
Licensed Beds	51	51	51	51	51
Patient Days	17,977	17,941	18,258	18,455	18,219
Average Daily Census	49.3	49.0	50.0	50.6	49.9
Occupancy Rate (%)	96.6	96.1	98.1	99.1	97.9

MUNICIPAL SECONDARY MARKET DISCLOSURE

The County of Chippewa Hospital Finance Authority /
Chippewa County War Memorial Hospital, Inc.

Fiscal Year Ended September 30, 2005

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>2005</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>	<i>2001</i>
Truly Emergent Visits	13,395	13,088	14,409	14,927	14,419
Change / Previous Period	2.3%	(9.2)%	(3.5)%	3.5%	5.5%
CCC Visits	10,146	8,906	9,400	9,332	9,606
Change / Previous Period	13.9%	(5.3)%	0.7%	(2.9)%	5.5%
Total ER Visits	23,541	21,994	23,809	24,259	24,025
Change / Previous Period	7.0%	(7.6)%	(1.9)%	1.0%	5.5%

<i>Ancillary Services Provided to Inpatients</i> <i>[OS Page A-15]</i>					
	<i>Fiscal Years Ended September 30</i>				
	<i>2005</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>	<i>2001</i>
Laboratory ¹	88,127	104,185	94,108	90,904	78,035
Electrocardiography ¹	5,430	7,515	7,637	6,242	4,826
Radiology & Ultrasound ¹	6,449	6,920	5,573	5,288	4,406
MRI Scanning ¹	147	172	168	103	74
CT Scanning ¹	1,664	1,516	1,460	1,155	901
Nuclear Medicine ¹	640	694	694	847	497
Cardiopulmonary ¹	27,917	32,071	28,321	24,155	31,030
Physical Therapy ²	11,384	9,058	8,267	8,587	9,388
Occupational Therapy ³	7,105	6,960	6,187	5,443	4,699
Speech Therapy ³	333	352	351	360	297
¹ Procedures ² Modalities ³ Visits					

MUNICIPAL SECONDARY MARKET DISCLOSURE

The County of Chippewa Hospital Finance Authority /
Chippewa County War Memorial Hospital, Inc.

Fiscal Year Ended September 30, 2005

Page 7

<i>Ancillary Services Provided to Outpatients</i> <i>[OS Page A-15]</i>					
	<i>Fiscal Years Ended September 30</i>				
	<i>2005</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>	<i>2001</i>
Laboratory ¹	245,309	255,356	262,372	248,933	241,298
Electrocardiography ¹	11,789	13,768	11,790	13,411	9,148
Radiology & Ultrasound ¹	30,225	28,556	30,533	29,690	29,456
MRI Scanning ¹	3,306	2,811	2,223	2,065	1,689
CT Scanning ¹	7,865	6,032	5,219	3,932	3,751
Nuclear Medicine ¹	6,249	5,455	5,455	4,649	4,237
Cardiopulmonary ¹	2,164	1,829	1,985	1,809	2,439
Physical Therapy ²	57,301	54,211	55,804	55,722	45,422
Occupational Therapy ³	9,310	12,767	10,662	26,375	14,648
Speech Therapy ³		23,016	19,983	21,630	16,419
Home Health Therapy ³		5,952	4,789	8,221	6,811
¹ Procedures ² Modalities ³ Visits					

<i>Surgical Procedures</i> <i>[OS Page A-16]</i>					
	<i>Fiscal Years Ended September 30</i>				
	<i>2005</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>	<i>2001</i>
Inpatient	982	1,062	931	888	914
Outpatient	3,162	2,926	2,752	2,910	2,606
Total	4,144	3,988	3,683	3,798	3,520
Percent Outpatient	76.3%	73.4%	74.7%	76.6%	74.0%

MUNICIPAL SECONDARY MARKET DISCLOSURE

The County of Chippewa Hospital Finance Authority /
Chippewa County War Memorial Hospital, Inc.

Fiscal Year Ended September 30, 2005

Page 8

COMPETING FACILITIES

<i>Inpatient Acute Care Market Share for County Residents, All DRGs [OS Page A-21]</i>					
	<i>Calendar Years Ended December 31</i>				
	<i>2004</i>	<i>2003</i>	<i>2002</i>	<i>2001</i>	<i>2000</i>
War Memorial Hospital	60.3%	59.5%	60.6%	61.3%	62.3%
Northern Michigan	14.1%	14.7%	17.1%	16.0%	16.2%
Marquette General	12.4%	11.4%	9.6%	11.1%	11.4%
Munson	5.8%	5.3%	5.2%	3.2%	2.3%
Newberry	0.6%	0.9%	0.7%	0.8%	0.8%
All Other Hospitals	6.8%	8.2%	6.8%	7.6%	6.9%

Source: MHA Interactive Data System, 2000-2004
Note: Many of the figures in this table correct errors contained in prior Disclosure Reports

FINANCIAL MATTERS

THIRD-PARTY REIMBURSEMENT METHODOLOGIES

<i>Medicaid SNF Reimbursement Rates [OS Page A-24]</i>					
	<i>Fiscal Years Ended/Ending September 30</i>				
	<i>2006</i>	<i>2005</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>
Variable Cost Component ¹	\$192.92	\$185.54	\$180.24	\$168.36	\$162.85
Plant Cost Component	5.41	5.41	5.41	5.41	5.41
Continuous Quality Improvement/ Incentive	0.00	0.00	0.00	0.00	0.00
Wage Pass-through Add-on	0.00	0.00	0.00	0.00	0.00
OBRA Training & Testing Add-on	0.00	0.00	0.00	0.00	0.00
Medicaid Reimbursement Rate	\$198.33	\$190.95	\$185.65	\$173.77	\$168.26

¹ Reflects corrected data from prior FYs

MUNICIPAL SECONDARY MARKET DISCLOSURE

The County of Chippewa Hospital Finance Authority /
Chippewa County War Memorial Hospital, Inc.

Fiscal Year Ended September 30, 2005

Page 9

<i>SNF Revenue Basis</i> <i>[OS Page A-25]</i>					
	<i>Fiscal Years Ended/Ending September 30</i>				
	<i>2006</i>	<i>2005</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>
Charge for Semi-Private Room	\$200.00	\$200.00	\$200.00	\$185.00	\$175.00
Medicaid Reimbursement Rate	\$198.33	\$190.95	\$185.65	\$173.77	\$172.68
Discount from Semi-Private Room Charge	0.8%	4.5%	7.2%	6.1%	1.3%

<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>2005</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>	<i>2001</i>
Medicare	17.5%	10.5%	11.1%	8.6%	7.7%
Medicaid	64.8%	71.9%	73.4%	65.7%	72.8%
Other	17.8%	17.6%	15.5%	25.7%	19.5%

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, 2005

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>2005</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>	<i>2001</i>
<i>By Acute Care Admissions</i>					
Medicare	43.1	41.0	41.0	44.9	43.9
Medicaid	15.9	18.3	17.9	17.2	13.9
Blue Cross	27.2	27.5	26.6	26.3	27.8
Other	13.8	13.2	14.5	11.6	14.4
Totals	100.0	100.0	100.0	100.0	100.0
<i>By Acute Care Patient-Days</i>					
Medicare	55.7	53.6	53.8	56.2	57.4
Medicaid	10.4	13.7	12.8	12.8	10.4
Blue Cross	22.3	22.0	21.2	21.4	20.5
Other	11.6	10.7	12.2	9.6	11.7
Totals	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>2005</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>	<i>2001</i>
Per Case	Adjusted Cost	\$6,594	\$5,893	\$5,689	\$4,966	\$4,634
	Case-Mix Adjusted Operating Cost	\$6,169	\$5,545	\$5,599	\$4,909	\$4,592
Notes: FY2001 – FY2003 figures were revised in the FY2004 report FY2003 – FY2004 figures were revised in the FY2005 report						

MUNICIPAL SECONDARY MARKET DISCLOSURE

The County of Chippewa Hospital Finance Authority /
Chippewa County War Memorial Hospital, Inc.

Fiscal Year Ended September 30, 2005

Page 11

<i>Labor Productivity Measures</i> <i>[OS Page A-26]</i>					
	<i>Fiscal Years Ended September 30</i>				
	<i>2005</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>	<i>2001</i>
Adjusted FTEs per Occupied Bed ¹	5.35	5.26	5.56	5.43	5.32
SNF FTEs per Occupied Bed ²	0.87	0.87	0.89	0.91	1.00
Total FTEs ³	547.7	524.7	550.4	539.9	495.7
Percentage of Non-Productive Hours	14.8%	13.9%	15.1%	14.6%	14.3%

¹ FY2003 figures were revised in the FY2004 report; FY2002 – FY2004 figures were revised in the FY2005 report
² FY2003 figures were revised in the FY2004 report; FY2002 – FY2004 figures were revised in the FY2005 report
³ FY2002 – FY2004 figures were revised slightly in the FY2005 report

MUNICIPAL SECONDARY MARKET DISCLOSURE

The County of Chippewa Hospital Finance Authority /
Chippewa County War Memorial Hospital, Inc.

Fiscal Year Ended September 30, 2005

Page 12

RECENT FINANCIAL PERFORMANCE

<i>Balance Sheet Summary</i> (\$000s omitted) [OS Page A-27]					
	<i>Fiscal Years Ended September 30</i>				
	<i>2005</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>	<i>2001</i>
Cash, Cash Equivalents and Short-term Investments ¹	1,252	3,660	1,779	2,706	3,238
Net Patient Accounts Receivable	8,285	7,000	8,163	7,621	6,510
Other Current Assets	<u>4,168</u>	<u>3,937</u>	<u>4,464</u>	<u>5,318</u>	<u>3,621</u>
Total Current Assets	13,705	14,597	14,406	15,645	13,369
Board-Designated Investments ¹	4,418	4,263	4,357	4,159	4,000
Other Restricted Funds	1,723	1,734	1,724	1,700	1,662
Net Property and Equipment	13,818	14,740	13,758	14,127	13,580
Other Assets	<u>267</u>	<u>296</u>	<u>325</u>	<u>417</u>	<u>478</u>
Total Assets	<u>33,931</u>	<u>35,630</u>	<u>34,570</u>	<u>36,048</u>	<u>33,089</u>
Current Liabilities	9,493	9,521	10,045	8,742	5,826
Long-Term Obligations	11,244	12,212	11,318	12,791	14,133
Other Liabilities	1,441	1,186	1,060	1,027	1,012
Unrestricted Net Assets	11,753	12,711	12,147	13,488	12,119
Temporarily Restricted Net Assets	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Liabilities and Net Assets	<u>33,931</u>	<u>35,630</u>	<u>34,570</u>	<u>36,048</u>	<u>33,089</u>
<p>Notes: This table has been modified in order to clarify the corresponding table published in the OS Certain FY2004 entries were changed to conform to the presentation in the FY2005 audited financial statements</p> <p>¹ Used in "Days' Cash on Hand," "Cushion Ratio" and "Cash / Long-Term Debt" calculations</p>					

MUNICIPAL SECONDARY MARKET DISCLOSURE

The County of Chippewa Hospital Finance Authority /
Chippewa County War Memorial Hospital, Inc.

Fiscal Year Ended September 30, 2005

Page 13

<i>Liquidity Ratios</i> <i>[OS Page A-28]</i>					
	<i>Fiscal Years Ended September 30</i>				
	<i>2005</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>	<i>2001</i>
Days' Cash on Hand	38.1	59.4	48.0	60.3	72.3
Cushion Ratio ¹	2.2	2.5	2.9	3.3	3.4
Cash / Long-Term Debt	50.4%	64.9%	54.2%	53.7%	51.2%
Days in Patient Accounts Receivable	56.0	51.2	64.0	65.1	62.2
Payment Period (Days)	63.8	71.4	78.6	76.8	58.2
Note: Calculated from the Corporation's audited financial statements, using definitions published by Standard & Poor's Ratings Group in <i>2000 Median Health Care Ratios</i> , October 19, 2000					
¹ Calculated using Maximum Annual Debt Service figures indicated below that are based on the Series 1997 Bonds, together with secured notes and capitalized leases in FY2005 and FY2004, a HELP loan from the Michigan State Hospital Finance Authority and a capitalized lease in FY2003, FY2002 and FY2001, and a HELP loan in FY2000					
Maximum Annual Debt Service	2,561,432	3,170,910	2,107,953	2,109,082	2,124,172

<i>Capitalization Ratios</i> <i>[OS Page A-28]</i>					
	<i>Fiscal Years Ended September 30</i>				
	<i>2005</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>	<i>2001</i>
Debt / Capitalization	48.9%	49.0%	48.2%	48.7%	53.8%
Average Age of Net Fixed Assets (Years)	12.7	12.0	11.5	11.1	10.5
Note: Calculated from the Corporation's audited financial statements, using definitions published by Standard & Poor's Ratings Group in <i>2000 Median Health Care Ratios</i> , October 19, 2000					

MUNICIPAL SECONDARY MARKET DISCLOSURE

The County of Chippewa Hospital Finance Authority /
Chippewa County War Memorial Hospital, Inc.

Fiscal Year Ended September 30, 2005

Page 14

<i>Gross Patient Revenue by Service</i> <i>[OS Page A-28]</i>					
	<i>Fiscal Years Ended September 30</i>				
	<i>2005</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>	<i>2001</i>
Inpatient	32.0%	33.7%	30.9%	30.6%	30.3%
Outpatient	63.6%	61.9%	64.4%	64.8%	64.9%
SNF	4.4%	4.4%	4.8%	4.6%	4.8%

<i>Summary of Unrestricted Revenue and Expenses</i> <i>(\$000s omitted)</i> <i>[OS Page A-29]</i>					
	<i>Fiscal Years Ended September 30</i>				
	<i>2005</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>	<i>2001</i>
Net Patient Service Revenue	54,030	49,451	46,534	42,705	38,222
Other Operating Revenue	<u>1,343</u>	<u>1,017</u>	<u>1,137</u>	<u>1,048</u>	<u>1,007</u>
Total Operating Revenue	55,373	50,468	47,671	43,753	39,229
Depreciation Expense	2,262	2,214	2,609	2,486	2,380
Interest Expense	751	834	770	799	830
Other Operating Expenses	<u>53,580</u>	<u>47,093</u>	<u>45,883</u>	<u>40,742</u>	<u>35,729</u>
Total Operating Expenses	56,593	50,141	49,262	44,027	38,939
Income (Loss) from Operations	(1,220)	327	(1,591)	(274)	290
Other Income	<u>229</u>	<u>234</u>	<u>232</u>	<u>324</u>	<u>481</u>
Excess of Revenue over (under) Expenses	(991)	561	(1,360)	50	772
Change in Net Unrealized Gains and Losses	33	2	19	(47)	132
Extraordinary Items	<u>0</u>	<u>0</u>	<u>0</u>	<u>1,366</u>	<u>0</u>
Increase (Decrease) in Unrestricted Net Assets	<u>(958)</u>	<u>563</u>	<u>(1,341)</u>	<u>1,369</u>	<u>904</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, 2005

Page 15

<i>Profitability, Cash Flow and Operational Ratios</i>					
<i>[OS Page A-29]</i>					
	<i>Fiscal Years Ended September 30</i>				
	<i>2005</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>	<i>2001</i>
Profit Margin	(1.8)%	1.1%	(2.8)%	0.1%	1.9%
Operating Margin	(2.2)%	0.6%	(3.3)%	(0.6)%	0.7%
EBIDA Margin	3.6%	7.1%	4.2%	7.6%	10.0%
Debt Service Coverage Ratio (S&P) ^{1,2}	0.79	1.14	0.96	1.58	1.87
Debt Service Coverage Ratio (Indenture) ^{2,3}	1.70	1.76	1.62	2.08	2.37
Interest Coverage	2.7	4.3	2.6	4.2	4.8
Cash Flow / Total Liabilities	5.7%	12.1%	5.6%	11.2%	15.0%
Maximum Annual Debt Service / Total Revenue ³	4.6%	6.2%	4.4%	4.8%	5.4%
Nonoperating Revenue / Total Revenue	0.4%	0.5%	0.5%	0.7%	1.2%
Bad Debt Expense / Total Operating Revenue	4.2%	3.8%	2.9%	2.4%	2.7%
<p>Note: Calculated from the Corporation's audited financial statements, using definitions published by Standard & Poor's Ratings Group in <i>2000 Median Health Care Ratios</i>, October 19, 2000</p> <p>¹ Calculated according to the published Standard & Poor's definition</p> <p>² Calculated using Maximum Annual Debt Service figures indicated below that are based on the Series 1997 Bonds, together with secured notes and capitalized leases in FY2005 and FY2004, a HELP loan from the Michigan State Hospital Finance Authority and a capitalized lease in FY2003, FY2002 and FY2001, and a HELP loan in FY2000</p> <p>³ Calculated according to the definition specified in the Trust Indenture relating to the Series 1997 Bonds; this definition governs, so no Event of Default has occurred with respect to the Debt Service Coverage ratio covenant</p>					
Maximum Annual Debt Service	2,561,432	3,170,910	2,107,953	2,109,082	2,124,172

MUNICIPAL SECONDARY MARKET DISCLOSURE

The County of Chippewa Hospital Finance Authority /
Chippewa County War Memorial Hospital, Inc.

Fiscal Year Ended September 30, 2005

Page 16

<i>Case-Mix Indices</i> <i>[OS Page A-30]</i>						
<i>Fiscal Years Ended September 30</i>						
	<i>2005</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>	<i>2001</i>	<i>2000</i>
Medicare	1.2034	1.2049	1.1671	1.1777	1.1960	1.1925
Medicaid	0.7122	0.7524	0.6101	0.6188	0.5977	0.6965
Blue Cross	0.7387	0.7549	0.7237	0.7835	0.7873	0.7697

Note: The Medicaid figure for FY2001 was corrected in the FY2002 Disclosure Report.

<i>Top Ten DRGs, FY2005</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	295	9.8%	9.8%	1.9
373	Vaginal delivery without complicating diagnosis	209	7.0%	16.8%	1.9
209	Major joint and limb reattachment procedures, lower extremity	143	4.8%	21.6%	5.2
89	Simple pneumonia and pleurisy, age >17, with complications	131	4.4%	26.0%	5.4
127	Heart failure and shock	129	4.3%	30.3%	4.5
371	Cesarean sections without complications	80	2.7%	32.9%	2.6
416	Septicemia, age >17	64	2.1%	35.1%	6.9
174	Gastrointestinal hemorrhage with complications	64	2.1%	37.2%	3.6
88	Chronic obstructive pulmonary disease	62	2.1%	39.3%	4.2
14	Intracranial hemorrhage or cerebral infarction	49	1.6%	40.9%	4.7

The Chippewa County War Memorial Hospital, Inc.

**Financial Report
with Additional Information
September 30, 2005**

The Chippewa County War Memorial Hospital, Inc.

Contents

Report Letter	1
Financial Statements	
Balance Sheet	2
Statement of Operations and Changes in Net Assets	3
Statement of Cash Flows	4
Notes to Financial Statements	5-16
Additional Information	17
Report Letter	18
Schedule of Operating Revenue	19
Selected Patient Service Data (Unaudited)	20

Independent Auditor's Report

To the 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, 2005 and 2004 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 the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Chippewa County War Memorial Hospital, Inc. at September 30, 2005 and 2004 and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Plante & Moran, PLLC

January 4, 2006

The Chippewa County War Memorial Hospital, Inc.

Balance Sheet

	September 30	
	2005	2004
Assets		
Current Assets		
Cash and cash equivalents	\$ 273,666	\$ 2,379,053
Short-term investments	978,627	1,280,881
Accounts receivable (Note 2)	9,319,258	7,911,559
Estimated third-party payor settlements	359,000	440,750
Inventory	2,258,581	2,061,497
Other current assets	515,939	523,599
Total current assets	13,705,071	14,597,339
Assets Limited as to Use (Note 4)	5,824,734	5,680,921
Property and Equipment (Note 5)	13,818,469	14,739,913
Other Assets		
Investment in joint venture	316,288	316,288
Bond issue costs	266,831	295,967
Total assets	\$ 33,931,393	\$ 35,630,428
Liabilities and Net Assets		
Current Liabilities		
Current portion of long-term debt (Note 7)	\$ 1,840,000	\$ 2,098,600
Accounts payable	3,085,924	3,012,200
Estimated third-party payor settlements	1,048,259	459,255
Accrued liabilities and other:		
Accrued compensation	708,459	1,272,401
Accrued compensated absences	2,038,396	2,027,624
Accrued professional and other liability claims (Note 9)	175,000	-
Accrued interest	217,283	240,825
Other accrued liabilities	380,000	410,000
Total current liabilities	9,493,321	9,520,905
Long-term Debt (Note 7)	11,244,149	12,212,358
Pension and Postretirement Obligations (Note 6)	1,441,289	1,186,347
Total liabilities	22,178,759	22,919,610
Net Assets - Unrestricted	11,752,634	12,710,818
Total liabilities and net assets	\$ 33,931,393	\$ 35,630,428

The Chippewa County War Memorial Hospital, Inc.

Statement of Operations and Changes in Net Assets

	Year Ended September 30	
	2005	2004
Unrestricted Revenue, Gains, and Other Support		
Net patient service revenue	\$ 54,030,073	\$ 49,937,526
Other	1,343,067	1,257,749
Total unrestricted revenue, gains, and other support	55,373,140	51,195,275
Expenses		
Salaries and wages	20,051,912	19,084,657
Fringe benefits	7,307,572	6,969,981
Operating supplies and expenses	2,849,011	2,902,201
Medical supplies and drugs	6,405,032	6,315,865
Professional fees	8,101,391	5,440,529
Dues and subscriptions	226,947	205,215
Leases and rentals	372,656	260,348
Insurance	800,803	500,365
Utilities	811,681	698,570
Education and travel	271,832	234,232
Repairs and maintenance	1,191,250	1,211,464
Dietary services	537,017	479,197
Depreciation	2,261,806	2,214,226
Provision for bad debts	2,332,492	1,954,161
Interest expense	751,304	849,260
Quality assurance tax	934,509	462,003
Other	1,385,908	1,085,773
Total expenses (Note 10)	56,593,123	50,868,047
Operating (Loss) Income	(1,219,983)	327,228
Other Income	228,839	233,768
Excess of Revenue (Under) Over Expenses	(991,144)	560,996
Change in Unrealized Gains and Losses on Investments	32,960	2,415
(Decrease) Increase in Unrestricted Net Assets	(958,184)	563,411
Net Assets - Beginning of year	12,710,818	12,147,407
Net Assets - End of year	<u>\$ 11,752,634</u>	<u>\$ 12,710,818</u>

The Chippewa County War Memorial Hospital, Inc.

Statement of Cash Flows

	Year Ended September 30	
	2005	2004
Cash Flows from Operating Activities		
Cash received from patients and third-party payors	\$ 50,960,636	\$ 49,095,227
Cash paid to suppliers and employees	(51,539,991)	(45,167,573)
Investment income received	281,140	234,358
Interest paid	(722,168)	(804,876)
Other cash receipts	1,343,067	1,017,346
Net cash provided by operating activities (Note 11)	322,684	4,374,482
Cash Flows from Investing Activities		
Purchase of property and equipment	(1,340,362)	(3,196,204)
Purchase of investments	(3,198,052)	(8,073,093)
Proceeds from sale and maturities of investments	3,337,152	8,245,141
Net cash used in investing activities	(1,201,262)	(3,024,156)
Cash Flows from Financing Activities		
Payments on line of credit	-	(890,314)
Principal payments of long-term debt	(2,077,597)	(2,511,505)
Proceeds from issuance of long-term debt	850,788	4,019,178
Net cash (used in) provided by financing activities	(1,226,809)	617,359
Net (Decrease) Increase in Cash and Cash Equivalents	(2,105,387)	1,967,685
Cash and Cash Equivalents - Beginning of year	2,379,053	411,368
Cash and Cash Equivalents - End of year	\$ 273,666	\$ 2,379,053

The Chippewa County War Memorial Hospital, Inc.

Notes to Financial Statements September 30, 2005 and 2004

Note I - Nature of Business and Significant Accounting Policies

Reporting Entity and Corporate Structure - The Chippewa County War Memorial Hospital, Inc. (the "Hospital"), located in Sault Ste. Marie, Michigan, is a not-for-profit hospital. The Hospital provides acute and long-term 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 the reported amounts and disclosure in the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents - Cash and cash equivalents include 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 (see Note 7) that are included in current liabilities.

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.

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 or losses on investments are excluded from the excess of revenue over expenses.

Property and Equipment - Property and equipment amounts are recorded at cost. Depreciation is computed using the straight-line basis over the estimated useful lives of the assets. Costs 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, 2005 and 2004

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

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support and are excluded from the excess of revenues over expenses, unless explicit donor stipulations specify how the 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 Finance Charges - Deferred finance 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 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 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, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. 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.

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 fine, penalties, and exclusion from the Medicare and Medicaid programs.

The Chippewa County War Memorial Hospital, Inc.

Notes to Financial Statements September 30, 2005 and 2004

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

Revenue Over (Under) Expenses - The statement of operations and changes in net assets 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 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 (see 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 (see Note 6).

Retirement 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.

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, 2005 and 2004

Note 2 - Accounts Receivable

Accounts receivable consist of the following:

	<u>2005</u>	<u>2004</u>
Patients, insurance companies, and governmental agencies	\$ 19,175,784	\$ 18,439,095
Less:		
Allowance for uncollectible accounts	(2,641,197)	(3,349,594)
Allowance for contractual adjustments and interim payment advances	<u>(8,249,566)</u>	<u>(8,089,499)</u>
Net patient accounts receivable	8,285,021	7,000,002
Other accounts receivable	<u>1,034,237</u>	<u>911,557</u>
Total accounts receivable	<u>\$ 9,319,258</u>	<u>\$ 7,911,559</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 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>2005 (%)</u>	<u>2004 (%)</u>
Medicare	23	22
Medicaid	12	15
Blue Cross	23	24
Commercial	28	22
Patients	<u>14</u>	<u>17</u>
Total	<u>100</u>	<u>100</u>

The Chippewa County War Memorial Hospital, Inc.

Notes to Financial Statements September 30, 2005 and 2004

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, as 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, 2005 and 2004

Note 4 - Assets Limited as to Use

Assets limited as to use are composed of the following:

	<u>2005</u>	<u>2004</u>
Assets limited as to use:		
Designated by the board of trustees for replacement, improvement, and expansion of property and equipment:		
Money market funds	\$ 292,511	\$ 203,110
Certificate of deposit	100,000	100,000
Common stock	963,993	856,464
Corporate bonds	551,373	707,210
United States government obligations	2,468,975	2,353,450
Accrued interest	41,018	43,126
Total	<u>4,417,870</u>	<u>4,263,360</u>
Bond indenture assets (see Note 7) held by bank trust department:		
Money market funds	20,181	13,632
United States government obligations	1,378,916	1,396,301
Accrued interest	7,767	7,628
Total	<u>1,406,864</u>	<u>1,417,561</u>
Total assets limited as to use	<u>\$ 5,824,734</u>	<u>\$ 5,680,921</u>

Assets held under the bond indenture agreements at September 30, 2005 and 2004 are composed of the debt service reserve funds.

Investment income and gains for assets limited as to use, cash equivalents, and other investments are comprised of the following for the years ended September 30, 2005 and 2004:

	<u>2005</u>	<u>2004</u>
Income:		
Interest and dividends	\$ 198,660	\$ 225,822
Realized gains (losses)	<u>(54,270)</u>	<u>7,946</u>
Total	<u>\$ 144,390</u>	<u>\$ 233,768</u>
Other changes in unrestricted net assets -		
Change in net unrealized gains	\$ 32,960	\$ 2,415

The Chippewa County War Memorial Hospital, Inc.

Notes to Financial Statements September 30, 2005 and 2004

Note 5 - Property and Equipment

Cost of property, plant, equipment, and depreciable lives are summarized below:

	2005	2004	Depreciable Life - Years
Land	\$ 2,299,927	\$ 2,299,927	-
Land improvements	81,928	81,928	10-20
Buildings	20,939,539	20,465,916	10-50
Equipment	18,810,320	17,642,747	3-20
Construction in progress	429,687	730,527	
Total cost	42,561,401	41,221,045	
Accumulated depreciation	(28,742,932)	(26,481,132)	
Net property and equipment	<u>\$ 13,818,469</u>	<u>\$ 14,739,913</u>	

Construction in progress at September 30, 2005 is composed of costs related to renovations to the Hospital that are being funded from internal operations.

Note 6 - Postretirement Benefits

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 10 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 status reconciled with the amounts shown in the Hospital's balance sheet at September 30, 2005 and 2004:

	2005	2004
Unrecognized prior service cost	\$ (1,281,398)	\$ (1,399,260)
Unrecognized net loss	3,390,619	3,622,835
Accumulated benefit obligation	(3,550,510)	(3,409,922)
Total accrued postretirement benefit cost	<u>\$ (1,441,289)</u>	<u>\$ (1,186,347)</u>
Employer contributions	\$ 152,359	\$ 208,000
Benefits paid to participants	152,359	208,000

The Chippewa County War Memorial Hospital, Inc.

Notes to Financial Statements September 30, 2005 and 2004

Note 6 - Postretirement Benefits (Continued)

	2005	2004
Actuarial assumptions:		
Weighted average discount rate	5.75 %	5.75 %
Increase in future compensation levels	N/A	N/A
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.

There were no contributions made to the plan by participants during 2005 and 2004 and the Hospital expects to contribute \$131,259 to the plan in 2006.

The following benefits payments, which reflect expected future service, as appropriate, are expected to be paid:

2006	\$	131,259
2007		127,226
2008		123,762
2009		129,723
2010		135,880
2011-2015		774,481

Note 7 - Long-term Debt

Long-term debt consists of the following:

	2005	2004
Revenue bonds payable to the County of Chippewa Hospital Finance Authority - Series 1997A and 1997B. The bonds have interest rates that vary from 5.1 percent to 5.625 percent 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	\$ 9,460,000	\$ 10,590,000
Note payable bearing interest at 3.82 percent due August 1, 2006. This note is collateralized by the real estate purchased	-	1,100,000
Note payable bearing interest at 4.25 percent and due in monthly installments of \$6,822, including interest, with any remaining balance due in September 2010. This note is collateralized by a real estate mortgage	1,100,788	-

The Chippewa County War Memorial Hospital, Inc.

Notes to Financial Statements September 30, 2005 and 2004

Note 7 - Long-term Debt (Continued)

	<u>2005</u>	<u>2004</u>
Note payable bearing interest at 3.85 percent, due in monthly installments of \$5,483 including interest. This note is unsecured	\$ 456,420	\$ 503,677
Note payable bearing interest at 3.85 percent, due in monthly installments of \$19,995 including interest. This note is collateralized by equipment	696,257	905,050
Note payable bearing interest at 4.25 percent, due in monthly installments of \$21,891 including interest. This note is collateralized by equipment	86,796	340,000
Note payable bearing interest at 4.25 percent, due in monthly installments of \$37,065 including interest. This allows for draws totaling \$2,000,150 and, as of September 30, 2005, the Hospital has drawn \$850,000 against this note. This note is collateralized by equipment	781,781	-
Other	<u>502,107</u>	<u>872,231</u>
Total	13,084,149	14,310,958
Less current portion	<u>(1,840,000)</u>	<u>(2,098,600)</u>
Long-term portion	<u>\$ 11,244,149</u>	<u>\$ 12,212,358</u>

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.

The Chippewa County War Memorial Hospital, Inc.

Notes to Financial Statements September 30, 2005 and 2004

Note 7 - Long-term Debt (Continued)

Minimum principal payments and sinking fund requirements on long-term debt to maturity as of September 30, 2005 are as follows:

	<u>Principal</u>	<u>Sinking Fund</u>	<u>Total</u>
2006	\$ 1,840,000	\$ -	\$ 1,840,000
2007	1,679,587	-	1,679,587
2008	1,300,511	-	1,300,511
2009	134,646	940,000	1,074,646
2010	99,373	985,000	1,084,373
2011 and after	<u>1,095,032</u>	<u>5,010,000</u>	<u>6,105,032</u>
Total minimum payments	<u>\$ 6,149,149</u>	<u>\$ 6,935,000</u>	<u>\$ 13,084,149</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 \$687,148 and \$660,314 for the years ended September 30, 2005 and 2004, respectively.

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. The reserve for estimated malpractice claims was \$175,000 and \$0 at September 30, 2005 and 2004, respectively.

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.

The Hospital is not aware of any medical malpractice claims, either asserted or unasserted, that would exceed policy limits. No claims have been settled during the past three years that have exceeded policy limits. The cost of this insurance policy and any deductibles paid represent the Hospital's cost for such claims for the year, and have been charged to operations as a current expense.

The Chippewa County War Memorial Hospital, Inc.

Notes to Financial Statements September 30, 2005 and 2004

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>2005</u>	<u>2004</u>
Health care services	\$ 41,766,945	\$ 36,518,811
General and administrative	<u>14,826,178</u>	<u>14,349,236</u>
Total	<u>\$ 56,593,123</u>	<u>\$ 50,868,047</u>

Note 11 - Cash Flows

A reconciliation of the increase (decrease) in net assets to net cash from operating activities is presented below:

	<u>2005</u>	<u>2004</u>
Increase (decrease) in net assets	\$ (958,184)	\$ 563,411
Adjustments to reconcile net increase (decrease) in net assets to net cash from operating activities:		
Depreciation and amortization	2,290,942	2,243,363
Provision for uncollectible accounts	2,332,492	1,954,161
Net realized and unrealized (gains) losses on investments	21,310	(10,361)
(Increase) decrease in assets:		
Accounts receivable	(3,740,191)	(1,013,745)
Estimated third-party payor settlements receivable	81,750	1,014,750
Inventory	(197,084)	(265,549)
Prepaid and other current assets	7,660	-
Accrued interest income	(1,969)	8,536
Increase (decrease) in liabilities:		
Accounts payable	73,724	(529,904)
Accrued liabilities	(431,712)	639,674
Cost report settlements payable	589,004	(356,579)
Accrued postretirement benefit obligation	<u>254,942</u>	<u>126,725</u>
Net cash provided by operating activities	<u>\$ 322,684</u>	<u>\$ 4,374,482</u>

The Chippewa County War Memorial Hospital, Inc.

Notes to Financial Statements September 30, 2005 and 2004

Note 12 - Commitment

During the year ended September 30, 2005, the Hospital entered into an agreement with the City of Sault Ste. Marie for lease of a parking structure that is owned by the City. Under terms of this agreement, the Hospital has use of 100 parking spaces and is obligated to pay the City rental amounts of approximately \$87,000 per year through 2027 for the Hospital's share of debt service on the parking garage. In addition, the Hospital has agreed to reimburse the City for 25 percent of the operating expenses related to the parking deck. For the year ended September 30, 2005, the Hospital made no payments under this agreement.

The Hospital has tentative plans to construct a medical office building adjacent to the parking structure. In the event the Hospital does not build a medical office building or the property taxes generated by the medical office building do not generate sufficient revenues to the City, the Hospital has agreed to fund any shortage through 2027. The anticipated annual property tax revenue ranges from \$66,000 to \$95,000 over the life of the agreement.

Additional Information



Plante & Moran, PLLC

1010 S. Garfield Ave.
Traverse City, MI 49686
Tel: 231.947.7800
Fax: 231.947.0348
plantemoran.com

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

We have audited the basic financial statements of The Chippewa County War Memorial Hospital, Inc. as of September 30, 2005 and 2004. Our audits were made for the purpose of forming an opinion on the financial statements taken as a whole. The additional information, as listed in the table of contents, is presented for the purpose 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 auditing 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

January 4, 2006

The Chippewa County War Memorial Hospital, Inc.

Schedule of Operating Revenue

	Year Ended September 30			
	2005			2004
	Inpatient	Outpatient	Total	Total
Routine Care Revenue				
Routine care	\$ 6,099,351	\$ 332,930	\$ 6,432,281	\$ 6,627,374
ICU	1,883,273	71,794	1,955,067	2,002,693
Nursery	259,538	-	259,538	267,400
SNF	3,659,316	-	3,659,316	3,660,745
Total routine care revenue	11,901,478	404,724	12,306,202	12,558,212
Other Professional Services				
Anesthesiology	848,290	1,161,603	2,009,893	1,862,503
EKG	911,248	2,838,606	3,749,854	4,413,722
Emergency room	1,568,666	6,285,044	7,853,710	6,814,221
Laboratory	2,869,320	8,885,041	11,754,361	13,375,614
Medical supplies	918,463	670,872	1,589,335	1,618,804
Operating room	9,662,140	8,205,240	17,867,380	15,856,776
Pharmacy	5,880,474	7,222,375	13,102,849	14,150,242
Therapy services	1,519,725	6,400,784	7,920,509	7,350,286
Physician professional fees	-	5,816,625	5,816,625	3,948,757
Radiology	935,955	4,889,728	5,825,683	5,512,906
CT Scan	992,427	4,614,924	5,607,351	4,653,259
MRI	284,503	5,992,817	6,277,320	5,247,292
Nuclear medicine	542,179	4,924,003	5,466,182	5,569,170
Recovery room	546,722	797,710	1,344,432	1,370,388
Respiratory therapy	1,471,996	231,458	1,703,454	1,434,790
Sleep study	-	704,423	704,423	570,001
Other professional services	-	34,697	34,697	-
Total other professional services	28,952,108	69,675,950	98,628,058	93,748,731
Gross patient service revenue	\$ 40,853,586	\$ 70,080,674	110,934,260	106,306,943
Deductions from Revenue				
Medicare revenue deductions			(27,367,700)	(26,244,423)
Medicaid revenue deductions			(5,792,997)	(6,938,927)
Blue Cross revenue deductions			(16,157,881)	(16,259,652)
Other revenue deductions			(7,585,609)	(6,926,415)
Total revenue deductions			(56,904,187)	(56,369,417)
Net patient service revenue			54,030,073	49,937,526
Other Operating Revenue				
Cafeteria revenue			345,962	285,132
Rent income			432,123	227,457
Other revenue			564,982	745,160
Total other operating revenue			1,343,067	1,257,749
Total operating revenue			\$ 55,373,140	\$ 51,195,275

The Chippewa County War Memorial Hospital, Inc.

Selected Patient Service Data (Unaudited)

	Year Ended September 30	
	2005	2004
Routine and Special Care Services		
Admissions:		
Acute	2,663	2,737
Nursery	334	353
Average length of stay:		
Acute	3.83	3.70
Nursery	1.99	2.15
Patient days:		
Acute	10,208	10,125
Nursery	664	760
Skilled nursing facility	17,977	17,941
Swing beds	709	435
Selected ancillary services:		
Radiology procedures	73,773	52,156
Surgical cases:		
Inpatient	982	1,062
Outpatient	3,162	2,926
Emergency visits	13,395	13,088
Utilization by payor:		
Medicare	37.2 %	36.5 %
Medicaid	10.1 %	12.1 %
Blue Cross	26.7 %	27.1 %
Other	26.0 %	24.3 %
	<u>100.0 %</u>	<u>100.0 %</u>
Total		