

# 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](http://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 2005 – September 2006 (FY2006)

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

Fiscal Period Covered: October 2005 – September 2006 (FY2006)

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**

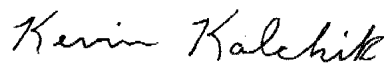
**DATED:** March 28, 2007

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 The Bank of New York Trust Company, as successor to J.P. Morgan Trust Company, N.A. (formerly known as NBD Bank), 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, 2006, 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, 2006 (FY2006)

Unless otherwise noted, all data apply to the Fiscal Year Ended September 30, 2006, or are accurate as of September 30, 2006, 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, 2006

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	12	Allergy	1	Anesthesiology	2
Internal Medicine	5	Cardiology	3	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		
<b>Total</b>	<b>17</b>	<b>Total</b>	<b>21</b>	<b>Total</b>	<b>5</b>

**MUNICIPAL SECONDARY MARKET DISCLOSURE**

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

Fiscal Year Ended September 30, 2006

Page 3

<i>Age Distribution of the Active Staff</i> <i>[OS Page A-10]</i>			
<i>Age Range</i>	<i>Number of Active Staff Physicians</i>	<i>Percent of Active Staff Physicians</i>	<i>Percent of Assigned Gross Revenue</i>
34 and under	4	9.3%	2.0%
35 - 44	13	30.2%	25.0%
45 - 54	14	32.6%	33.1%
55 - 64	11	25.6%	12.2%
65 and over	1	2.3%	1.1%
Other physicians not on the Active Staff			26.7%
<b>TOTAL</b>	<b>43</b>		
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	9,391	34,080	43,471
Outpatient Revenue	29,838	33,366	63,204
Total Assigned Revenue	39,229	67,446	106,675
Unassigned Revenue			6,863
Total Revenue			113,538
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, 2006

Page 4

<p align="center"><b>Leading Referring Physicians, Inpatient Services</b>  <b>(\$000s omitted from Inpatient Revenue Column)</b>  <b>[OS Page A-11]</b></p>						
<b>Rank</b>	<b>Specialty or Subspecialty</b>	<b>Age</b>	<b>Board-Certified / Eligible</b>	<b>Inpatient Revenue</b>	<b>Percent of Inpatient Revenue</b>	<b>Cumulative Percent</b>
1	Orthopedic Surgery	40	C	4,778	13.7%	13.7%
2	Orthopedic Surgery	46	C	3,665	10.5%	24.1%
3	Internal Medicine	50	C	2,573	7.3%	31.5%
4	Orthopedic Surgery	56	C	1,902	5.4%	36.9%
5	Family Practice	51	C	1,814	5.2%	42.1%
6	Family Practice	49	C	1,805	5.2%	47.2%
7	Family Practice	54	C	1,576	4.5%	51.7%
8	Internal Medicine	39	C	1,507	4.3%	56.1%
9	General Surgery	38	C	1,438	4.1%	60.2%
10	Family Practice	52	C	1,422	4.1%	64.2%
			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, 2006

Page 5

<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	37	C	3,656	4.9%	4.9%
2	Orthopedic Surgery	56	C	3,321	4.4%	9.3%
3	General Surgery	54	C	3,062	4.1%	13.4%
4	Internal Medicine	50	C	2,759	3.7%	17.1%
5	General Surgery	38	C	2,619	3.5%	20.6%
6	Emergency Medicine	43	C	2,443	3.3%	23.8%
7	Oncology	40	C	2,148	2.9%	26.7%
8	Emergency Medicine	62	C	2,130	2.8%	29.5%
9	Family Practice	49	C	2,041	2.7%	32.3%
10	Internal Medicine	64	C	2,004	2.7%	34.9%
			C = Certified E = Eligible			

<i>Additions to the Active and Hospital-Based Staff during FY2006 [OS Page A-13]</i>			
<i>Specialty</i>	<i>Age</i>	<i>Hospital Employee</i>	<i>Affiliation</i>
Cardiology	52	No	Marquette General Hospital
Cardiology	31	No	Northern Michigan Hospital
Emergency Medicine	36	No	N/A

**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>2006</i>	<i>2005</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>
Days in Period	365	365	366	365	365
Licensed Beds	82	82	82	82	82
Admissions	2,356	2,663	2,737	2,552	2,683
Patient Days	9,118	10,208	10,125	9,133	9,448
Observation Patients <sup>1</sup>	800	846	864	1,027	698
Average Daily Census	25.0	28.0	27.7	25.0	25.9
Average Length of Stay	3.9	3.8	3.7	3.6	3.5
Occupancy Rate (%)	30.5	34.1	33.7	30.5	31.6
<sup>1</sup> 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>2006</i>	<i>2005</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>
Days in Period	365	365	366	365	365
Licensed Beds	51	51	51	51	51
Patient Days	17,538	17,977	17,941	18,258	18,455
Average Daily Census	48.0	49.3	49.0	50.0	50.6
Occupancy Rate (%)	94.2	96.6	96.1	98.1	99.1

**MUNICIPAL SECONDARY MARKET DISCLOSURE**

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

Fiscal Year Ended September 30, 2006

Page 7

**OUTPATIENT AND ANCILLARY SERVICES**

<i>Emergency Room / Community Care Clinic (CCC)Volumes [OS Page A-14]</i>					
	<i>Fiscal Years Ended September 30</i>				
	<i>2006</i>	<i>2005</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>
Truly Emergent Visits	13,068	13,395	13,088	14,409	14,927
Change / Previous Period	(2.4)%	2.3%	(9.2)%	(3.5)%	3.5%
CCC Visits	9,091	10,146	8,906	9,400	9,332
Change / Previous Period	(10.4)%	13.9%	(5.3)%	0.7%	(2.9)%
Total ER Visits	22,159	23,541	21,994	23,809	24,259
Change / Previous Period	(5.9)%	7.0%	(7.6)%	(1.9)%	1.0%

<i>Ancillary Services Provided to Inpatients [OS Page A-15]</i>					
	<i>Fiscal Years Ended September 30</i>				
	<i>2006</i>	<i>2005</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>
Laboratory <sup>1</sup>	74,460	88,127	104,185	94,108	90,904
Electrocardiography <sup>1</sup>	3,684	5,430	7,515	7,637	6,242
Radiology & Ultrasound <sup>1</sup>	5,334	6,449	6,920	5,573	5,288
MRI Scanning <sup>1</sup>	147	147	172	168	103
CT Scanning <sup>1</sup>	1,302	1,664	1,516	1,460	1,155
Nuclear Medicine <sup>1</sup>	416	640	694	694	847
Cardiopulmonary <sup>1</sup>	23,764	27,917	32,071	28,321	24,155
Physical Therapy <sup>2</sup>	8,252	11,384	9,058	8,267	8,587
Occupational Therapy <sup>2</sup>	4,778	7,105	6,960	6,187	5,443
Speech Therapy <sup>2</sup>	447	333	352	351	360
<sup>1</sup> Procedures					
<sup>2</sup> 15-minute service encounters					

**MUNICIPAL SECONDARY MARKET DISCLOSURE**

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

Fiscal Year Ended September 30, 2006

Page 8

<i>Ancillary Services Provided to Outpatients</i> <i>[OS Page A-15]</i>					
	<i>Fiscal Years Ended September 30</i>				
	<i>2006</i>	<i>2005</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>
Laboratory <sup>1</sup>	224,382	245,309	255,356	262,372	248,933
Electrocardiography <sup>1</sup>	12,377	11,789	13,768	11,790	13,411
Radiology & Ultrasound <sup>1</sup>	23,511	30,225	28,556	30,533	29,690
MRI Scanning <sup>1</sup>	3,089	3,306	2,811	2,223	2,065
CT Scanning <sup>1</sup>	6,792	7,865	6,032	5,219	3,932
Nuclear Medicine <sup>1</sup>	4,869	6,249	5,455	5,455	4,649
Cardiopulmonary <sup>1</sup>	3,491	2,164	1,829	1,985	1,809
Physical Therapy <sup>2</sup>	50,647	57,301	54,211	55,804	55,722
Occupational Therapy <sup>2</sup>	12,101	9,310	12,767	10,662	26,375
Speech Therapy <sup>2</sup>	3,156	2,736	23,016	19,983	21,630
Audiology <sup>2</sup>	1,114	1,103	826	1,184	972
Contract Health Therapy <sup>2,3</sup>	161,784	139,798	92,858	78,479	83,127
<sup>1</sup> Procedures <sup>2</sup> 15-minute service encounters <sup>3</sup> Replaces data previously reported; these figures are volumes of therapy services provided by Corporation personnel to patients of an unaffiliated home care agency					

<i>Surgical Procedures</i> <i>[OS Page A-16]</i>					
	<i>Fiscal Years Ended September 30</i>				
	<i>2006</i>	<i>2005</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>
Inpatient	939	982	1,062	931	888
Outpatient	2,125	3,162	2,926	2,752	2,910
Total	3,064	4,144	3,988	3,683	3,798
Percent Outpatient	69.4%	76.3%	73.4%	74.7%	76.6%

**MUNICIPAL SECONDARY MARKET DISCLOSURE**

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

Fiscal Year Ended September 30, 2006

Page 9

**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>2005</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>	<i>2001</i>
War Memorial Hospital	57.2%	60.3%	59.5%	60.6%	61.3%
Northern Michigan	18.2%	14.1%	14.7%	17.1%	16.0%
Marquette General	11.1%	12.4%	11.4%	9.6%	11.1%
Munson	6.2%	5.8%	5.3%	5.2%	3.2%
Newberry	0.4%	0.6%	0.9%	0.7%	0.8%
All Other Hospitals	6.9%	6.8%	8.2%	6.8%	7.6%

Source: MHA Interactive Data System, 2001-2005  
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>2007</i>	<i>2006</i>	<i>2005</i>	<i>2004</i>	<i>2003</i>
Variable Cost Component <sup>1</sup>	\$175.13	\$177.28	\$181.54	\$174.36	\$168.36
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 <sup>1</sup>	\$180.54	\$182.69	\$186.95	\$179.77	\$173.77

<sup>1</sup> 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, 2006

Page 10

<b><i>SNF Revenue Basis</i></b> <b><i>[OS Page A-25]</i></b>					
	<b><i>Fiscal Years Ended/Ending September 30</i></b>				
	<b><i>2007</i></b>	<b><i>2006</i></b>	<b><i>2005</i></b>	<b><i>2004</i></b>	<b><i>2003</i></b>
Charge for Semi-Private Room	\$230.00	\$200.00	\$200.00	\$200.00	\$185.00
Medicaid Reimbursement Rate	\$180.54	\$182.69	\$186.95	\$179.77	\$173.77
Discount from Semi-Private Room Charge	21.5%	8.7%	6.5%	10.1%	6.1%

<b><i>SNF Payor Mix</i></b> <b><i>(expressed as percentages of gross revenue)</i></b> <b><i>[OS Page A-25]</i></b>					
	<b><i>Fiscal Years Ended September 30</i></b>				
	<b><i>2006</i></b>	<b><i>2005</i></b>	<b><i>2004</i></b>	<b><i>2003</i></b>	<b><i>2002</i></b>
Medicare	34.7%	17.5%	10.5%	11.1%	8.6%
Medicaid	51.5%	64.8%	71.9%	73.4%	65.7%
Other	13.8%	17.8%	17.6%	15.5%	25.7%
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, 2006

Page 11

**SOURCES OF ACUTE CARE REVENUE**

<i>Payor Mix</i> <i>[OS Page A-26]</i>					
	<i>Fiscal Years Ended September 30</i>				
	<i>2006</i>	<i>2005</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>
<i>By Acute Care Admissions</i>					
Medicare	41.6	43.1	41.0	41.0	44.9
Medicaid	18.3	15.9	18.3	17.9	17.2
Blue Cross	25.1	27.2	27.5	26.6	26.3
Other	15.0	13.8	13.2	14.5	11.6
Totals	100.0	100.0	100.0	100.0	100.0
<i>By Acute Care Patient-Days</i>					
Medicare	55.2	55.7	53.6	53.8	56.2
Medicaid	11.5	10.4	13.7	12.8	12.8
Blue Cross	21.1	22.3	22.0	21.2	21.4
Other	12.2	11.6	10.7	12.2	9.6
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>2006</i>	<i>2005</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>
Per Case	Adjusted Cost	\$7,066	\$6,594	\$5,893	\$5,689	\$4,966
	Case-Mix Adjusted Operating Cost	\$6,385	\$6,169	\$5,545	\$5,599	\$4,909
Notes: FY2002 – 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, 2006

Page 12

<i>Labor Productivity Measures</i> <i>[OS Page A-26]</i>					
	<i>Fiscal Years Ended September 30</i>				
	<i>2006</i>	<i>2005</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>
Adjusted FTEs per Occupied Bed <sup>1</sup>	5.46	5.35	5.26	5.56	5.43
SNF FTEs per Occupied Bed <sup>2</sup>	0.88	0.87	0.87	0.89	0.91
Total FTEs <sup>3</sup>	557.5	547.7	524.7	550.4	539.9
Percentage of Non-Productive Hours	15.6%	14.8%	13.9%	15.1%	14.6%

<sup>1</sup> FY2003 figures were revised in the FY2004 report; FY2002 – FY2004 figures were revised in the FY2005 report  
<sup>2</sup> FY2003 figures were revised in the FY2004 report; FY2002 – FY2004 figures were revised in the FY2005 report  
<sup>3</sup> 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, 2006

Page 13

**RECENT FINANCIAL PERFORMANCE**

<i>Balance Sheet Summary</i> <i>(\$000s omitted)</i> <i>[OS Page A-27]</i>					
	<i>Fiscal Years Ended September 30</i>				
	<i>2006</i>	<i>2005</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>
Cash, Cash Equivalents and Short-term Investments <sup>1</sup>	2,375	1,252	3,660	1,779	2,706
Net Patient Accounts Receivable	6,729	8,285	7,000	8,163	7,621
Other Current Assets	<u>3,480</u>	<u>4,168</u>	<u>3,937</u>	<u>4,464</u>	<u>5,318</u>
Total Current Assets	12,584	13,705	14,597	14,406	15,645
Board-Designated Investments <sup>1</sup>	4,640	4,418	4,263	4,357	4,159
Other Restricted Funds	1,755	1,723	1,734	1,724	1,700
Net Property and Equipment	13,347	13,818	14,740	13,758	14,127
Other Assets	<u>238</u>	<u>267</u>	<u>296</u>	<u>325</u>	<u>417</u>
Total Assets	<u>32,563</u>	<u>33,931</u>	<u>35,630</u>	<u>34,570</u>	<u>36,048</u>
Current Liabilities	10,125	9,493	9,521	10,045	8,742
Long-Term Obligations	10,623	11,244	12,212	11,318	12,791
Other Liabilities	954	1,441	1,186	1,060	1,027
Unrestricted Net Assets	10,861	11,753	12,711	12,147	13,488
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>32,563</u>	<u>33,931</u>	<u>35,630</u>	<u>34,570</u>	<u>36,048</u>
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					
<sup>1</sup> 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, 2006

Page 14

<b><i>Liquidity Ratios</i></b> <b><i>[OS Page A-28]</i></b>					
	<b><i>Fiscal Years Ended September 30</i></b>				
	<b><i>2006</i></b>	<b><i>2005</i></b>	<b><i>2004</i></b>	<b><i>2003</i></b>	<b><i>2002</i></b>
Days' Cash on Hand	45.8	38.1	59.4	48.0	60.3
Cushion Ratio <sup>1</sup>	2.7	2.2	2.5	2.9	3.3
Cash / Long-Term Debt	66.0%	50.4%	64.9%	54.2%	53.7%
Days in Patient Accounts Receivable	44.8	56.0	51.2	64.0	65.1
Payment Period (Days)	66.1	63.8	71.4	78.6	76.8
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					
<sup>1</sup> 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 FY2006, FY2005 and FY2004, and a HELP loan from the Michigan State Hospital Finance Authority and a capitalized lease in FY2003 and FY2002					
Maximum Annual Debt Service	2,570,005	2,561,432	3,170,910	2,107,953	2,109,082

<b><i>Capitalization Ratios</i></b> <b><i>[OS Page A-28]</i></b>					
	<b><i>Fiscal Years Ended September 30</i></b>				
	<b><i>2006</i></b>	<b><i>2005</i></b>	<b><i>2004</i></b>	<b><i>2003</i></b>	<b><i>2002</i></b>
Debt / Capitalization	49.4%	48.9%	49.0%	48.2%	48.7%
Average Age of Net Fixed Assets (Years)	12.5	12.7	12.0	11.5	11.1
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, 2006

Page 15

<b>Gross Patient Revenue by Service</b> <i>[OS Page A-28]</i>					
<b>Fiscal Years Ended September 30</b>					
	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>
Inpatient	30.8%	32.0%	33.7%	30.9%	30.6%
Outpatient	66.0%	63.6%	61.9%	64.4%	64.8%
SNF	3.2%	4.4%	4.4%	4.8%	4.6%

<b>Summary of Unrestricted Revenue and Expenses</b> <i>(\$000s omitted)</i> <i>[OS Page A-29]</i>					
<b>Fiscal Years Ended September 30</b>					
	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>
Net Patient Service Revenue	54,839	53,997	49,451	46,534	42,705
Other Operating Revenue	<u>1,620</u>	<u>1,376</u>	<u>1,017</u>	<u>1,137</u>	<u>1,048</u>
Total Operating Revenue	56,459	55,373	50,468	47,671	43,753
Depreciation Expense	2,503	2,262	2,214	2,609	2,486
Interest Expense	705	751	834	770	799
Other Operating Expenses	<u>55,189</u>	<u>53,580</u>	<u>47,093</u>	<u>45,883</u>	<u>40,742</u>
Total Operating Expenses	58,397	56,593	50,141	49,262	44,027
Income (Loss) from Operations	(1,938)	(1,220)	327	(1,591)	(274)
Other Income	<u>347</u>	<u>229</u>	<u>234</u>	<u>232</u>	<u>324</u>
Excess of Revenue over (under) Expenses	(1,590)	(991)	561	(1,360)	50
Change in Net Unrealized Gains and Losses	19	33	2	19	(47)
Extraordinary Items	<u>680</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1,366</u>
Increase (Decrease) in Unrestricted Net Assets	<u>(891)</u>	<u>(958)</u>	<u>563</u>	<u>(1,341)</u>	<u>1,369</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, 2006

Page 16

<b><i>Profitability, Cash Flow and Operational Ratios</i></b>					
<b><i>[OS Page A-29]</i></b>					
	<b><i>Fiscal Years Ended September 30</i></b>				
	<b><i>2006</i></b>	<b><i>2005</i></b>	<b><i>2004</i></b>	<b><i>2003</i></b>	<b><i>2002</i></b>
Profit Margin	(2.8)%	(1.8)%	1.1%	(2.8)%	0.1%
Operating Margin	(3.4)%	(2.2)%	0.6%	(3.3)%	(0.6)%
EBIDA Margin	2.8%	3.6%	7.1%	4.2%	7.6%
Debt Service Coverage Ratio (S&P) <sup>1,2</sup>	0.63	0.79	1.14	0.96	1.58
Debt Service Coverage Ratio (Indenture) <sup>2,3</sup>	1.58	1.70	1.76	1.62	2.08
Interest Coverage	2.3	2.7	4.3	2.6	4.2
Cash Flow / Total Liabilities	4.2%	5.7%	12.1%	5.6%	11.2%
Maximum Annual Debt Service / Total Revenue <sup>3</sup>	4.5%	4.6%	6.2%	4.4%	4.8%
Nonoperating Revenue / Total Revenue	0.6%	0.4%	0.5%	0.5%	0.7%
Bad Debt Expense / Total Operating Revenue	4.3%	4.2%	3.8%	2.9%	2.4%
<p>Note: Calculated from the Corporation's audited financial statements, using definitions published by Standard &amp; Poor's Ratings Group in <i>2000 Median Health Care Ratios</i>, October 19, 2000</p> <p><sup>1</sup> Calculated according to the published Standard &amp; Poor's definition</p> <p><sup>2</sup> 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 FY2006, FY2005 and FY2004, and a HELP loan from the Michigan State Hospital Finance Authority and a capitalized lease in FY2003 and FY2002</p> <p><sup>3</sup> 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	2,570,005	2,561,432	3,170,910	2,107,953	2,109,082

**MUNICIPAL SECONDARY MARKET DISCLOSURE**

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

Fiscal Year Ended September 30, 2006

Page 17

<i>Case-Mix Indices</i> <i>[OS Page A-30]</i>					
<i>Fiscal Years Ended September 30</i>					
	<i>2006</i>	<i>2005</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>
Medicare	1.2620	1.2034	1.2049	1.1671	1.1777
Medicaid	0.6656	0.7122	0.7524	0.6101	0.6188
Blue Cross	0.7935	0.7387	0.7549	0.7237	0.7835

<i>Top Ten DRGs, FY2006</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	297	11.0%	11.0%	1.9
373	Vaginal delivery without complicating diagnosis	196	7.3%	18.3%	1.7
127	Heart failure and shock	120	4.4%	22.7%	4.7
89	Simple pneumonia and pleurisy, age >17, with complications	117	4.3%	27.0%	3.4
544	Major joint and limb reattachment procedures, lower extremity	99	3.7%	30.7%	2.9
371	Cesarean sections without complications	92	3.4%	34.1%	2.5
416	Septicemia, age >17	63	2.3%	36.4%	7.7
88	Chronic obstructive pulmonary disease	57	2.1%	38.5%	4.1
14	Intracranial hemorrhage or cerebral infarction	48	1.8%	40.3%	3.5
138	Cardiac arrhythmia and conduction disorders with complications	44	1.6%	41.9%	2.7

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

---

**Financial Report  
with Additional Information  
September 30, 2006**

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

---

## **Contents**

<b>Report Letter</b>	1
<b>Financial Statements</b>	
Balance Sheet	2
Statement of Operations and Changes in Net Assets	3
Statement of Cash Flows	4
Notes to Financial Statements	5-16
<b>Additional Information</b>	17
<b>Report Letter</b>	18
Schedule of Operating Revenue	19



**Plante & Moran, PLLC**

Suite 300

600 E. Front St.

Traverse City, MI 49686

Tel: 231.947.7800

Fax: 231.947.0348

plantemoran.com

## 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, 2006 and 2005 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, 2006 and 2005 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*

December 21, 2006

# The Chippewa County War Memorial Hospital, Inc.

## Balance Sheet

	September 30, 2006	September 30, 2005
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 1,381,323	\$ 273,666
Short-term investments	993,407	978,627
Accounts receivable (Note 2)	7,578,436	9,319,258
Estimated third-party payor settlements	-	359,000
Inventory	2,165,860	2,258,581
Other current assets	464,652	515,939
Total current assets	12,583,678	13,705,071
<b>Assets Limited as to Use</b> (Note 4)	5,940,874	5,756,468
<b>Property and Equipment</b> (Note 5)	13,346,474	13,818,469
<b>Other Assets</b>		
Other investments	363,260	316,288
Cash surrender value of life insurance	91,498	68,266
Bond issue costs	237,695	266,831
Total assets	<b>\$ 32,563,479</b>	<b>\$ 33,931,393</b>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Current portion of long-term debt (Note 7)	\$ 1,780,000	\$ 1,840,000
Accounts payable	3,707,788	3,085,924
Estimated third-party payor settlements	885,060	1,048,259
Accrued liabilities and other:		
Accrued compensation	845,988	708,459
Accrued compensated absences	2,081,255	2,038,396
Accrued professional and other liability claims (Note 9)	175,000	175,000
Accrued interest	200,390	217,283
Other accrued liabilities	450,000	380,000
Total current liabilities	10,125,481	9,493,321
<b>Long-term Debt</b> (Note 7)	10,622,663	11,244,149
<b>Pension and Postretirement Obligations</b> (Note 6)	953,970	1,441,289
Total liabilities	21,702,114	22,178,759
<b>Net Assets - Unrestricted</b>	10,861,365	11,752,634
Total liabilities and net assets	<b>\$ 32,563,479</b>	<b>\$ 33,931,393</b>

# The Chippewa County War Memorial Hospital, Inc.

## Statement of Operations and Changes in Net Assets

	Year Ended	
	September 30, 2006	September 30, 2005
<b>Unrestricted Revenue, Gains, and Other Support</b>		
Net patient service revenue	\$ 54,839,408	\$ 53,996,904
Other	1,619,771	1,376,236
Total unrestricted revenue, gains, and other support	56,459,179	55,373,140
<b>Expenses</b>		
Salaries and wages	21,749,567	20,052,486
Fringe benefits	7,864,574	7,307,572
Operating supplies and expenses	3,007,654	2,849,267
Medical supplies and drugs	6,396,706	6,405,032
Professional fees	7,517,791	8,101,391
Dues and subscriptions	159,213	226,947
Leases and rentals	433,490	372,656
Insurance	712,002	800,803
Utilities	974,048	811,681
Education and travel	254,517	271,832
Repairs and maintenance	1,006,940	1,191,250
Dietary services	545,800	537,017
Depreciation	2,502,501	2,261,806
Provision for bad debts	2,449,433	2,332,492
Interest expense	704,916	751,304
Quality assurance tax	937,527	934,509
Other	1,180,047	1,385,078
Total expenses (Note 10)	58,396,726	56,593,123
<b>Operating Loss</b>	(1,937,547)	(1,219,983)
<b>Other Income</b>	347,456	228,839
<b>Excess of Expenses Over Revenue</b>	(1,590,091)	(991,144)
<b>Change in Unrealized Gains and Losses on Investments</b>	19,087	32,960
<b>Gain on Curtailment of Postretirement Plan (Note 6)</b>	679,735	-
<b>Decrease in Unrestricted Net Assets</b>	(891,269)	(958,184)
<b>Net Assets - Beginning of year</b>	11,752,634	12,710,818
<b>Net Assets - End of year</b>	<b>\$ 10,861,365</b>	<b>\$ 11,752,634</b>

# The Chippewa County War Memorial Hospital, Inc.

## Statement of Cash Flows

	Year Ended	
	September 30, 2006	September 30, 2005
<b>Cash Flows from Operating Activities</b>		
Cash received from patients and third-party payors	\$ 54,326,598	\$ 50,960,636
Cash paid to suppliers and employees	(51,531,200)	(51,539,991)
Investment income received	359,495	281,140
Interest paid	(692,673)	(722,168)
Other cash receipts	1,619,771	1,343,067
Net cash provided by operating activities (Note 11)	4,081,991	322,684
<b>Cash Flows from Investing Activities</b>		
Purchase of property and equipment	(2,030,506)	(1,340,362)
Purchase of investments	(2,705,397)	(3,198,052)
Proceeds from sale and maturities of investments	2,513,258	3,337,152
Other investing activities	(70,204)	-
Net cash used in investing activities	(2,292,849)	(1,201,262)
<b>Cash Flows from Financing Activities</b>		
Proceeds from issuance of long-term debt	1,231,375	850,788
Principal payments of long-term debt	(1,912,860)	(2,077,597)
Net cash used in financing activities	(681,485)	(1,226,809)
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	1,107,657	(2,105,387)
<b>Cash and Cash Equivalents - Beginning of year</b>	273,666	2,379,053
<b>Cash and Cash Equivalents - End of year</b>	<b>\$ 1,381,323</b>	<b>\$ 273,666</b>

The Hospital had a \$679,735 noncash gain on curtailment of the postretirement plan.

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

---

## **Notes to Financial Statements September 30, 2006 and 2005**

### **Note I - Nature of Business and Significant Accounting Policies**

**Reporting Entity and Corporate Structure** - The Chippewa County War Memorial Hospital, Inc. (the "Hospital") is located in Sault Ste. Marie, Michigan and 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 disclosures 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 the 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 the 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, 2006 and 2005

### **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.

**Bond Issue Costs** - Bond issue costs 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 fines, penalties, and exclusion from the Medicare and Medicaid programs.

# The Chippewa County War Memorial Hospital, Inc.

---

## Notes to Financial Statements September 30, 2006 and 2005

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

**Excess of 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 retired employees. 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 Section 501(c)(3) of the Internal Revenue Code (the "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, 2006 and 2005

### Note 2 - Accounts Receivable

Accounts receivable consist of the following:

	<u>2006</u>	<u>2005</u>
Patients, insurance companies, and governmental agencies	\$ 20,729,877	\$ 19,175,784
Less:		
Allowance for uncollectible accounts	(3,550,842)	(2,641,197)
Allowance for contractual adjustments and interim payment advances	<u>(10,450,086)</u>	<u>(8,249,566)</u>
Net patient accounts receivable	6,728,949	8,285,021
Other accounts receivable	<u>849,487</u>	<u>1,034,237</u>
Total accounts receivable	<u>\$ 7,578,436</u>	<u>\$ 9,319,258</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 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>Percentage</u>	
	<u>2006</u>	<u>2005</u>
Medicare	32	23
Blue Cross	19	23
Medicaid	10	12
Commercial	26	28
Patients	<u>13</u>	<u>14</u>
Total	<u>100</u>	<u>100</u>

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

---

## **Notes to Financial Statements September 30, 2006 and 2005**

### **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 pay.
- **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 are 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, 2006 and 2005

### Note 4 - Assets Limited as to Use

Assets limited as to use are composed of the following:

	<u>2006</u>	<u>2005</u>
Assets limited as to use:		
Designated by the board of trustees for replacement, improvement, and expansion of property and equipment:		
Money market funds	\$ 289,678	\$ 224,245
Certificate of deposit	100,000	100,000
Common stock	1,058,902	963,993
Corporate bonds	703,958	551,373
United States government obligations	2,349,100	2,468,975
Accrued interest	<u>47,727</u>	<u>41,018</u>
Total	4,549,365	4,349,604
Bond indenture assets (see Note 7) held by bank trust department:		
Money market funds	18,320	20,181
United States government obligations	1,357,765	1,378,916
Accrued interest	<u>15,424</u>	<u>7,767</u>
Total	<u>1,391,509</u>	<u>1,406,864</u>
Total assets limited as to use	<u>\$ 5,940,874</u>	<u>\$ 5,756,468</u>

Assets held under the bond indenture agreements as September 30, 2006 and 2005 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, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Income:		
Interest and dividends	\$ 214,157	\$ 198,660
Realized gains (losses)	<u>2,327</u>	<u>(54,270)</u>
Total	<u>\$ 216,484</u>	<u>\$ 144,390</u>
Other changes in unrestricted net assets -		
Change in net unrealized gains	\$ 19,087	\$ 32,960

# The Chippewa County War Memorial Hospital, Inc.

## Notes to Financial Statements September 30, 2006 and 2005

### Note 5 - Property and Equipment

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

	2006	2005	Depreciable Life - Years
Land	\$ 2,299,927	\$ 2,299,927	-
Land improvements	86,716	81,928	10-20
Buildings	21,085,362	20,939,539	10-50
Equipment	20,428,468	18,810,320	3-20
Construction in progress	691,433	429,687	
Total cost	44,591,906	42,561,401	
Accumulated depreciation	<u>(31,245,432)</u>	<u>(28,742,932)</u>	
Net property and equipment	<u>\$ 13,346,474</u>	<u>\$ 13,818,469</u>	

Construction in progress at September 30, 2006 is composed of costs related to renovations to the Hospital that are being funded from internal operations.

### Note 6 - Postretirement Benefits

During the year ended September 30, 2006, the Hospital approved changes to the postretirement health care plan whereas only persons retired prior to July 1, 2006 are eligible to receive benefits. The impact of this change was a reduction in the accrued postretirement benefit cost of \$679,735.

Under provisions of the plan, retirees under age 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, 2006 and 2005:

	2006	2005
Unrecognized prior service cost	\$ (495,727)	\$ (1,281,398)
Unrecognized net loss	1,396,683	3,390,619
Accumulated benefit obligation	<u>(1,854,926)</u>	<u>(3,550,510)</u>
Total accrued postretirement benefit cost	<u>\$ (953,970)</u>	<u>\$ (1,441,289)</u>
Employer contributions	\$ 264,160	\$ 152,359
Employee contributions	82,912	-
Benefit and administrative payments	347,072	152,359

# The Chippewa County War Memorial Hospital, Inc.

## Notes to Financial Statements September 30, 2006 and 2005

### Note 6 - Postretirement Benefits (Continued)

	2006	2005
Actuarial assumptions:		
Weighted average discount rate	6.00 %	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.

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

2007	\$ 127,648
2008	124,838
2009	129,477
2010	132,141
2011	132,155
2012 - 2016	658,318

### Note 7 - Long-term Debt

Long-term debt at September 30, 2006 and 2005 is as follows:

	2006	2005
Revenue bonds payable	\$ 8,665,000	\$ 9,460,000
Note payable - Real estate	1,065,050	1,100,788
Note payable - Unsecured	407,327	456,420
Note payable - Equipment #1	458,595	696,257
Note payable - Equipment #2	1,152,022	781,781
Other	654,669	588,903
Total	12,402,663	13,084,149
Less current portion	(1,780,000)	(1,840,000)
Long-term portion	<u>\$ 10,622,663</u>	<u>\$ 11,244,149</u>

- 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 payable on May 1 and November 1 of each year.

# The Chippewa County War Memorial Hospital, Inc.

## Notes to Financial Statements September 30, 2006 and 2005

### Note 7 - Long-term Debt (Continued)

- Note payable - Real estate - This note bears interest at 4.25 percent and is due in monthly installments of \$8,822, including interest, with any remaining balance due in September 2010. This note is collateralized by a real estate mortgage.
- Note payable - Unsecured - This note bears interest at 3.85 percent and is due in monthly installments of \$5,483 including interest. This note is unsecured.
- Note payable - Equipment #1 - This note bears interest at 4.25 percent and is due in monthly installments of \$21,891 including interest. This note is collateralized by equipment.
- Note payable - Equipment #2 - This note bears interest at 4.25 percent and is due in monthly installments of \$37,065 including interest. This allows for draws totaling \$2,000,150 and, as of September 30, 2006, the Hospital has \$375,150 left to draw against this note. This note is collateralized by equipment.

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 year ended September 30, 2015.

Minimum principal payments and sinking fund requirements on long-term debt to maturity as of September 30, 2006 are as follows:

	<u>Principal</u>	<u>Sinking Fund</u>	<u>Total</u>
2007	\$ 1,780,000	\$ -	\$ 1,780,000
2008	1,776,585	-	1,776,585
2009	518,773	940,000	1,458,773
2010	194,736	985,000	1,179,736
2011	1,065,217	1,050,000	2,115,217
2012 and after	132,352	3,960,000	4,092,352
Total minimum payments	<u>\$ 5,467,663</u>	<u>\$ 6,935,000</u>	<u>\$ 12,402,663</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 \$706,724 and \$687,148 for the years ended September 30, 2006 and 2005, respectively.

# The Chippewa County War Memorial Hospital, Inc.

## Notes to Financial Statements September 30, 2006 and 2005

### Note 9 - Professional Liability Insurance

The Hospital is insured against potential professional liability claims under a claims-made policy, whereby only 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 for both September 30, 2006 and 2005.

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.

### 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>2006</u>	<u>2005</u>
Health care services	\$ 43,010,532	\$ 41,766,945
General and administrative	<u>15,386,194</u>	<u>14,826,178</u>
Total	<u>\$ 58,396,726</u>	<u>\$ 56,593,123</u>

# The Chippewa County War Memorial Hospital, Inc.

## Notes to Financial Statements September 30, 2006 and 2005

### Note 11 - Cash Flows

A reconciliation of the decrease in net assets to net cash from operating activities is as follows:

	<u>2006</u>	<u>2005</u>
Decrease in net assets	\$ (891,269)	\$ (958,184)
Adjustments to reconcile decrease in net assets to net cash from operating activities:		
Depreciation and amortization	2,531,637	2,290,942
Provision for uncollectible accounts	2,449,433	2,332,492
Net realized and unrealized (gains) losses on investments	(21,414)	21,310
Gain on curtailment of postretirement plan (Note 6)	(679,735)	-
(Increase) decrease in assets:		
Accounts receivable	(708,611)	(3,740,191)
Estimated third-party payor settlements receivable	359,000	81,750
Inventory	92,721	(197,084)
Prepaid and other current assets	51,287	7,660
Accrued interest income	14,366	(1,969)
Increase (decrease) in liabilities:		
Accounts payable	621,864	73,724
Accrued liabilities	233,495	(431,712)
Cost report settlements payable	(163,199)	589,004
Accrued postretirement benefit obligation	192,416	254,942
Net cash provided by operating activities	<u>\$ 4,081,991</u>	<u>\$ 322,684</u>

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

---

## **Notes to Financial Statements September 30, 2006 and 2005**

### **Note 12 - Commitment**

During the year ended September 30, 2005, the Hospital entered into an agreement with the City of Sault Ste. Marie (the "City") 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, 2006, the Hospital made payments of \$91,233. The Hospital made no payments for the year ended September 30, 2005.

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.

### **Note 13 - Subsequent Event**

Subsequent to September 30, 2006 the Hospital has committed to a major renovation and equipment replacement program for the radiology department. The estimated cost of this project is \$5,000,000, which includes renovation, replacement of the computed tomography (CT) unit, and the addition of magnetic resonance imaging (MRI).

The Hospital intends to finance the majority of this project with tax-exempt financing from the local bank.

## **Additional Information**

---



**Plante & Moran, PLLC**

Suite 300

600 E. Front St.

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, 2006 and 2005. 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 has not been subjected to the auditing procedures applied in the audits of the basic financial statements, and, accordingly, we express no opinion on it.

*Plante & Moran, PLLC*

December 21, 2006

# The Chippewa County War Memorial Hospital, Inc.

## Schedule of Operating Revenue

	Year Ended September 30			
	2006			2005
	Inpatient	Outpatient	Total	Total
<b>Routine Revenue</b>				
Routine care	\$ 5,499,144	\$ 216,276	\$ 5,715,420	\$ 6,432,281
ICU	1,842,420	85,188	1,927,608	1,955,067
Nursery	270,101	-	270,101	259,538
SNF	3,576,582	-	3,576,582	3,659,316
Total routine revenue	11,188,247	301,464	11,489,711	12,306,202
<b>Other Professional Services</b>				
Anesthesiology	810,783	1,208,228	2,019,011	2,009,893
EKG	923,643	3,032,530	3,956,173	3,749,854
Diabetic education	-	6,718	6,718	1,528
Emergency room	1,355,270	6,246,000	7,601,270	7,853,710
Laboratory	2,719,081	9,200,495	11,919,576	11,754,361
Medical supplies	844,592	636,583	1,481,175	1,589,335
Operating room	8,878,480	8,679,798	17,558,278	17,867,380
Pharmacy	5,636,547	7,386,256	13,022,803	13,102,849
Therapy services	1,460,633	7,203,836	8,664,469	7,920,509
Physician office	-	8,434,595	8,434,595	5,816,625
Radiology	830,350	5,171,996	6,002,346	5,825,683
CT scan	931,330	4,755,129	5,686,459	5,607,351
MRI	304,788	5,789,186	6,093,974	6,277,320
Nuclear medicine	468,148	5,049,352	5,517,500	5,466,182
Recovery room	469,256	916,783	1,386,039	1,344,432
Respiratory therapy	1,759,573	246,369	2,005,942	1,703,454
Sleep study	-	691,580	691,580	704,423
Total other professional services	27,392,474	74,655,434	102,047,908	98,594,889
Gross patient service revenue	<b>\$ 38,580,721</b>	<b>\$ 74,956,898</b>	113,537,619	110,901,091
<b>Deductions from Revenue</b>				
Medicare revenue deductions			(29,361,097)	(27,367,700)
Medicaid revenue deductions			(6,274,993)	(5,792,997)
Blue Cross revenue deductions			(16,438,146)	(16,157,881)
Other revenue deductions			(6,623,975)	(7,585,609)
Total revenue deductions			(58,698,211)	(56,904,187)
Net patient service revenue			54,839,408	53,996,904
<b>Other Operating Revenue</b>				
Cafeteria revenue			334,432	345,962
Rent income			349,106	432,123
Other revenue			936,233	598,151
Total other operating revenue			1,619,771	1,376,236
Total operating revenue			<b>\$ 56,459,179</b>	<b>\$ 55,373,140</b>