MANAGEMENT DISCUSSION AND ANALYSIS AND
FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

DCH
SYSTEM

DICKINSON COUNTY HEALTHCARE SYSTEM

(A COMPONENT UNIT OF DICKINSON COUNTY)

IRON MOUNTAIN, MICHIGAN

DICKINSON COUNTY HEALTHCARE SYSTEM

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Michigan Department of Treasury
496 (02/06)

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type	Local Unit Name	County
☐County ☐City ☐Twp ☐Village ☒Other	Dickinson County Healthcare System	Dickinson

Fiscal Year End	Opinion Date	Date Audit Report Submitted to State
12/31/07	04/17/08	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

		YES	NO	**Check each applicable box below.** (See instructions for further detail.)
	1.	☒	☐	All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
	2.	☒	☐	There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
N/A	3.	☐	☐	The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
	4.	☒	☐	The local unit has adopted a budget for all required funds.
	5.	☒	☐	A public hearing on the budget was held in accordance with State statute.
	6.	☒	☐	The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
N/A	7.	☐	☐	The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
	8.	☒	☐	The local unit only holds deposits/investments that comply with statutory requirements.
	9.	☒	☐	The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan,* as revised (see Appendix H of Bulletin).
	10.	☒	☐	There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
	11.	☒	☐	The local unit is free of repeated comments from previous years.
	12.	☒	☐	The audit opinion is UNQUALIFIED.
	13.	☒	☐	The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
	14.	☒	☐	The board or council approves all invoices prior to payment as required by charter or statute.
	15.	☒	☐	To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)
Financial Statements	☒	
The letter of Comments and Recommendations	☒	
Other (Describe)	☐	

Certified Public Accountant (Firm Name)		Telephone Number	
Eide Bailly LLP		701-239-8500	
Street Address	**City**	**State**	**Zip**
4310 17th Ave S, PO Box 2545	Fargo	ND	58108
Authorizing CPA Signature	**Printed Name**	**License Number**	
Richard Adler	Richard A. Steen, CPA	1101029379	

INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
Dickinson County Healthcare System
Iron Mountain, Michigan

We have audited the accompanying balance sheets of Dickinson County Healthcare System (a component unit of Dickinson County) as of December 31, 2007 and 2006, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Healthcare System'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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only Dickinson County Healthcare System and are not intended to present fairly the financial position of Dickinson County, Michigan, and do not reflect the results of its operations and cash flows of its proprietary funds in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Dickinson County Healthcare System as of December 31, 2007 and 2006, and the results of its operations, changes in net assets, and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

4310 17th Ave. S ▮ PO Box 2545 ▮ Fargo, North Dakota 58108-2545 ▮ Phone 701.239.8500 ▮ Fax 701.239.8600 ▮ EOE

Management's discussion and analysis on pages 3 through 14 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on management's discussion and analysis.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 17, 2008, on our consideration of **Dickinson County Healthcare System**'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Eide Bailly LLP

Fargo, North Dakota
April 17, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of Dickinson County Healthcare System's (Healthcare System's) financial performance provides an overview of financial activities for the fiscal years that ended on December 31, 2007, 2006, and 2005. This financial report is designed to provide our local citizens, customers, and creditors with a general overview of the System's finances and to demonstrate the System's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Healthcare System's Financial Offices, 1721 S. Stephenson Avenue, Iron Mountain, Michigan, 49801.

FINANCIAL HIGHLIGHTS

Year Ended December 31, 2007

- The Healthcare System's net assets increased in 2007 by $1.7 million, or 4.7% with income before capital contributions of $1.4 million, comprised of operating income of $2.6 million less non-operating expenses in excess of revenue of $1.2 million, plus $232 thousand of capital contributions for the net annual addition in total Net Assets.
- During 2007, the Healthcare System's total operating revenues of $69.3 million increased by $2.7 million or 4.0% over the $66.7 million in 20066, while expenses of $66.7 million in 2007 were 5.3% above the $63.4 million in 2006. The resulting operating income for 2007 of $2.6 million was 3.8% of total operating revenue compared to 4.9% in 2006.
- The following major projects and service enhancements were completed in 2007:
    - The Healthcare System completed the installation of a new Hospital Information System, including a hospital electronic medical record in December 2007. It also includes modules for patient finance, registration, scheduling, pharmacy and nursing documentation. The system allows physicians to review and complete their hospital medical records from any computer with Internet access. Operating efficiencies are anticipated.
    - In December 2007 a project was also completed that upgrades the digital transcription system with voice recognition and other enhancements to permit electronic document production. In addition to reducing the turn-around time for document completion, it permits remote access for physicians and the medical transcriptionists who will edit the documents for final approval and electronic signature. A separate module was implemented to permit the radiologists to complete and sign their own electronic reports, integrated with their workflow in the radiology system and with the electronic medical record system.
    - A new digital fluoroscopy room replaced older technology to provide a quicker and more reliable image without the use of film for exams of organ function, vascular studies and interventional procedures.
    - The UP Sleep Disorders Center implemented new technology to treat complex apnea, which involves obstructive apnea. This treatment technology is new to the United States.
    - New technology to provide Instant Vertebral Assessment was acquired to provide rapid, ten-second, low-does x-ray scans of patient spines to see vertebral fractures before pain causing nerve impingement occurs in osteoporotic fractures.

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- A new technology known as a Vein Viewer that maps a patient's internal vein structure directly on their skin was acquired and used on pediatric patients, cancer patients and in trauma situations.

- Ongoing physician recruiting resulted in the addition of a cardiologist, a general surgeon and an obstetrician/gynecologist in 2007.

Years Ended December 31, 2007 and 2005

- The Healthcare System's net assets increased in 2007 by $1.9 million, or 5.5% with income before capital contributions of $1.9 million, comprised of operating income of $3.3 million less non-operating expenses in excess of revenue of $1.4 million, plus $8 thousand of capital contributions for the annual addition in total Net Assets. Net assets increased in 2006 by $1.2 million, or 3.7%.

- During 2007, the Healthcare System's total operating revenue of $66.7 million increased by $3.8 million or 6.0% over the $62.9 million in 2006, while expenses of $63.4 million in 2007 were 5.1% above the $60.4 million in 2006. The resulting operating income for 2007 was 4.9% of total operating revenue compared to 4.1% in 2006.

- The following major projects and service enhancements were completed in 2006 and 2005:

  - Begun in 2005, the picture archiving and communications system (PACS) was completed in 2006 and additional modules for orthopedics and nuclear medicine were added. Image conversion from a prior system was also completed. Significant savings in film costs were realized. The system has the ability to serve as the repository of images from other clinical departments as well to provide additional savings in years to come.

  - The construction of the addition to the hospital facility, which was opened in 2005, allowed for the consolidation of cardiac rehabilitation with other components of the rehabilitation department near the front lobby for patient convenience and efficiency purposes, and it also provided space for additional conference rooms in the lower level. In turn that opened up space that had been used for those functions in the Dickinson Medical Building (DMB), which is connected to the hospital, for several enhancements to our services there in 2006, including the Pediatrics Clinic, the Upper Peninsula Sleep Disorder Center and the Internal Medicine/Nephrology Clinic.

  - Ongoing physician recruiting activities added an Internal Medicine/Nephrologist and a pediatrician to our service area in 2006, and an orthopedic surgeon and an urologist were recruited in 2005.

The source of funding for capital projects in all years from current and prior years' operations and capital contributions from the public through the Dickinson County Hospital Foundation. Additional funding was derived from the proceeds of a $5 million debt issue in August 2004 for projects completed in 2006 and 2005. No government funding from taxes or any other source was used for capital or operating purposes.

REQUIRED FINANCIAL STATEMENTS

The Basic Financial Statements of the Healthcare System report financial activities and financial status.

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The *Balance Sheet* includes all assets, liabilities and net assets. It provides information about the nature and amounts of cash, receivables and investments in resources (assets) and the obligations to creditors (liabilities) at the end of each year presented. A summary table of this statement is presented later in this discussion and analysis. The *Statement of Revenues, Expenses, and Changes in Net Assets* measures the annual financial performance of operations and reports all non-operating revenue and expense items, capital contributions and the net increase in Net Assets. A summary table of this statement is presented later in this discussion and analysis. The *Statement of Cash Flows* shows the cash provided by or used in operating, financing, and investing activities in each of the last two years, and accounts for the change in the cash on hand at the beginning and end of the two preceding annual periods.

FINANCIAL ANALYSIS OF THE SYSTEM

The condensed *Balance Sheets* of the Healthcare System as of December 31, 2007, 2006, and 2005 are summarized in the following table.

CONDENSED BALANCE SHEETS
DECEMBER 31, 2007, 2006, AND 2005 (in thousands)

	2007	2006	2005
Total current assets (includes the current portion of restricted assets)	$ 23,559	$ 18,555	$ 15,522
Cash and investments internally designated for capital acquisitions	3,728	7,089	10,171
Cash and investments internally designated for other purposes	4,281	4,104	1,070
Cash and investments restricted by bond indentures	2,129	1,930	3,609
Deferred financing costs, net	252	275	299
Capital assets, net	46,034	45,728	45,604
TOTAL ASSETS	$ 79,983	$ 77,681	$ 76,275
Total current liabilities	$ 11,047	$ 9,520	$ 8,880
Long-term debt, net of current portion	30,507	31,359	32,384
Other long-term liabilities	745	795	890
TOTAL LIABILITIES	42,299	41,674	42,154
TOTAL NET ASSETS	37,684	36,007	34,121
TOTAL LIABILITIES AND NET ASSETS	$ 79,983	$ 77,681	$ 76,275

Current Assets and Liabilities:

Net patient accounts receivable increased to 52.8 days' of net revenue at December 31, 2007 compared to 43.5 at December 31, 2006 and 39.8 at December 31, 2005. The 2007 increase continues the trend experienced in 2006 and is also attributable to delays in generating patient bills as a result of the computer system conversion on December 3, 2007. The 2006 increase is partly attributable to the fact that the Healthcare System experienced an increase in privately-insured patients with higher deductibles and co-insurance, resulting in more receivables from patients after insurance payments were applied. Such balances take longer to collect. There was also a staffing shortage in December 2006 that caused a slight delay in coding the medical record, which delays the billing to Medicare and other insurance companies.

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Additional short-term cash that otherwise would have been transferred to long-term investments was held in money market accounts and other short-term investments because of higher returns on these liquid funds in 2007 compared to 2006, and these amounts also increased in 2006 compared to 2005 for the same reason. Total current assets increased 27.0% in 2007 and 19.5% in 2006.

Current liabilities at December 31, 2007 are 16.0% higher than December 31, 2006, which in turn were 7.2% higher than December 31, 2005, because of higher liabilities in most categories.

The Healthcare System's current ratio (current assets divided by current liabilities) is 2.13 at December 31, 2007, 1.95 at December 31, 2006, and 1.75 at December 31, 2005.

Total Cash and Investments:

The number of days of total cash and investments was 106.9 at December 31, 2007, 117.8 at December 31, 2006, and 124.4 at December 31, 2005. Excluding the restricted amounts, the ratios for 2007, 2006, and 2005 were 88.8 days, 99.9 days, and 95.0 days respectively.

The total cash and investments at December 31, 2007 were $20.3 million including restricted funds of $3.4 million. Total cash and investments at December 31, 2006 were $21.0 million including restricted funds of $3.2 million. Total cash and investments at December 31, 2005 were $20.9 million including $4.8 million of restricted funds, of which $1.4 million were expended in 2006 to complete a construction project with funds from the 2004 Bond Issue.

Long-Term Debt:

The Healthcare System had long-term debt of $30.5 million at December 31, 2007, $31.4 million at December 31, 2006, and $32.4 million at December 31, 2005 (net of current maturities of $1.5 million in 2007 and $1.3 million in 2006 and 2005). During 2007, the Healthcare System recorded the liability for certain equipment provided by Marquette General Hospital (Marquette) under the terms of an existing agreement whereby the two hospitals jointly operate Megavoltage Radiation Therapy services at the Healthcare System's facility. In February 2008, a note payable with Marquette was entered into and monthly payments on the note will be made over the remainder of the present agreement, which terminates in January 2011. No new debt or capital leases were issued in 2006 or 2005. The long-term portion of long-term debt represents 97.6% of the Healthcare System's total long-term liabilities and 72.1% of total liabilities at December 31, 2007 as compared to 97.5% and 75.2% at December 31, 2006 and 97.3% and 76.8% at December 31, 2005. The debt service coverage ratio for the years ended December 31, 2007, 2006, and 2005 was 2.38, 2.56, and 2.24 respectively. The 2007 ratio decreased from 2006 due to lower operating income in 2007 compared to 2006. The 2006 ratio improved from 2005 because of higher operating income in 2006 than in 2005.

Net Assets:

The overall increase in net assets and in the unrestricted component each year was due to operating income and capital contributions. The amount invested in capital assets, net of related debt increased each year due to the net effects of capital expenditures, the annual depreciation, and the payment of debt principal. The restricted amount for capital asset acquisitions in 2005 represented the unexpended portion of the proceeds from the August 2004 debt issue, which was spent for capital projects in 2006. The restricted amount for debt service represents the funds held by the trustee for the Series 1999 bonds, and this amount increased in 2007 because an advance deposit of amounts due January 1, 2008 was made in late December 2007, and decreased in 2006 and 2005 due to the reduction in the related debt service requirements. These components are presented in the following table:

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Components of Net Assets (in thousands):

	December 31, 2007	December 31, 2006	December 31, 2005
Invested in capital assets, net of related debt	$ 14,318	$ 13,362	$ 12,305
Restricted by Revenue Bond Indentures, expendable for capital assets	-	-	1,412
Restricted by Revenue Bond Indentures, expendable for debt service	3,431	3,186	3,411
Unrestricted	19,935	19,459	16,993
Total net assets	$ 37,684	$ 36,007	$ 34,121

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

The condensed statements of revenues, expenses, and changes in net assets of the Healthcare System for the years ended December 31, 2007, 2006, and 2005 is summarized in the following table.

CONDENSED STATEMENTS OF REVENUE, EXPENSES, AND CHANGES IN NET ASSETS YEARS ENDED DECEMBER 31, 2007, 2006, AND 2005 (in thousands)

	2007		2006		2005	
REVENUE AND (EXPENSES):						
Net patient service revenue	$ 68,753	99.1%	$ 66,122	99.2%	$ 62,400	99.1%
Other revenue	591	0.9%	555	0.8%	541	0.9%
Total operating revenue	69,344	100.0%	66,677	100.0%	62,941	100.0%
Total operating expenses	66,745	96.3%	63,411	95.1%	60,352	95.9%
OPERATING INCOME	2,599	3.7%	3,266	4.9%	2,589	4.1%
Investment income	1,067	1.5%	992	1.5%	911	1.4%
Change in unrealized gains and losses on investments	119	0.2%	(21)	0.0%	(180)	-0.3%
Interest expense	(2,143)	-3.1%	(2,298)	-3.4%	(2,210)	-3.5%
Other non-operating revenue and expenses (net)	(197)	-0.3%	(61)	-0.1%	(84)	-0.1%
Non-operating expenses in excess of revenue	(1,154)	-1.7%	(1,388)	-2.1%	(1,563)	-2.5%
INCOME BEFORE CAPITAL CONTRIBUTIONS	1,445	2.1%	1,878	2.8%	1,026	1.6%
CAPITAL CONTRIBUTIONS	232		8		197	
INCREASE IN NET ASSETS	1,677		1,886		1,223	
NET ASSETS - BEGINNING OF YEAR	36,007		34,121		32,898	
NET ASSETS - END OF YEAR	$ 37,684		$ 36,007		$ 34,121	

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BUDGETS

As required by the Bylaws, Management prepares an annual budget for the approval of the Board of Trustees of the Healthcare System. The Current Budget as approved consists of an operating budget, a cash flow budget and a three-year capital budget together with the capital plan that identifies the source of funds for capital financing. Operating statistics that serve as assumptions underlying the financial amounts in the budgets are also budgeted. On a monthly basis, actual financial and statistical amounts are compared to budgeted amounts and variances are monitored and controlled.

The revenue and expenses that were budgeted for the current year and the resultant variances were as follows:

BUDGET AND VARIANCES FROM ACTUAL
YEAR ENDED DECEMBER 31, 2007 (in thousands)

	Budgeted Amount	Variance* from Actual	% Variance
Total operating revenue	$ 69,805	$ (461)	-0.7%
Total operating expenses	(67,298)	553	0.8%
Operating income	2,507	92	3.7%
Net nonoperating revenue (expenses)	(1,370)	216	15.8%
Income before capital contributions	1,137	308	27.1%
Capital contributions	75	157	209.3%
Increase in net assets	$ 1,212	$ 465	38.4%

*In the variance column of this table, a negative value (-) indicates an unfavorable variance to budget.

Budget variances in operating revenue and operating expenses relate to patient volumes, which were unfavorable. Expenses were controlled relative to patient activity and there was a premium rebate related to the prior year's employee health insurance cost that was not anticipated in the budget. Investment returns were higher than anticipated in the budget and there was a higher loss on the sale of capital assets as the principal cause of the variance in net nonoperating expense. Actual capital contributions were received from the Dickinson County Hospital Foundation during the year for the digital fluoroscopy room in the Imaging Department, which was higher than anticipated in the budget.

Each year the Healthcare System prepares a three-year capital budget, with the two out-years subject to revision in each of the two next subsequent budget periods. The actual spending (in thousands) compared to the final budget amounts for each of the three years is as follows:

CAPITAL BUDGET
YEARS ENDED DECEMBER 31, 2007, 2006, AND 2005 (in thousands)

	2007	2006	2005
Budget	$ 5,589	$ 5,009	$ 11,064
Actual	4,938	4,521	8,088
Variance	$ 651	$ 488	$ 2,976
Variance %	11.6%	9.7%	26.9%

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Management controls the actual spending on capital projects based upon cash flow variances, and delays projects until the following quarter or the following year as necessary. The major variance in 2005 is partly attributable to the timing of major computer, equipment and building projects for that year, portions of which were delayed until 2006 and re-budgeted for that year.

Actual capital spending is discussed later under the caption: ***Capital Expenditures***.

RESULTS OF OPERATIONS

Overall results of operations of $2,599 or 3.7% of revenue for 2007 decreased from $3,266 or 4.9% of revenue for 2006, which had increased from $2,589 or 4.1% for 2005. The net nonoperating expense in excess of revenue for 2007 improved to $1,154 from $1,388 because of lower interest expense as debt principal was paid down and higher investment returns due to the performance of the markets. The net nonoperating expense in 2005 was $1,563, which reflected lower investment returns. The net result of income before capital contributions for 2007 of $1,445 was 2.1% of total operating revenue compared to $1,878 or 2.8% for 2006 and $1,026 or 1.6% for 2005.

The net inpatient revenue of the Dickinson County Memorial Hospital (DCMH) facility for 2007 comprised 33.8% of the total net patient revenue and the activities of the Healthcare System. The comparable percentages for 2006 and 2005 were 35.3% and 37.4%, respectively. The operating performance of DCMH was affected by the inpatient activity continuing to decrease relative to outpatient and physician services, with the 2007 acute adult and pediatric inpatient days relatively flat at 13,846 and discharges of 3,751 compared to 13,989 and 3,745 for 2006, which were decreased from 14,991 and 3,901 for 2005, respectively. Discharges increased 0.2% in 2007 and decreased 4.0% in 2006, while net inpatient revenue decreased 0.4% in 2007 compared to 2006 and was flat in 2006 compared to 2005. The average length of stay decreased to 3.69 in 2007 from 3.74 in 2006 and 3.84 in 2005 for annual decreases of 1.2% and 2.8% in 2007 and 2006, respectively. Decreasing lengths of stay was a strategic goal throughout these years, which does help performance by using fewer resources relative to fixed-rate reimbursement per discharge from the major third-party payers.

The net patient revenue from outpatient services and other business units, including Dickinson Home Health, Upper Peninsula Sleep Center, the Renal Dialysis Clinic, and other programs comprised 59.9% of total Healthcare System net patient revenue and its operating activities for 2007. The comparable percentages for 2006 and 2005 were 59.5% and 57.6%, respectively, reflecting increases in outpatient diagnostic, emergency and surgical visits. Net outpatient revenue increased 4.8% in 2007 and 9.3% in 2006 (the first full year of the fixed-site MRI). Total outpatient visits were 166,076 in 2007, 162,130 in 2006 and 158,287 in 2005. The 2007 and 2006 annual increases in visits were 2.4%. This growth in outpatient volumes contributes an increasing contribution margin to the Healthcare System. In addition to outpatient hospital ancillary services, these activities include strategically important programs and other programs that provide needed services to the community and, while some contribute to the overall margin, some provide losses on operations. No tax subsidies, grants or other contributions are received to offset these losses.

The net patient revenue of the Rural Health Clinics and other physician practices comprised about 6.2% of the total net patient revenue of the Healthcare System for 2007, 5.3% in 2006 and 5.0% in 2005. The revenue growth was 23.4% in 2007 and 12.0% in 2006, reflecting increases in the number of physicians of 17.7% and 12.7%, respectively. Overall, these strategically important clinics and other practices provide the communities in Dickinson County and adjacent Michigan and Wisconsin counties access to physician services that would otherwise not be available, but contribute losses on operations. There are three facilities in Northeast Wisconsin and two off campus facilities in Michigan in addition to practices which operate on our campus. The employed and contracted physicians who staff these clinics provide a significant percentage of admissions and outpatient referrals to DCMH.

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SOURCES OF FINANCIAL SUPPORT

The Healthcare System relies upon its revenues and public contributions received directly or through the Dickinson County Hospital Foundation for 100% of its financial support. No tax revenue is received either directly from local taxpayers or through fund transfers from Dickinson County or other governments. Revenue is comprised of operating revenue, which is principally from healthcare services and non-operating revenue which is principally from investment income.

Operating Revenue:

Total gross revenues for all patient services performed by the Healthcare System were $164.0 million in 2007, $152.4 million in 2006, and $141.9 million in 2005. The overall increases reflect the year-to-year differences in patient volumes and annual price increases. Gross revenue is based upon services provided at established rates before reductions for contractual and administrative allowances, charity care and allowances for uncollectible accounts.

For the years ended December 31, 2007, 2006, and 2005, the Healthcare System deducted approximately 1.0%, 1.0%, and 0.8% respectively, from its gross charges for charity care services provided to patients who documented their inability to pay. Bad debt provisions were 3.1% of gross charges in 2007, 2.5% in 2006, and 2.4% in 2005. Management estimates the allowance for uncollectible accounts by applying percentages to an aged trial balance of accounts collectible from patients, and includes provisions to account for balances currently due from insurance companies that may be subsequently denied with the ability to collect from the patient in doubt. Provisions for contractual allowances for Medicare, Medicaid, Blue Cross and other providers were over 53% of total gross charges for each of the three years.

The resulting net patient services revenue was 41.9% of gross revenue in 2007, 43.4% in 2006, and 44.0% in 2005. Net patient services revenue increased $2.6 million or 4.0% from 2005 to 2006 and $3.7 million or 5.9% from 2006 to 2007 due to the net effect of price increases, net improvement in third-party payment rates, and additional payments received in each year for prior years' cost report settlements.

Nonoperating Revenue:

Investment income was $1,067 thousand for 2007, $992 thousand for 2006, and $911 thousand for 2005. The increase in investment income in 2007 is due the effect of higher yields on the fixed income securities and money market accounts, which comprise our investments. Long-term investments are principally in bonds issued by or backed by the full faith and credit of the United States of America. The unrealized gain on investments was $119 thousand in 2007. The unrealized losses on investments were $21 thousand in 2007, $180 thousand in 2006.

Capital Contributions:

Capital contributions received during 2007 of $232 thousand consist of donations to the Healthcare System for Breast Biopsy/MRI ($80,000), a hospitality van ($7,165) and a digital fluoroscopy room ($100,000) from the Dickinson County Hospital Foundation. Capital contributions received during 2006 of $8 thousand consist of donations to the Healthcare System for several small equipment purchases for the dialysis and cardiac rehab departments. Fiscal year 2005 capital contributions of $197 thousand were for the Fixed MRI unit, upgrades to enable cardiac echo procedures and laser treatments and continuous blood glucose monitoring systems.

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EXPENDITURE OF FUNDS

Operating Expenses:

The components of operating expenses for the Healthcare System for the years ended December 31, 2007 and 2006 is summarized in the following table:

COMPONENTS OF OPERATING EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006 (in thousands)

	2007	2006	Increase/ (Decrease)	
Salaries, wages and employee benefits	$ 41,829	$ 40,044	$ 1,785	4.5%
Supplies and pharmaceuticals	8,626	8,273	353	4.3%
Professional fees and other purchased services	11,973	10,941	1,032	9.4%
Depreciation and amortization	4,317	4,152	165	4.0%
Total	$ 66,745	$ 63,410	$ 3,335	5.3%

Employee compensation and benefits increased $1,785 thousand or 4.5%. The annual average total paid full-time equivalent positions of 635.5 for 2007 increased by 1.0% from the 2006 amount of 629.0.

The cost of supplies and pharmaceuticals increased $353 thousand or 4.3%, related to patient volumes and inflation.

Professional fees, purchased services and other expenses for 2007 increased $1,032 thousand or 9.4% due to additional CRNA ($212,940), MRT locum tenens expense for 10 months for Physics and Radiation Therapy ($181,489), new OB/GYN ($122,321), professional liability insurance and related liability reserve adjustments ($129,558) and other smaller increases in Advertising, Information Systems, MRI, Laboratory and Medical Floor.

Depreciation and amortization expense for 2007 increased $165 thousand or 4.0%, principally due to new computer systems and equipment additions in 2007 and the full year effect of equipment placed in service in 2006.

The components of operating expenses for the Healthcare System for the years ended December 31, 2006 and 2005 is summarized in the following table:

COMPONENTS OF OPERATING EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005 (in thousands)

	2006	2005	Increase/ (Decrease)	
Salaries, wages and employee benefits	$ 40,044	$ 37,983	$ 2,061	5.4%
Supplies and pharmaceuticals	8,273	7,843	430	5.5%
Professional fees and other purchased services	10,941	10,696	245	2.3%
Depreciation and amortization	4,152	3,830	322	8.4%
Total	$ 63,410	$ 60,352	$ 3,058	5.1%

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Employee compensation and benefits increased $2,061 thousand or 5.4%. The annual average total paid full-time equivalent positions of 629.0 for 2007 increased by 2.4% from the 2006 amount of 614.3.

The cost of supplies and pharmaceuticals increased $430 thousand or 5.5% due to patient volumes and inflation.

Professional fees, purchased services and other expenses for 2007 increased $245 thousand or 2.3% due to normal inflation.

Depreciation and amortization expense for 2007 increased $322 thousand or 8.4%, principally due to equipment and computer systems placed in service, plus the full year effect of the building addition and MRI placed in service in mid 2005.

Non-operating Expense Items:

Interest expense was $2.1 million in 2007, $2.3 million in 2006, and $2.2 million in 2005. The Healthcare System entered into a note payable in February 2008 for certain equipment placed in service in 2007, as mentioned earlier under ***Long-Term Debt***. Interest costs through the date of the note, including the portion accruing through December 2007, were capitalized as part of the principal of the note. There was no change in debt structure during 2006 and 2006. The Healthcare System capitalized $104 thousand of interest expense in 2007 related to the hospital information system replacement project, and $18 thousand and $171 thousand of interest expense related to the construction of the building addition in 2006 and 2005, respectively.

Capital Expenditures:

Fiscal Year 2007

The major capital project in 2007 was the completion of the Hospital Information System implementation in December, which includes a hospital electronic medical record. Begun in 2005, the cost of this project, subject to further budgeted costs for post-live related project work to be done in 2008, was $3.0 million, with $1.2 million of those costs incurred in 2007. Other 2007 information technology projects included a replacement voice and text dictation system. Other major capital projects included the Radiology Room ($491,740).

Fiscal Year 2006 and 2005

Total capital expenditures were $4.5 million in 2006, including construction and renovation costs of $563 thousand, which was down from the total expenditures of $8.1 million in 2005, which had the principal costs of constructing the hospital facility building addition of $3.9 million and the $1.8 million equipment cost of the new MRI. During 2006, the Healthcare System completed the construction of the addition that had broken ground in 2004. Projects to furnish and equip the expanded Imaging and Physical Rehab areas in the addition were also completed.

The major hospital information system project costs were $1.3 million in 2006 compared to $500 thousand in 2005. Other 2006 capital spending includes other information technology projects including expenditures for digital dictation, enhancements to the picture archiving and communications system (PACS) to add additional modalities and routine equipment replacements in other departments.

Renovations in the Dickinson Medical Building for the Pediatric Clinic and the Upper Peninsula Sleep Center also commenced in 2005 with completion expected the first quarter of 2006. Costs incurred in 2005 were $197 thousand with additional expenditures of $232 thousand expected in 2006 to include both construction and furnishings.

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CURRENT ECONOMIC CONDITIONS AND RESPONDENT STRATEGIC ACTIONS

In early 2007 BellinHealth from Green Bay, Wisconsin completed the acquisition of seven primary care physician practices in Iron Mountain. These physicians, who were formerly independent, continue as members of the HealthCare System's medical staff. BellinHealth has committed to continue to work with the Healthcare System and support local care while they are now attempting to capture more tertiary care for their Green Bay facility.

The Healthcare System is continuing to see increases in bad debt expense for hospital services, as more patients are uninsured or under insured. This condition is expected to continue as the area has experienced downsizing and cutbacks. In early 2008, a major employer has announced a permanent shut-down of its paper mill in neighboring Niagara, Wisconsin that directly affects its 319 current employees. Local businesses who supply support services to the mill will also be affected.

The Dickinson Area Partnership (DAP), an association of local business and community leaders has established a program to promote local healthcare services, including physician services, to members' employees. The Healthcare System markets a Wellness Program to area businesses and this service is being included in the DAP promotions.

Management has taken action to negotiate with Blue Cross Blue Shield of Michigan to work together on mutual goals to reduce continuing out-migration of Michigan patients to Wisconsin providers. Agreements have been reached to enhance reimbursement to help fund losses on physician practices that are owned and operated by the Healthcare System, and to provide advances toward the costs of recruiting additional physicians to the community. Included in the joint plans are Internal Medicine physicians to begin a Hospitalist program that will permit the Healthcare System to treat patients with a higher level of acuity that presently are referred of transferred to Wisconsin providers.

Management entered into leases in 2007 with a primary care physician group for part of a newly constructed clinic facility in Bark River, Michigan, which is east of the Healthcare System's primary market. The Healthcare System has established Radiology and Laboratory services at the facility, and rents out examining rooms to its specialists to see patients in this adjacent service area for possible services to be performed at DCMH. Presently, Obstetrician, Urology and Orthopedic clinics will be conducted in Bark River. An ongoing arrangement with Iron County Memorial Hospital in Iron River, Michigan, which is west of the primary market, for an orthopedic surgeon to conduct weekly clinics has continued to result in cases at DCMH.

Management has been reviewing the operating losses incurred in its renal dialysis services. The Dialysis Center, which is accounted for as part of the DCMH business unit is a critical need for the community and cannot be discontinued. Efforts to sell or outsource the management of the unit have been under way in order to reduce the operating losses that have been occurring. Several more business units and programs that produce annual losses are continuing based upon the needs of the community and the strategic importance in support of the DCMH operations. Opportunities to improve efficiency and reduce losses are being implemented and further evaluations of programs and services are planned.

The Healthcare System is a member of the Upper Peninsula Healthcare Network (UPHCN) along with Marquette General Health System in Marquette, Michigan whose interests are aligned to help retain primary care in Dickinson County and meet the tertiary care needs of that market within Michigan. The Upper Peninsula Health Plan (UPHP) is owned by UPHCN members and has developed an alliance with Blue Cross Blue Shield of Michigan to provide a network of Michigan providers. The Healthcare System currently uses that network for its employee health plan.

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The Healthcare System is also a member of the PPL Network, a managed care network owned by BellinHealth in Green Bay, Wisconsin and other providers, to give insurance plans and employers throughout northeastern Wisconsin access to a network of physicians and hospitals. Most of the primary care physicians on the medical staff of the Healthcare System are members of that network. In addition to participating as network providers, PPL Network physicians gain certain other management services and cost savings opportunities.

The strategies to be part of both the UPHCN and the PPL Network are intended to enhance the market share of both the Healthcare System and local specialists by retaining primary care physician referrals while ensuring access to tertiary services. As these relationships and the networks develop in the local market, Management believes that cost savings opportunities for employers in our Michigan and Wisconsin service areas will be enhanced.

DICKINSON COUNTY HEALTHCARE SYSTEM
(A Component Unit of Dickinson County)
BALANCE SHEETS
DECEMBER 31, 2007 AND 2006

	2007	2006
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	**$ 8,865,372**	$ 6,383,477
Temporary investments	**7,759**	258,199
Current portion of restricted assets	**1,302,410**	1,256,346
Receivables		
Patient, net of estimated uncollectibles of $3,436,000 in 2007 and $2,681,000 in 2006	**10,681,794**	8,335,902
Other	**370,474**	154,851
Supplies and other current assets	**2,331,202**	2,166,481
Total current assets	**23,559,011**	18,555,256
NONCURRENT CASH AND INVESTMENTS		
Internally designated for capital improvements	**3,728,296**	7,088,984
Other long-term investments	**4,280,889**	4,103,694
Restricted under indenture agreement for debt service	**2,128,651**	1,929,827
Total noncurrent cash and investments	**10,137,836**	13,122,505
CAPITAL ASSETS		
Capital assets not being depreciated	**3,073,148**	4,645,844
Depreciable capital assets, net of accumulated depreciation	**42,960,775**	41,081,938
Total capital assets	**46,033,923**	45,727,782
DEFERRED FINANCING COSTS, net accumulated amortization of $211,339 in 2007 and $188,211 in 2006	**252,275**	275,403
Total assets	**$ 79,983,045**	$ 77,680,946

	2007	2006
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current maturities of long-term debt	**$ 1,460,908**	$ 1,281,924
Accounts payable		
Trade	**2,406,342**	1,894,565
Construction and capital assets	**7,759**	7,963
Estimated third-party payor settlements	**1,783,578**	1,428,105
Accrued expenses		
Salaries, wages, and related liabilities	**1,934,407**	1,631,236
Compensated absences	**2,871,931**	2,729,550
Other accrued liabilities	**308,994**	265,059
Interest	**272,410**	281,346
Total current liabilities	**11,046,329**	9,519,748
LONG-TERM LIABILITIES		
Long-term debt, less current maturities	**30,507,232**	31,358,773
Reserve for loss on general and professional liabilities claims	**745,000**	795,000
Total long-term liabilities	**31,252,232**	32,153,773
Total liabilities	**42,298,561**	41,673,521
NET ASSETS		
Invested in capital assets, net of related debt	**14,318,058**	13,362,488
Restricted - expendable for debt service	**3,431,061**	3,186,173
Unrestricted	**19,935,365**	19,458,764
Total net assets	**37,684,484**	36,007,425
Total liabilities and net assets	**$ 79,983,045**	$ 77,680,946

DICKINSON COUNTY HEALTHCARE SYSTEM
(A Component Unit of Dickinson County)
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2007 AND 2006

	2007	2006
OPERATING REVENUE		
Net patient service revenue, net of provision for bad debts of $5,089,829 in 2007 and $3,864,841 in 2006	$ 68,753,475	$ 66,121,952
Other revenue	590,503	554,769
Total operating revenue	69,343,978	66,676,721
OPERATING EXPENSES		
Salaries and wages	32,619,727	31,039,400
Employee benefits	9,209,487	9,004,864
Supplies and pharmaceuticals	8,625,793	8,272,521
Medical and other professional fees	2,161,916	2,250,336
Purchased services and other	9,810,986	8,690,747
Depreciation	4,317,281	4,152,445
Total operating expenses	66,745,190	63,410,313
OPERATING INCOME	2,598,788	3,266,408
NONOPERATING REVENUES (EXPENSES)		
Unrestricted general contributions and other	64,258	76,205
Interest and amortization expense	(2,143,106)	(2,298,080)
Loss on disposal of capital assets	(260,750)	(136,604)
Investment income	1,067,004	991,685
Change in unrealized gains and losses on investments	118,670	(21,321)
Total nonoperating revenues (expenses), net	(1,153,924)	(1,388,115)
REVENUES IN EXCESS OF EXPENSES BEFORE CAPITAL CONTRIBUTIONS	1,444,864	1,878,293
CAPITAL CONTRIBUTIONS	232,195	8,279
INCREASE IN NET ASSETS	1,677,059	1,886,572
NET ASSETS, BEGINNING OF YEAR	36,007,425	34,120,853
NET ASSETS, END OF YEAR	$ 37,684,484	$ 36,007,425

See Notes to Financial Statements

DICKINSON COUNTY HEALTHCARE SYSTEM
(A Component Unit of Dickinson County)
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2007 AND 2006

	2007	2006
OPERATING ACTIVITIES		
Receipts from and on behalf of patients	$ 66,407,583	$ 64,966,284
Receipts (payments) with third-party payors for settlements	355,473	119,338
Payments to suppliers and contractors	(29,324,810)	(28,002,465)
Payments to employees	(32,316,556)	(30,886,338)
Other receipts and payments	374,880	577,147
NET CASH FROM OPERATING ACTIVITIES	5,496,570	6,773,966
NONCAPITAL FINANCING ACTIVITY		
Unrestricted general contributions and other	64,258	76,205
CAPITAL AND CAPITAL RELATED FINANCING ACTIVITIES		
Purchase of capital assets, net	(5,061,892)	(4,521,423)
Repayment of long-term debt	(1,281,924)	(1,214,435)
Interest paid, including capitalized interest	(1,984,407)	(2,043,674)
Proceeds from issuance of long-term debt	360,857	-
Capital contributions	232,195	8,279
Proceeds from the sale of capital assets	281,519	49,735
NET CASH USED FOR CAPITAL AND CAPITAL RELATED FINANCING ACTIVITIES	(7,453,652)	(7,721,518)
INVESTING ACTIVITIES		
Purchases of investments	(3,650,400)	(6,901,903)
Proceeds from sales and maturities of investments	8,625,000	8,715,000
Investment income	1,058,253	982,935
NET CASH FROM INVESTING ACTIVITIES	6,032,853	2,796,032
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	4,140,029	1,924,685
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	7,061,474	5,136,789
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 11,201,503	$ 7,061,474
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE BALANCE SHEETS		
Cash and cash equivalents in current assets	$ 8,865,372	$ 6,383,477
Cash and cash equivalents in noncurrent cash and investments	2,336,131	677,997
Total cash and cash equivalents	$ 11,201,503	$ 7,061,474

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	2007	2006
RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES		
Operating income	**$ 2,598,788**	$ 3,266,408
Adjustments to reconcile operating income to net cash flows from operating activities		
Depreciation	**4,317,281**	4,152,445
Provision for bad debts	**5,089,829**	3,864,841
Changes in assets and liabilities		
Patient receivables, net of provision for bad debts	**(7,435,721)**	(5,020,509)
Other receivables	**(215,623)**	22,378
Supplies and other current assets	**(164,721)**	(74,166)
Accounts payable - trade	**511,777**	266,689
Estimated third-party payor settlements	**355,473**	119,338
Accrued expenses	**489,487**	271,542
Reserve for loss on general and professional liabilities claims	**(50,000)**	(95,000)
NET CASH FROM OPERATING ACTIVITIES	**$ 5,496,570**	$ 6,773,966

SUPPLEMENTAL DISCLOSURE OF CASHFLOW INFORMATION

The Healthcare System capitalized interest expense totaling $104,003 and $17,672 during 2007 and 2006.

The Healthcare System recognized $8,751 and $8,750 of the deferred gain associated with the forward purchase contract (Note 4) during 2007 and 2006. These amounts are included in investment income on the accompanying financial statements.

NOTE 1 - ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization

Dickinson County Healthcare System (Healthcare System) was formed as a county public Healthcare System in 1947. It was created to operate, control and manage all matters concerning Michigan's Dickinson County healthcare function. In 1990, the county public Healthcare System was reorganized as a health facilities corporation under Act 230 and assumed all rights, privileges, immunities and franchise of the predecessor county public Healthcare System. The Healthcare System provides acute, ambulatory, home health and certain physician services to the residents of its service area. The Board of County Commissioners approves the members of the Board of Trustees of the Healthcare System. The Healthcare System may not issue long-term debt without the County's approval. The Healthcare System is considered to be a component unit of Dickinson County.

The current Healthcare System facility was completed in 1996 on land leased from Dickinson County (County) under a one hundred year lease. Under provisions of the lease, title and ownership of all buildings and improvements constructed on the site are in the name of County. The lease places certain requirements and restrictions on the Healthcare System.

Dickinson County Healthcare System is accounted for as an enterprise fund of the County. The Healthcare System is exempt from federal and state income taxes under Section 115 of the Internal Revenue Code.

These financial statements include only the activity of the Healthcare System.

Enterprise Fund Accounting

The Healthcare System uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. Based on Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, as amended, the Healthcare System has adopted the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

The financial statements have been presented in conformity with generally accepted accounting principles as promulgated by GASB and as recommended in the Audit and Accounting Guide for Health Care Organizations published by the American Institute of Certified Public Accountants.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments, unless otherwise designated or restricted, with an original maturity of three months or less when acquired.

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Temporary Investments

Temporary investments include investments with an average maturity of three to twelve months, excluding internally designated and restricted cash and investments and other long-term investments. Temporary investments are recorded at fair value.

Patient Receivables

Patient receivables are uncollateralized patient and third-party payor obligations. Payments of patient receivables are allocated to the specific claims identified on the remittance advice or, if unspecified, are applied to the earliest unpaid claim.

The carrying amount of patient receivables is reduced by a valuation allowance that reflects management's estimate of amounts that will not be collected from patients and third-party payors. Management reviews patient receivables by payor class and applies percentages to determine estimated amounts that will not be collected from third parties under contractual agreements and amounts that will not be collected from patients due to bad debts. Management considers historical write off and recovery information in determining the estimated bad debt provision.

Supplies

Supplies are stated at lower of cost (first-in, first-out) or market.

Investments and Investment Income

Investments in debt and equity securities are reported at fair value. Fair value is determined based on quoted market prices, if available or estimated fair value using quoted market prices for similar securities. Interest, dividends, gains and losses, both realized and unrealized, on investments in debt and equity securities are included in non-operating revenues when earned.

Internally designated funds consist primarily of U.S. Treasury securities, mortgage-backed securities, and money market funds. Funds restricted under indenture agreements for debt service consists of a debt service reserve fund and principal and interest funds and are invested primarily in commercial paper with maturities that match planned expenditures and money market funds.

Funds that are available for obligations classified as current liabilities are reported in current assets.

Capital Assets

Capital asset acquisitions in excess of $1,000 are capitalized and recorded at cost. Contributed capital assets are reported at their estimated fair value at the time of their donation. All capital assets other than land and construction in progress are depreciated or amortized (in the case of capital leases) using the straight-line method of depreciation using these asset lives:

Land improvements	5-20 years
Buildings and improvements	5-40 years
Equipment	3-20 years

Costs of Borrowing

Except for capital assets acquired through gifts, contributions, or capital grants, interest cost on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. The Healthcare System capitalized $104,003 and $17,672 of interest cost in 2007 and 2006.

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Deferred Financing Costs, Original Issue Discount, and Unamortized Loss on Defeasance

Deferred financing costs are amortized over the period the related obligation is outstanding using the bonds-outstanding method.

Original issue discount is amortized over the period the related obligation is outstanding using the bonds outstanding method.

Unamortized loss on defeasance is amortized using the bonds outstanding method over the remaining life of the old obligation or the life of the new obligation, whichever is shorter (Note 7).

Amortization of deferred financing costs, original issue discount, and unamortized loss on defeasance is included in interest expense in the financial statements.

Compensated Absences

The Healthcare System has a paid-time-off (PTO) program that allows employees to earn vacation and catastrophic leave (CAT) benefits based, in part, on length of service. Employees may accumulate PTO up to a specified maximum. Employees are paid for accumulated PTO if employment is terminated. The PTO program also allows for 25% of accumulated CAT days to be paid out at retirement up to a maximum of 120 hours. CAT days not paid out are applied to years of service for pension credit calculations.

Grants and Contributions

From time to time, the Healthcare System receives grants and contributions. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as non-operating revenues. Amounts restricted to capital acquisitions are reported after non-operating revenues and expenses.

Restricted Resources

When the Healthcare System has both restricted and unrestricted resources available to finance a particular program, it is the Healthcare System's policy to use restricted resources before unrestricted resources.

Net Assets

Net assets are presented in the following three components

Net Assets Invested in Capital Assets, Net of Related Debt - Invested in capital assets net of related debt consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets.

Restricted Expendable Net Assets - Restricted expendable net assets are non-capital net assets that must be used for a particular purpose, as specified by creditor, grantors, or contributors external to the Healthcare System, including amounts deposited with trustees as required by bond indenture agreements.

Unrestricted Net Assets - Unrestricted net assets are remaining net assets that do not meet the definition of "Invested in Capital Assets Net of Related Debt" or "Restricted."

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Net Patient Service Revenue

The Healthcare System has agreements with third-party payors that provide for payments to the Healthcare System at amounts different from its established rates. Payment arrangements include prospectively determined rates, 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.

Operating Revenues and Expenses

The Healthcare System's statements of revenues, expenses, and changes in net assets distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services - the Healthcare System's principal activity. Nonexchange revenues, including grants and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

Charity Care

To fulfill its mission of community service, the Healthcare System provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Healthcare System does not pursue collection of amounts determined to qualify as charity care, they are not reported as patient service revenue.

Advertising Costs

The Healthcare System expenses advertising costs as incurred.

Risk Management

The Healthcare System is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Reclassifications

Certain items in the prior year financial statements have been reclassified for comparability purposes with the current year financial statements. These reclassifications did not affect the financial position or results of operations as previously reported.

NOTE 2 - CHARITY CARE

The Healthcare System maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy and equivalent service statistics. The amounts of charges foregone, based on established rates, were $1,650,321 and $1,582,819 for the years ended December 31, 2007 and 2006.

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NOTE 3 - NET PATIENT SERVICE REVENUE

The Healthcare System has agreements with third-party payors that provide for payments to the Healthcare System at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare: Inpatient acute care and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per visit. These rates vary according to a patient classification system based on clinical, diagnostic, and other factors. The Healthcare System's Medicare cost reports have been settled by the Medicare fiscal intermediary through the year ended December 31, 2005. The Healthcare System's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the Healthcare System.

Medicaid. Inpatient acute care services rendered to Medicaid 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. Defined capital costs are paid based on a cost reimbursement methodology for inpatient services. Outpatient services related to Medicaid program beneficiaries are reimbursed on a fee for service basis. The Healthcare System's Medicaid cost reports have been settled by the Medicaid fiscal intermediary through December 31, 1999.

Blue Cross. Inpatient and outpatient services rendered to Blue Cross subscribers are paid on a cost related methodology with final settlement determined after submission of annual cost reports by the Healthcare System and are subject to audits thereof by Blue Cross. The Healthcare System's Blue Cross cost reports have been settled by Blue Cross through December 31, 2005.

The Healthcare System has also entered into payment agreements with certain commercial insurance carriers and other organizations. The basis for payment to the Healthcare System under these agreements includes prospectively determined rates per discharge and discounts from established charges.

Laws and regulations governing the Medicare, Medicaid, and other programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Net patient service revenue for the year ended December 31, 2007 increased approximately $978,000 and for the year ended December 31, 2006 increased approximately $379,000 due to removal of allowances previously estimated that are no longer necessary as a result of final settlements and years that are no longer likely subject audits, reviews, and investigations.

A summary of patient service revenue, contractual adjustments, and provision for bad debts for the years ended December 31, 2007 and 2006 is as follows:

	2007	2006
Gross patient service revenue	**$ 164,008,144**	$ 152,359,639
Less: charity care	**(1,650,321)**	(1,582,819)
Total patient service revenue	**162,357,823**	150,776,820
Contractual adjustments		
Medicare	**(44,426,501)**	(41,675,599)
Medicaid	**(11,552,593)**	(10,203,711)
Blue Cross	**(23,536,048)**	(20,724,130)
Other	**(8,999,377)**	(8,186,587)
	(88,514,519)	(80,790,027)
Provision for bad debts	**(5,089,829)**	(3,864,841)
Total contractual adjustments and provision for bad debts	**(93,604,348)**	(84,654,868)
Net patient service revenue	**$ 68,753,475**	$ 66,121,952

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NOTE 4 - DEPOSITS, INVESTMENTS, AND INVESTMENT INCOME

Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Healthcare System's deposits may not be returned to it. The Healthcare System has a general investment policy to minimize custodial credit risk. The Healthcare System had bank balances at December 31, 2007 and 2006 as follows:

	2007	2006
Insured (FDIC)	**$ 121,558**	$ 120,114
Collateralized by corporate securities held by the pledging institution in the Healthcare System's name	**1,000,000**	1,000,000
Uncollateralized	**8,226,704**	7,462,961
Total	**$ 9,348,262**	$ 8,583,075
Carrying value	**$ 8,865,372**	$ 6,383,477

Investments

The Healthcare System's investments are reported at fair value. At December 31, 2007 and 2006, the Healthcare System's investments consisted of the following:

December 31, 2007

		Investment Maturities (in Years)			
Investment Type	Carrying Amount	Less Than 1	1-5	6-10	More Than 10
Money market funds	$ 2,336,131	$ 2,336,131	$ -	$ -	$ -
Commercial paper	3,185,838	3,185,838	-	-	-
Federal National Mortgage Association	858,328	353,936	251,485	252,907	-
Federal Home Loan Mortgage Corporation	903,534	263,203	640,331	-	-
Federal Home Loan Bank	4,018,483	851,977	2,182,678	983,828	-
Federal Farm Credit Bank	129,563	-	-	129,563	-
U.S. Treasury Note	152,699	152,699	-	-	-
Other	10,748	10,748	-	-	-
Total	$ 11,595,324	$ 7,154,532	$ 3,074,494	$ 1,366,298	$ -

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December 31, 2006

Investment Type	Carrying Amount	Investment Maturities (in Years) Less Than 1	1-5	6-10	More Than 10
Money market funds	$ 677,997	$ 677,997	$ -	$ -	$ -
Commercial paper	3,182,907	3,182,907	-	-	-
Federal National Mortgage Association	4,157,042	3,164,323	593,594	399,125	-
Federal Home Loan Mortgage Corporation	2,135,134	951,099	858,623	325,412	-
Federal Home Loan Bank	3,659,085	1,227,759	1,648,147	783,179	-
Federal Farm Credit Bank	824,181	250,235	-	573,946	-
U.S. Treasury Note	152,961	1,769	151,192	-	-
Other	3,813	3,813	-	-	-
Total	$ 14,793,120	$ 9,459,902	$ 3,251,556	$ 2,081,662	$ -

Interest Rate Risk

The Healthcare System's investment policy contains a provision that limits the investment maturities of commercial paper to 270 days as a means of managing its exposure to fair value losses arising from increasing interest rates. The investment policy does not contain a provision that limits other types of investment maturities.

Credit Risk

Michigan Compiled Laws, Section 129.91, authorizes the Healthcare System to deposit and invest in accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The Healthcare System is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. The Healthcare System complies with State Statutes with regard to credit risk. As of December 31, 2007, the Healthcare System's investment in Federal Home Loan Bank, Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, US Treasury Notes, and Federal Farm Credit Bank are rated AAA by Moody's Investors Service.

Concentration of Credit Risk

The Healthcare System currently does not place a limit on the amount it may invest with any one issuer. More than 5 percent of the Healthcare System's investments are in the following investments as of December 31, 2007:

	Percentage
Federal Home Loan Bank	34.7%
UBS Finance (Delaware) LLC - Commercial Paper	27.5%
Federal Home Loan Mortgage Corporation	7.8%
Federal National Mortgage Association	7.4%

(continued on next page)

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Healthcare System will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. At December 31, 2007 and 2006, all of the underlying securities for the Healthcare System's investments in mortgage-backed securities, repurchase agreements, and U.S. government securities are held by the counterparties in other than the Healthcare System's name. The Healthcare System does not have a deposit policy for custodial credit risk.

Summary of Carrying Amounts

The carrying amounts of the Healthcare System's deposits and investments shown above are included in the balance sheets at December 31, 2007 and 2006 as follows:

	2007	2006
Carrying amount		
Deposits	**$ 8,865,372**	$ 6,383,477
Investments	**11,595,324**	14,793,120
Forward purchase contract/deferred gain (1)	**(147,319)**	(156,070)
Total	**$ 20,313,377**	$ 21,020,527
Included in the following balance sheet captions		
Cash and cash equivalents	**$ 8,865,372**	$ 6,383,477
Temporary investments	**7,759**	258,199
Restricted assets - current portion (Note 7)	**1,302,410**	1,256,346
Internally designated for capital improvements	**3,728,296**	7,088,984
Other long-term investments	**4,280,889**	4,103,694
Restricted under indenture agreement for debt service (1)(Note 7)	**2,128,651**	1,929,827
Total	**$ 20,313,377**	$ 21,020,527

(1) A forward purchase contract was entered into in 1999 by the Healthcare System relating to certain trustee held funds associated with the Series 1999 bonds. The contract provides a fixed rate of return of 5.775% on the Debt Service Fund and the Reserve Fund investments. The contract has a maturity date of November 2024, a notional value of approximately $2,794,000 and $2,848,000 as of December 31, 2007 and 2006, respectively, and an estimated fair value of approximately $438,000 and $280,000 at December 31, 2007 and 2006, respectively. Upon inception of the agreement, the Healthcare System received a premium of $220,000 from the counter party, which is being amortized over the life of the debt, and is recorded as a deferred gain. The unamortized balance of the deferred gain at December 31, 2007 and 2006 was $147,319 and $156,070 and is included with noncurrent cash and investments restricted under indenture agreement for debt service. The Healthcare System believes its credit risk is minimal on the transaction.

(continued on next page)

Investment Income

Investment income and gains and losses on cash equivalents and investments consist of the following for the years ended December 31, 2007 and 2006:

	2007	2006
Interest income and realized gains and losses	$ **897,207**	$ 812,966
Interest income on proceeds of borrowed funds	**169,797**	178,719
Total investment income	$ **1,067,004**	$ 991,685
Change in unrealized gains and losses on investments	$ **118,670**	$ (21,321)

NOTE 5 - CAPITAL ASSETS

Capital assets additions, transfers, retirements, and balances for the year ended December 31, 2007 are as follows:

	Balance December 31, 2006	Additions	Transfers and Retirements	**Balance December 31, 2007**
Capital assets not being depreciated				
Land	$ 1,623,212	$ -	$ -	$ **1,623,212**
Construction in progress	3,022,632	3,051,530	(4,624,226)	**1,449,936**
Total capital assets, not being depreciated	$ 4,645,844	$ 3,051,530	$ (4,624,226)	$ **3,073,148**
Capital assets being depreciated				
Land improvements	$ 972,986	$ 66,328	$ (27,734)	$ **1,011,580**
Buildings and improvements	39,936,172	117,042	(218,330)	**39,834,884**
Equipment	31,846,733	1,930,791	1,554,319	**35,331,843**
Total capital assets being depreciated	72,755,891	2,114,161	1,308,255	**76,178,307**
Less accumulated depreciation for				
Land improvements	(260,914)	(50,999)	24,962	**(286,951)**
Buildings and improvements	(12,038,051)	(1,215,399)	88,624	**(13,164,826)**
Equipment	(19,374,988)	(3,050,883)	2,660,116	**(19,765,755)**
Total accumulated depreciation	(31,673,953)	(4,317,281)	2,773,702	**(33,217,532)**
Net capital assets being depreciated	$ 41,081,938	$ (2,203,120)	$ 4,081,957	$ **42,960,775**
Capital assets, net	$ 45,727,782	$ 848,410	$ (542,269)	$ **46,033,923**

Construction in progress at December 31, 2007, represents costs related to information technology and other equipment purchased and not placed into service. The total estimated cost to complete the projects is $2,460,000, which will be funded with internally designated funds.

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Capital asset additions, transfers, retirements, and balances for the year ended December 31, 2006 are as follows:

	Balance December 31, 2005	Additions	Transfers and Retirements	Balance December 31, 2006
Capital assets not being depreciated				
Land	$ 1,643,231	$ -	$ (20,019)	$ 1,623,212
Construction in progress	1,793,120	2,317,661	(1,088,149)	3,022,632
Total capital assets, not being depreciated	$ 3,436,351	$ 2,317,661	$ (1,108,168)	$ 4,645,844
Capital assets being depreciated				
Land improvements	$ 944,774	$ 28,212	$ -	$ 972,986
Buildings	39,385,589	26,904	523,679	39,936,172
Equipment	30,139,473	2,089,492	(382,232)	31,846,733
Total capital assets being depreciated	70,469,836	2,144,608	141,447	72,755,891
Less accumulated depreciation for				
Land improvements	(214,694)	(46,220)	-	(260,914)
Buildings	(10,691,216)	(1,353,447)	6,612	(12,038,051)
Equipment	(17,395,980)	(2,752,778)	773,770	(19,374,988)
Total accumulated depreciation	(28,301,890)	(4,152,445)	780,382	(31,673,953)
Net capital assets being depreciated	$ 42,167,946	$ (2,007,837)	$ 921,829	$ 41,081,938
Capital assets, net	$ 45,604,297	$ 309,824	$ (186,339)	$ 45,727,782

NOTE 6 - OPERATING LEASES

The Healthcare System leases certain medical and other equipment and office space under operating leases having terms of more than one year. Total operating lease expense in December 31, 2007 and 2006 for all leases was $466,802 and $433,979.

Minimum future lease payments for these operating leases are as follows:

Year Ending December 31,	Amount
2008	$ 234,177
2009	109,617
2010	79,115
2011	7,449
Total minimum lease payments	$ 430,358

(continued on next page)

NOTE 7 - LONG-TERM DEBT

Long-term debt activity for the year ended December 31, 2007 follows:

	Balance December 31, 2006	Additions	Reductions	**Balance December 31, 2007**	**Amounts Due Within One Year**
Hospital Revenue Bonds, Series 2004	$ 4,772,750	$ -	$ (106,941)	**$ 4,665,809**	**$ 113,153**
Hospital Revenue and Refunding Bonds, Series 1999	29,670,000	-	(975,000)	**28,695,000**	**1,030,000**
Original issue discount	(215,122)	-	19,795	**(195,327)**	**-**
Equipment notes payable	897,627	360,857	(199,983)	**1,058,501**	**317,755**
Unamortized loss on defeasance of Series 1994 Bonds	(2,484,558)	-	228,715	**(2,255,843)**	**-**
	$ 32,640,697	$ 360,857	$ (1,033,414)	**$ 31,968,140**	**$ 1,460,908**

Long-term debt activity for the year ended December 31, 2006 follows:

	Balance December 31, 2005	Additions	Reductions	Balance December 31, 2006	Amounts Due Within One Year
Hospital Revenue Bonds, Series 2004	$ 4,873,820	$ -	$ (101,070)	$ 4,772,750	$ 106,941
Hospital Revenue and Refunding Bonds, Series 1999	30,595,000	-	(925,000)	29,670,000	975,000
Original issue discount	(235,551)	-	20,429	(215,122)	-
Equipment notes payable	1,085,992	-	(188,365)	897,627	199,983
Unamortized loss on defeasance of Series 1994 Bonds	(2,720,505)	-	235,947	(2,484,558)	-
	$ 33,598,756	$ -	$ (958,059)	$ 32,640,697	$ 1,281,924

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Long-Term Debt

The terms and due dates of the Healthcare System's long-term debt at December 31, 2007 and 2006 are as follows:

- 5.66% Dickinson County Healthcare System, County of Dickinson, State of Michigan, Hospital Revenue Bonds, Series 2004 (Series 2004 Bonds) - due in monthly installments of $31,194 including interest, to August 2029, secured by certain equipment. (1)
- 5.50% to 5.80% Dickinson County Healthcare System, County of Dickinson, State of Michigan, Hospital Revenue and Refunding Bonds, Series 1999 (Series 1999 Bonds) - Due in varying annual installments to November 2024, secured by a pledge of net revenues, investment income, and bond funds held under the indenture agreement (Note 4). (1)
- Original Issue Discount - Associated with the Series 1999 Bonds issuance.
- Megavoltage Radiation Therapy (MRT) Equipment Note Payable #1 – During 2000 the Healthcare System entered into a 6%, 10-year note payable with Marquette General Hospital (Marquette), an unrelated organization, for the purchase of MRT equipment. The note payable is due in monthly installments of $20,700 to January 2011, and is secured by certain MRT equipment.
- MRT Equipment Note Payable #2 – During 2007, the Healthcare System placed in service certain equipment provided by Marquette and recorded a corresponding liability. On February 8, 2008, the Healthcare System entered into a 6%, 35 month note payable with Marquette. The note payable is due in monthly installments of $11,373 commencing March 2008 to January 2011, and is secured by the certain equipment.
- Unamortized Loss on Defeasance of Series 1994 Bonds – During 1999, the Healthcare System defeased the Series 1994 Revenue Bonds (Series 1994 Bonds) by issuing the Series 1999 Bonds. A portion of the Series 1999 Bond proceeds totaling $32,810,599 was placed in an irrevocable trust to provide for all future debt service payments on the Series 1994 Bonds. The Series 1994 Bonds were subsequently redeemed in 2004. The resulting loss on defeasance of approximately $4,480,000 is being amortized using the straight-line method, over the life of the Series 1999 Bonds.

(1) The Series 2004 Bonds and Series 1999 Bonds loan agreements places limits on the incurrence of additional borrowings and requires the Healthcare System satisfy certain measures of financial performance. The Series 1999 Bonds loan agreement also requires the Healthcare System maintain certain deposits with a trustee. Such deposits are shown as restricted for this purpose in the balance sheets (Note 4).

Scheduled principal and interest payments on long-term debt are as follows:

	Long-Term Debt		
Year Ending December 31,	Principal	Interest	Total
2008	$ 1,460,908	$ 1,950,500	$ 3,411,408
2009	1,587,079	1,867,679	3,454,758
2010	1,659,843	1,777,767	3,437,610
2011	1,404,273	1,691,620	3,095,893
2012	1,461,827	1,616,160	3,077,987
2012-2016	8,542,719	6,768,027	15,310,746
2017-2021	11,307,634	4,023,143	15,330,777
2022-2026	6,407,231	822,692	7,229,923
2027-2029	587,796	29,242	617,038
	34,419,310	$ 20,546,830	$ 54,966,140
Less unamortized bond discount	(195,327)		
Less unamortized loss on defeasance	(2,255,843)		
Total	$ 31,968,140		

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NOTE 8 - DEFINED BENEFIT PENSION PLAN

A. Plan Description

The Healthcare System is the administrator of a single-employer defined benefit noncontributory pension plan (Plan) covering substantially all of its employees who have met the Plan's eligibility requirements. The Plan was established in 1965 and most recently amended January 1, 2004. The most recent actuarial valuation was made as of January 1, 2008. Based on actuarial information, the Healthcare System's estimated payroll for employees covered by the Plan for the years ended December 31, 2007 and 2006 was approximately $30,967,000 and $28,334,000. The Healthcare System's total actual payroll for the years ended December 31, 2007 and 2006 was approximately $32,620,000 and $31,039,000.

Current membership in the Plan consists of the following at December 31:

	2007	2006
Retirees and beneficiaries currently receiving benefits	**186**	183
Vested terminated members	**140**	132
Active and inactive employees		
Fully vested	**512**	523
Nonvested	**152**	162
	990	1,000

All employees of the Healthcare System are eligible to participate in the Plan following the completion of at least one year of service and a minimum of 1,000 hours. Benefits vest after five years of service and a minimum of 1,000 hours per year.

Normal retirement age is 65 with the completion of five or more years of service. Normal retirement pays a monthly pension for life, equal to 1.25% of average monthly compensation per year of credited service plus 0.65% of average monthly compensation in excess of covered compensation per year of service up to a maximum of 35 years, with a $50 minimum. Participants may elect an early retirement on or after age 60 which pays a monthly pension for life computed in the same manner as a normal retirement pension, but based on service and earnings to date of retirement, and actuarially reduced to reflect the early commencement date.

Active employees with 15 or more years of service and who have attained age 50, who become disabled are eligible for a disability pension, provided they qualify for Social Security disability. A disability pension is computed in the same manner as a normal retirement pension, but based on service and earnings to the date of disability.

If a vested employee dies, a death benefit is paid to the surviving spouse. Fifty percent of the deceased employee's benefit accrued to the date of death, is paid immediately or at the date the employee would have been age 60, whichever is later.

Funding Policy

The Plan's funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are designed to accumulate sufficient assets to pay benefits when due. The required contributions for the years ended December 31, 2007 and 2006 were 5.87% and 5.58%, of annual covered payroll.

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Annual Pension Cost

For 2007, 2006, 2005, 2004, and 2003, the Healthcare System's annual pension cost was equal to the Healthcare System's required and actual contributions. The required contribution was determined as part of the January 1, 2007, 2006, 2005, 2004, and 2003, actuarial valuations using the projected unit credit cost actuarial funding method. The actuarial assumptions for fiscal 2007 and 2006 included (a) 8.0% investment rate of return (8.5% for 2006) and (b) salary increases including merit and seniority increases ranging from 0.16% to 3.84% per year, plus wage inflation of 4.0% (5% for 2006). The assumptions regarding benefits are that no changes will occur on a postretirement basis.

The Healthcare System's annual pension cost, and required and actual contributions for the years ended December 31, 2007, 2006, 2005, 2004, and 2003 were approximately $1,818,000, $1,582,000, $1,437,000 $1,267,000 and $1,048,000. The net pension obligation for the years ended December 31, 2007, 2006, 2005, 2004, and 2003 was zero.

A separately issued financial report of the Dickinson County Healthcare System Retirement Plan is available which includes financial statements and required supplementary information for the Plan.

NOTE 9 - DEFERRED COMPENSATION PLAN

The Healthcare System offers its employees a deferred compensation plan (DC Plan) created in accordance with the Internal Revenue Code, Section 457 and administered by Lincoln Retirement Services Company, LLC (Lincoln). The DC Plan is available to all employees and permits them to defer a portion of their current earnings from income taxes until withdrawal in retirement, upon death, withdrawal upon termination at the employee's option, or withdrawal due to an unforeseeable emergency.

The assets of the DC Plan are held in trust for the exclusive benefit of participants and beneficiaries under the DC Plan, in accordance with Internal Revenue Code, Section 457 (g). Wilmington Trust Company, a Lincoln Affiliate, is the Trustee. Participants or surviving beneficiaries under the DC Plan may allocate their fund balances among independently managed mutual funds Lincoln's Alliance Program and a fixed annuity provided by Lincoln.

In accordance with the provisions of GASB Statement No. 32, the DC Plan assets and activities are not reflected in the financial statements of the Healthcare System.

NOTE 10 - GENERAL AND PROFESSIONAL LIABILITY INSURANCE

The Healthcare System carries general and professional liability insurance through MHA Insurance Company. The Healthcare System's professional liability insurance coverage provides protection for professional liability losses up to $1 million per claim and $3 million annual aggregate on a claims-made basis subject to a deductible per claim of $50,000 and an annual aggregate deductible for all claims of $150,000. General liability claims are insured on a claims-made basis subject to limits of $1 million per claim and $3 million annual aggregate for all claims. The Healthcare System also has excess layered coverage of $3 million. The policies end in August 2008.

The Healthcare System has exposure to deductibles for professional liability claims and a liability for such claims has been established based upon an actuarial determination of expected losses on an occurrence basis.

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The Healthcare System's estimate of general and professional liability includes a provision for known claims and for unreported claims and incidents. The Healthcare System's liability for unreported and known claims and incidents has been recorded at the total of anticipated future payments, and is discounted at a present value factor of 4% for 2007 and 2006. Amounts included as expense for general and professional liability for the years ended December 31, 2007 and 2006 were approximately $727,000 and $617,000.

The reserve for loss on professional liability claims at December 31, 2007 and 2006 and activity for the years then ended is as follows:

Balance December 31, 2005	Additions	Reductions	Balance December 31, 2006	Additions	Reductions	**Balance December 31, 2007**
$ 890,000	$ -	$ (95,000)	$ 795,000	$ -	$ (50,000)	**$ 745,000**

NOTE 11 - LITIGATION, CLAIMS, AND DISPUTES

The Healthcare System is subject to the usual contingencies in the normal course of operations relating to the performance of its tasks under its various programs. In the opinion of management, the ultimate settlement of litigations, claims, and disputes in process will not be material to the financial position of the Healthcare System.

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

NOTE 12 - CONCENTRATIONS

The Healthcare System grants credit without collateral to its patients, most of who are insured under third-party payor agreements. The mix of receivables from third-party payors and patients at December 31, 2007 and 2006 was as follows:

	2007	2006
Medicare	**40%**	34%
Blue Cross	**15%**	17%
Medicaid	**6%**	7%
Commercial insurance and other	**22%**	23%
Self pay	**17%**	19%
	100%	100%

The Healthcare System is subject to collective bargaining agreements for approximately 64 percent of its labor force. These agreements are negotiated on a tri-annual basis. The agreement for the Michigan Nurses Association will expire in May of 2008. The agreement for the American Federation of State, County, and Municipal Employees (AFSCME) will expire in December of 2009.

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NOTE 13 - DICKINSON COUNTY HOSPITAL FOUNDATION

Dickinson County Hospital Foundation (Foundation) is organized to raise funds for the benefit of the Healthcare System and the community. The Foundation is deemed not to be a component unit of the Healthcare System as defined in GASB 39, *Determining Whether Certain Organizations Are Component Units,* as the economic resources received or held by the Foundation is not considered significant to the Healthcare System. As the Foundation is not considered a component unit, the Foundation's financial statements are not included in these financial statements. At December 31, 2007 and 2006, the Foundation' assets consisted primarily of cash and short-term investments and totaled approximately $212,000 and $439,000. During 2007 and 2006, the Foundation transferred funds totaling $205,493 and $8,279 to the Healthcare System. These amounts are included in capital contributions on the accompanying financial statements.

NOTE 14 - FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair value of certain financial instruments is reflected in the accompanying balance sheets in the following manner. The carrying amount of cash and cash equivalents, accounts payable, accrued expenses, and the estimated amount due to third-party payors approximate the fair value of these instruments. Fair values of temporary investments, investments internally designated, investments restricted under indenture agreements, and other long-term investments are based on quoted market prices, if available, or estimated using quoted market prices for similar securities. The carrying value of the Healthcare System's long-term debt approximates its fair value at December 31, 2007 and 2006.

NOTE 15 - BENEFICIARY OF TRUST

The Healthcare System has been named as a beneficiary in a charitable trust (Trust). The Trust agreement provides for the Healthcare System to receive 15% of the net income of the Trust on an annual basis. The Healthcare System received distributions from the Trust, which is included with investment income, totaling $43,524 and $35,911 for the years ended December 31, 2007 and 2006. The Healthcare System will also receive 15% of the assets of the Trust upon termination of the Trust. The market value of the Trust at December 31, 2007 was approximately $11,827,000.

The assets of the Trust are held by a trustee. The trustee shall, at their discretion, have the right to distribute trust principal to or for the benefit of the beneficiaries. The Trust's assets shall be distributed no later than 21 years after the death of the last beneficiary. As the trustee holds variance power over the timing of the distributions of the Trust's assets, the Healthcare System has not recorded a beneficial interest in the Trust in the accompanying financial statements.

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Board of Trustees of
Dickinson County Healthcare System
Iron Mountain, Michigan

We have audited the financial statements of Dickinson County Healthcare System (Healthcare System) (a component unit of Dickinson County) as of and for the year ended December 31, 2007, and have issued our report thereon dated April 17, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Healthcare System's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Healthcare System's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Healthcare System's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Healthcare System's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Healthcare System's financial statements that is more than inconsequential will not be prevented or detected by the Healthcare System's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Healthcare System's internal control.

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Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Healthcare System's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Trustees, management of the Healthcare System, and the State of Michigan and is not intended to be and should not be used by anyone other than these specified parties.

Eide Bailly LLP

Fargo, North Dakota
April 17, 2008

FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

DCH
SYSTEM

DICKINSON
COUNTY
HEALTHCARE
SYSTEM

Retirement Plan

DICKINSON COUNTY HEALTHCARE SYSTEM RETIREMENT PLAN

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INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
Dickinson County Healthcare System Retirement Plan
Iron Mountain, Michigan

We have audited the accompanying statements of plan net assets of the **Dickinson County Healthcare System Retirement Plan** (the Plan) at December 31, 2007 and 2006, and the related statement of changes in plan net assets for the year then ended. These financial statements are the responsibility of the Plan's administrator. Our responsibility is to express an opinion on these financial statements based on our audit.

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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control over financial reporting. Accordingly, we do not express such an opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 status of the Plan at December 31, 2007 and 2006, and the changes in its financial status for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary schedules on pages 8 through 10 are presented for purposes of additional analysis. The supplementary schedules are the responsibility of the Plan's administrator and, insofar as they relate to the years ended December 31, 2007 and 2006, have been subjected to the auditing procedures applied in the audit of the basic financial statements for 2007 and 2006 and, in our opinion, are fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

Eide Bailly LLP

DCH SYSTEM

DICKINSON COUNTY HEALTHCARE SYSTEM

Retirement Plan

DICKINSON COUNTY HEALTHCARE SYSTEM RETIREMENT PLAN
SCHEDULE OF FUNDING PROGRESS

Schedule 1

Actuarial Valuation Date January 1,	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Entity Age (B)	Unfunded (Over funded) AAL (UAAL) (B - A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
1999	$ 15,450,547	$ 15,070,596	$ (379,951)	102.5%	$ 18,196,550	None
2000	16,594,008 (1)	17,077,420	483,412	97.2%	19,199,488	2.5%
2001	17,350,393	17,900,143	549,750	96.9%	20,230,483	2.7%
2002	17,877,814	19,670,350	1,792,536	90.9%	22,731,116	7.9%
2003	17,937,014	21,475,804	3,538,790	83.5%	25,120,050	14.1%
2004	18,362,968	23,419,743	5,056,775	78.4%	25,928,381	19.5%
2005	19,162,658	25,529,043	6,366,385	75.1%	27,446,909	23.2%
2006	20,502,113	28,288,630	7,786,517	72.5%	28,334,280	27.5%
2007	22,492,439	31,274,141	8,781,702	71.9%	30,966,974	28.4%
2008	25,169,589	34,211,089	9,041,500	73.6%	31,172,369	29.0%

(1) The January 1, 2000, and subsequent actuarial valuations included a change in the method for recognizing assets for valuation purposes. The new method spreads returns above and below the assumed 8.5% rate of return over a five year period.

Analysis of the dollar amounts of net assets held in trust for benefits, pension benefit obligation and unfunded pension obligation in isolation can be misleading. Expressing the net assets held in trust for benefits as a percentage of the pension benefit obligation provides one indication of the plan's funded status on a going-concern basis. Analysis of this percentage over time indicates whether the Plan is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the plan. The unfunded pension benefit obligation and annual covered payroll are both affected by inflation. Expressing the unfunded pension benefit obligation as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of the progress being made in accumulating sufficient asset to pay benefits when due. Generally, the smaller this percentage, the stronger the plan.

DICKINSON COUNTY HEALTHCARE SYSTEM RETIREMENT PLAN
SCHEDULE OF EMPLOYER CONTRIBUTIONS

Schedule 2

Year Ended December 31,	Annual Recommended Contribution	Percentage Contributed
1999	$ 707,628	100%
2000	731,774	100%
2001	838,634	100%
2002	873,046	100%
2003	1,047,791	100%
2004	1,266,051	100%
2005	1,437,468	100%
2006	1,582,177	100%
2007	1,817,786	100%

See Notes to Required Supplementary Schedules

DICKINSON COUNTY HEALTHCARE SYSTEM RETIREMENT PLAN
NOTES TO SUPPLEMENTARY SCHEDULES

The information presented in the supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuations follows:

	2007	2006
Valuation date	**January 1, 2008**	January 1, 2007
Actuarial cost method	**Projected unit credit**	Projected unit credit
Amortization method	**Level percent, closed**	Level percent, open
Remaining amortization period	**20 years**	30 years
Asset valuation method	**5-year smoothed market**	5-year smoothed market
Actuarial assumptions		
Investment rate of return	**8.0%**	8.0%
Projected annual salary increases	**4.16 - 7.84%**	4.16 - 7.84%