

Bell Memorial Hospital and Affiliate

Ishpeming, Michigan

Combined Financial Statements and Additional Information

Years Ended June 30, 2011 and 2010

Bell Memorial Hospital and Affiliate

Combined Financial Statements and Additional Information

Years Ended June 30, 2011 and 2010

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Independent Auditor's Report

Board of Directors
Bell Memorial Hospital
Ishpeming, Michigan

We have audited the accompanying combined balance sheet of Bell Memorial Hospital and Affiliate (the "Organization") as of June 30, 2011, and the related combined statements of operations, changes in net assets, and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The combined financial statements of Bell Memorial Hospital and Affiliate as of June 30, 2010, were audited by other auditors whose report dated March 28, 2011, expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in 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 audit provides a reasonable basis for our opinion.

In our opinion, the 2011 combined financial statements referred to above present fairly, in all material respects, the financial position of Bell Memorial Hospital and Affiliate as of June 30, 2011, and the results of their operations, changes in their net assets, and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States.

Wipfli LLP

Wipfli LLP

February 21, 2012
Green Bay, Wisconsin

Bell Memorial Hospital and Affiliate

Combined Balance Sheets

June 30, 2011 and 2010

<i>Assets</i>	2011	2010
Current assets:		
Cash and cash equivalents	\$ 10,322,966	\$ 6,433,839
Accounts receivable - Net	5,962,404	6,638,713
Inventories	1,560,414	1,651,534
Prepaid expenses and other	415,293	324,275
Amounts due from third-party reimbursement programs	3,027	0
Total current assets	18,264,104	15,048,361
Property and equipment - Net	43,099,529	45,787,031
Assets limited as to use	0	2,010,062
Beneficial interest in net assets of Bell Foundation	152,068	1,825,536
Other assets:		
Unamortized bond issue costs	251,877	266,549
Notes receivable	393,323	1,666
Investments in unconsolidated affiliates	933,888	173,273
Other	153,243	84,065
Total other assets	1,732,331	525,553
TOTAL ASSETS	\$ 63,248,032	\$ 65,196,543

<i>Liabilities and Net Assets</i>	2011	2010
Current liabilities:		
Current maturities of long-term debt	\$ 879,472	\$ 1,014,827
Current portion of obligations under capital leases	64,519	0
Accounts payable	1,380,661	1,946,948
Accrued and other liabilities	2,760,187	2,654,813
Amounts due to third-party reimbursement programs	0	1,025,437
Total current liabilities	5,084,839	6,642,025
Long-term liabilities:		
Long-term debt	32,363,960	33,242,914
Obligations under capital leases	143,879	114,793
Interest rate swap agreements	2,477,511	2,834,776
Pension liability	2,507,945	3,955,625
Other liabilities	1,300,000	1,350,000
Total long-term liabilities	38,793,295	41,498,108
Total liabilities	43,878,134	48,140,133
Net assets:		
Unrestricted	19,217,830	15,230,874
Temporarily restricted	152,068	1,825,536
Total net assets	19,369,898	17,056,410
TOTAL LIABILITIES AND NET ASSETS	\$ 63,248,032	\$ 65,196,543

Bell Memorial Hospital and Affiliate

Combined Statements of Operations

Years Ended June 30, 2011 and 2010

	2011	2010
Revenue:		
Net patient service revenue	\$ 49,017,581	\$ 47,347,313
Other revenue	3,618,070	2,089,450
Total revenue	52,635,651	49,436,763
Expenses:		
Salaries and wages	24,287,839	23,750,876
Employee benefits	5,680,731	6,331,366
Supplies	6,616,044	6,110,244
Purchased services	3,475,822	2,720,210
Insurance	568,517	568,137
Other health care expenses	5,611,726	5,615,823
Depreciation and amortization	3,112,653	2,854,747
Provision for bad debts	3,556,227	6,505,285
Interest	1,465,646	2,011,696
Total expenses	54,375,205	56,468,384
Loss from operations	(1,739,554)	(7,031,621)
Other income (deductions):		
Investment income	955,875	364,642
Contributions	4,182	634,142
Gain (loss) on disposal of property and equipment	(91,932)	38,349
Change in net unrealized gains and losses on investments - Trading securities	(46,275)	286,954
Change in equity investments in unconsolidated affiliates	760,615	0
Change in fair value of interest rate swap agreements	357,265	(849,572)
Excess (deficiency) of revenue over expenses	200,176	(6,557,106)
Other changes in unrestricted net assets:		
Pension-related changes other than net periodic pension cost	1,447,680	(908,797)
Net assets released from restrictions	2,339,100	0
Increase (decrease) in unrestricted net assets	\$ 3,986,956	\$ (7,465,903)

See accompanying notes to combined financial statements.

Bell Memorial Hospital and Affiliate

Combined Statements of Changes in Net Assets

Years Ended June 30, 2011 and 2010

	2011	2010
Unrestricted net assets:		
Excess (deficiency) of revenue over expenses	\$ 200,176	\$ (6,557,106)
Pension-related changes other than net periodic pension cost	1,447,680	(908,797)
Net assets released from restrictions	2,339,100	0
Increase (decrease) in unrestricted net assets	3,986,956	(7,465,903)
Temporarily restricted net assets:		
Change in beneficial interest in net assets of Bell Foundation	665,632	935,553
Net assets released from restrictions	(2,339,100)	0
Increase (decrease) in temporarily restricted net assets	(1,673,468)	935,553
Change in net assets	2,313,488	(6,530,350)
Net assets at beginning	17,056,410	23,586,760
Net assets at end	\$ 19,369,898	\$ 17,056,410

Bell Memorial Hospital and Affiliate

Combined Statements of Cash Flows

Years Ended June 30, 2011 and 2010

	2011	2010
Increase (decrease) in cash and cash equivalents:		
Change in net assets	\$ 2,313,488	\$ (6,530,350)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	3,112,653	2,854,747
Amortization of bond issue discount	16,046	15,528
Change in net unrealized gains and losses on investments - Trading securities	46,275	(286,954)
Realized gain on sales of investments	(408,553)	(348,993)
Change in beneficial interest in net assets of Bell Foundation	(665,632)	(935,553)
Pension-related changes other than net periodic pension cost	(1,447,680)	908,797
Change in fair value of interest rate swap agreements	(357,265)	849,572
Provision for bad debts	3,556,227	6,505,285
(Gain) loss on disposal of property and equipment	91,932	(38,349)
Change in equity investments in unconsolidated affiliates	(760,615)	0
Changes in operating assets and liabilities:		
Accounts receivable	(2,879,918)	(7,101,512)
Inventories	91,120	(287,164)
Prepaid expenses and other	(91,018)	(20,108)
Amounts due from third-party reimbursement programs	(3,027)	1,824,100
Other assets	(69,178)	0
Accounts payable	(566,287)	(34,508)
Amounts due to third-party reimbursement programs	(1,025,437)	1,545,782
Accrued liabilities	105,374	473,713
Other liabilities	(50,000)	31,295
Total adjustments	(1,304,983)	5,955,678
Net cash provided by (used in) operating activities	1,008,505	(574,672)

Bell Memorial Hospital and Affiliate

Combined Statements of Cash Flows (Continued)

Years Ended June 30, 2011 and 2010

	2011	2010
Cash flows from investing activities:		
Capital expenditures	\$ (550,948)	\$ (2,138,708)
Proceeds from property and equipment disposals	188,784	20,761
Purchase of investments	(129,812)	(4,167,576)
Proceeds from sales of investments	2,502,152	6,145,879
Issuance of note receivable	(449,088)	0
Collection of note receivable	57,431	260,914
Net cash provided by investing activities	1,618,519	121,270
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	0	105,979
Principal payments on long-term debt	(1,030,355)	(980,600)
Principal payments on obligations under capital lease	(46,642)	0
Proceeds from Bell Foundation	2,339,100	935,553
Net cash provided by financing activities	1,262,103	60,932
Net increase (decrease) in cash and cash equivalents	3,889,127	(392,470)
Cash and cash equivalents at beginning	6,433,839	6,826,309
Cash and cash equivalents at end	\$ 10,322,966	\$ 6,433,839

Supplemental cash flow information:

Cash paid for interest	\$ 1,576,469	\$ 1,641,571
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Noncash financing and investing activities:

Acquisition of property and equipment under capital lease obligations	\$ 140,247	\$ 90,980
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Bell Memorial Hospital and Affiliate

Notes to Combined Financial Statements

Note 1 **Summary of Significant Accounting Policies**

The Entities

Bell Memorial Hospital (the "Hospital") is a nonprofit, nonstock corporation that operates a 25-bed acute care facility. The Hospital provides comprehensive inpatient, outpatient, and emergency services to residents of Ishpeming, Michigan, and the surrounding areas. The Hospital's sole member is Superior Healthcare System, a Michigan nonprofit holding company.

Bell Medical Center (the "Medical Center") is a nonprofit, nonstock corporation that operates physicians' offices and provides physician clinic services. The Medical Center's sole member is Superior Healthcare System. The Hospital provides financial support for the Medical Center's operations and has the ability to determine direction and assign various health care-related functions to the Medical Center.

Principles of Combination

The combined financial statements include the accounts of the Hospital and the Medical Center, its affiliate (collectively referred to as the "Organization"). All significant intercompany accounts and transactions have been eliminated in preparing the combined financial statements.

Financial Statement Presentation

The Organization follows accounting standards contained in the Financial Accounting Standards Board Accounting Standards Codification (ASC). The ASC is the single source of authoritative accounting principles generally accepted in the United States (GAAP) to be applied to nongovernmental entities in the preparation of financial statements in conformity with GAAP.

Use of Estimates in Preparation of Financial Statements

The preparation of the accompanying combined financial statements in conformity with GAAP requires management to make estimates and assumptions that directly affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates may also affect the reported amounts of revenue and expenses during the reporting period. Actual results may differ from these estimates.

Bell Memorial Hospital and Affiliate

Notes to Combined Financial Statements

Note 1 **Summary of Significant Accounting Policies (Continued)**

Cash Equivalents

The Organization considers all highly liquid debt instruments with an original maturity of three months or less to be cash equivalents, excluding amounts whose use is limited or restricted. The carrying amount reported in the accompanying combined balance sheets for cash equivalents approximates fair value.

Accounts Receivable and Credit Policy

Accounts receivable are uncollateralized patient obligations that are stated at the amount management expects to collect from outstanding balances. These obligations are primarily from local residents, most of whom are insured under third-party payor agreements. The Organization bills third-party payors on the patients' behalf, or if a patient is uninsured, the patient is billed directly. Once claims are settled with the primary payor, any secondary insurance is billed, and patients are billed for copay and deductible amounts that are the patients' responsibility. Payments on accounts receivable are applied to the specific claim identified on the remittance advice or statement. The Organization does not have a policy to charge interest on past due accounts.

The carrying amounts of accounts receivable are reduced by allowances that reflect management's best estimate of the amounts that will not be collected. Management provides for contractual adjustments under terms of third-party reimbursement agreements through a reduction of gross revenue and a credit to accounts receivable. In addition, management provides for probable uncollectible amounts, primarily uninsured patients and amounts patients are personally responsible for, through a charge to operations and a credit to a valuation allowance based upon its assessment of historical collection likelihood and the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable.

Accounts receivable are recorded in the accompanying combined balance sheets net of contractual adjustments and allowances for doubtful accounts.

Bell Memorial Hospital and Affiliate

Notes to Combined Financial Statements

Note 1 **Summary of Significant Accounting Policies (Continued)**

Inventories

Inventories of supplies are valued at the lower of cost, determined on the first-in, first-out method, or market.

Investments

Investments are measured at fair value in the accompanying combined balance sheets. Investment income or loss (including realized gains and losses on investments, interest, and dividends) is included in the excess (deficiency) of revenue over expenses unless the income is restricted by donor or law. Unrealized gains and losses on investments are excluded from the excess (deficiency) of revenue over expenses unless the investments are trading securities. Realized gains and losses are determined by specific identification and charged to operations.

The Organization monitors the difference between the cost and fair value of its investments. A decline in market value of an individual investment security below cost that is deemed to be other than temporary results in an impairment, and the Organization reduces the investment's carrying value to fair value. A new cost basis is established for the investment, and any impairment loss is recorded as a realized loss in investment income.

Assets Limited as to Use

Assets limited as to use include assets set aside by the Board of Directors for the payment of professional liability claims, over which the Board retains control and may at its discretion subsequently use for other purposes, and assets held by trustees under indenture agreements.

Investments in Unconsolidated Affiliates

Investments in unconsolidated affiliates are accounted for using the equity method.

Bell Memorial Hospital and Affiliate

Notes to Combined Financial Statements

Note 1 Summary of Significant Accounting Policies (Continued)

Fair Value Measurements

The Organization measures fair value of its financial instruments using a three-tier hierarchy, which prioritizes the inputs used in measuring fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets.
- Quoted prices for identical or similar assets or liabilities in inactive markets.
- Inputs other than quoted prices that are observable for the asset or liability.
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs.

Bell Memorial Hospital and Affiliate

Notes to Combined Financial Statements

Note 1 **Summary of Significant Accounting Policies (Continued)**

Property, Equipment, and Depreciation

Property and equipment acquisitions are recorded at cost or, if donated, at fair value at the date of donation. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Property and equipment under capital leases are amortized on the straight-line method over the shorter period of the lease term or the estimated economic life. Such amortization expense is included with depreciation expense. Estimated useful lives range from 10 to 20 years for land improvements, 5 to 40 years for buildings and improvements, and 3 to 20 years for equipment. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support and are excluded from the excess (deficiency) of revenue over expenses unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Impairment

The Organization reviews its property and equipment periodically to determine potential impairment by comparing the carrying value of the property and equipment with the estimated future net discounted cash flows expected to result from the use of the assets, including cash flows from disposition. Should the sum of the expected future net cash flows be less than the carrying value, the Organization would recognize an impairment loss at that time. No impairment loss was recognized in fiscal 2011 or 2010.

Bell Memorial Hospital and Affiliate

Notes to Combined Financial Statements

Note 1 **Summary of Significant Accounting Policies (Continued)**

Interest in Net Assets of Bell Foundation

The Hospital and Bell Foundation (the "Foundation") are financially interrelated organizations and, accordingly, the Hospital recognized its interest in the net assets of the Foundation and adjusts that interest for its share of the change in net assets of the Foundation.

Unamortized Bond Issue Costs

Bond issue costs related to issuance of long-term debt are being amortized over the life of the related debt using the straight-line method.

Asset Retirement Obligations

ASC Topic 410-20, *Asset Retirement Obligations*, clarifies when an entity is required to recognize a liability for a conditional asset retirement obligation. The Organization has considered ASC Topic 410-20, specifically as it relates to its legal obligation to perform asset retirement activities, such as asbestos removal, on its existing properties. During 2009, the Hospital entered into an agreement with a local developer to sell its old facility for \$1. In connection with this agreement, the Hospital is obligated for an amount not to exceed \$825,000 for the removal of asbestos within the old facility. At June 30, 2011 and 2010, the Hospital has a liability of \$700,000 recorded, which is the balance remaining under this agreement. The liability is included in other liabilities in the accompanying combined balance sheets.

Temporarily Restricted Net Assets

Temporarily restricted net assets are those whose use by the Organization has been limited by donors to a specific time period or purpose. The temporarily restricted net assets are comprised entirely of the interest in the net assets of Bell Foundation.

Bell Memorial Hospital and Affiliate

Notes to Combined Financial Statements

Note 1 **Summary of Significant Accounting Policies (Continued)**

Interest Rate Swap Agreements

The Organization entered into interest rate swap agreements to reduce economic risks associated with variability in cash outflows for interest required under provisions of variable rate revenue bonds. Interest rate swaps are recognized as assets or liabilities at fair value. Realized gains and losses on interest rate swaps are classified as a component of operating income and are presented as part of interest expense in the combined statements of changes in net assets. Unrealized changes in the fair value of the interest rate swaps are recognized as part of other income, separate from operating income. The Organization does not use hedge accounting for these interest rate swap agreements.

Net Patient Service Revenue

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 are adjusted in future periods as final settlements are determined.

Excess (Deficiency) of Revenue Over Expenses

The accompanying combined statements of operations include excess (deficiency) of revenue over expenses, which is considered the operating indicator. Changes in unrestricted net assets that are excluded from the operating indicator include unrealized gains and losses on investments other than trading securities, contributions of long-lived assets including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets, pension-related changes other than net periodic cost, and transfers to (from) related organizations other than for goods and services.

Bell Memorial Hospital and Affiliate

Notes to Combined Financial Statements

Note 1 **Summary of Significant Accounting Policies (Continued)**

Charity Care

The Organization 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 Organization does not pursue collection of amounts determined to qualify as charity care, they are not included in net patient service revenue in the accompanying combined statements of operations.

Donor-Restricted Gifts

Unconditional promises to give cash and other assets to the Hospital are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is deemed unconditional. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the accompanying combined statements of operations and changes in net assets as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying combined statements of operations.

Advertising Costs

The Organization expenses advertising costs as incurred.

Unemployment Compensation

The Organization has elected the reimbursement method to finance the cost of unemployment compensation benefits. Unemployment compensation expense is charged to operating expense when paid or when the amount of the claims can be estimated. The Organization contributes to a state unemployment trust held by a third party.

Bell Memorial Hospital and Affiliate

Notes to Combined Financial Statements

Note 1 Summary of Significant Accounting Policies (Continued)

Income Taxes

The Hospital and the Center are nonprofit corporations as described in Section 501(c)(3) of the Internal Revenue Code (the "Code") and are exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. The Hospital and the Center are also exempt from state income taxes on related income.

In order to account for any uncertain tax positions, the Organization determines whether it is more likely than not that a tax position will be sustained upon examination of the technical merits of the position, assuming the taxing authority has full knowledge of all information. If the tax position does not meet the more-likely-than-not recognition threshold, the benefit of that position is not recognized in the combined financial statements. The Organization recorded no assets or liabilities for uncertain tax positions or unrecognized tax benefits in fiscal 2011 and 2010. Federal income tax returns for the fiscal years ended 2008 and beyond remain subject to examination by the Internal Revenue Service (IRS).

New Accounting Pronouncements

In July 2011, the FASB issued Accounting Standards Update (ASU) No. 2011-07, *Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and Allowance for Doubtful Accounts for certain Health Care Entities*. The ASU amends ASC Topic 954 and requires health care entities to change the presentation of their statements of operations by reclassifying the provision for bad debts associated with patient service revenue from an operating expense to a deduction from patient service revenue. Entities are also required to enhance disclosures about their policies for recognizing revenue and assessing bad debts. In addition, this guidance requires disclosure of qualitative and quantitative information about changes in the allowance for doubtful accounts. The guidance in this ASU is effective for the Organization's year ending June 30, 2013, with early adoption permitted.

Bell Memorial Hospital and Affiliate

Notes to Combined Financial Statements

Note 1 **Summary of Significant Accounting Policies (Continued)**

New Accounting Pronouncements (Continued)

In August 2010, the FASB issued ASU No. 2010-23, *Measuring Charity Care for Disclosure*. This ASU amends ASC Topic 954 and requires entities to use cost as the measurement basis for charity care disclosures, including both direct and indirect costs. Entities are also required to disclose the method used to determine these costs, such as directly from a costing system or through an estimation process. The guidance in this ASU is effective for the Organization's year ending June 30, 2012.

Subsequent Events

Subsequent events have been evaluated through February 21, 2012, which is the date the combined financial statements were issued. See Note 9 for specific subsequent events related to the Series 2007A Limited Obligation Revenue Bonds.

Note 2 **Reimbursement Arrangements With Third-Party Payors**

The Organization has agreements with third-party payors that provide for reimbursement at amounts that vary from its established rates. A summary of the basis of reimbursement with major third-party payors follows:

- *Medicare* - The Hospital is certified as a critical access hospital with reimbursement based on cost for inpatient, outpatient, and rural health clinic services. Professional services provided by physicians and other clinicians continue to be reimbursed based on prospectively determined fee schedules.
- *Medicaid* - Inpatient services rendered to Medicaid program beneficiaries are reimbursed at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based upon clinical, diagnostic, and other factors. In addition, capital-related costs are reimbursed under a cost methodology. Outpatient services are paid based upon a prospectively determined fee schedule for each type of service. Professional services provided by physicians and other clinicians are reimbursed based upon one of the following methods: a prospectively determined fee schedule or a cost-reimbursement methodology depending on the type of professional services provided.

Bell Memorial Hospital and Affiliate

Notes to Combined Financial Statements

Note 2 Reimbursement Arrangements With Third-Party Payors (Continued)

- *Blue Cross Blue Shield of Michigan ("Blue Cross")* - Inpatient and outpatient services rendered to Blue Cross subscribers are reimbursed on a controlled-charge basis. Professional services provided by physicians and other clinicians are reimbursed on a prospectively determined fee schedule.
- *Other* - The Organization also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Organization under these agreements includes prospectively determined rates and discounts from established charges.
- *Accounting for Contractual Arrangements* - The Hospital is reimbursed for cost reimbursable items at an interim rate, and final settlements are determined after audit of the Hospital's related annual cost reports by the respective Medicare, Medicaid, and Blue Cross fiscal intermediaries. Estimated provisions to approximate the full expected settlements after review by the intermediaries are included in the accompanying combined financial statements. The Hospital's cost reports have been audited by the Medicare, Medicaid, and Blue Cross fiscal intermediaries through June 30, 2009, June 30, 2007, and June 30, 2010, respectively.

Compliance

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations, particularly 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 revenue from patients' services. Management believes the Organization is in substantial compliance with current laws and regulations.

Bell Memorial Hospital and Affiliate

Notes to Combined Financial Statements

Note 2 Reimbursement Arrangements With Third-Party Payors (Continued)

Compliance (Continued)

The Centers for Medicare & Medicaid Services (CMS) uses recovery audit contractors (RACs) as part of CMS's further efforts to ensure accurate payments. CMS uses RACs to search for potentially inaccurate Medicare payments that may have been made to health care providers and not detected through existing CMS program integrity efforts. Once a RAC identifies a claim it believes is inaccurate, CMS makes a deduction from or addition to the provider's Medicare reimbursement in an amount estimated to equal the overpayment or underpayment. RAC reviews of the Organization's activities are anticipated; however, the outcome of such potential reviews is unknown and cannot be reasonably estimated as of June 30, 2011.

Note 3 Accounts Receivable

Accounts receivable consisted of the following at June 30:

	2011	2010
Patient accounts receivable	\$ 14,412,416	\$ 18,095,810
Less:		
Contractual adjustments	6,082,114	7,616,567
Allowance for doubtful accounts	2,487,522	4,040,448
Net patient accounts receivable	5,842,780	6,438,795
Other receivables	119,624	199,918
Accounts receivable - Net	\$ 5,962,404	\$ 6,638,713

Bell Memorial Hospital and Affiliate

Notes to Combined Financial Statements

Note 4 Charity Care

The Hospital maintains records to identify and monitor the level of charity care it provides to Hospital patients. The amount of charges foregone for services and supplies furnished under the Hospital's charity care policy aggregated approximately \$1,960,000 and \$897,000 during the years ended June 30, 2011 and 2010, respectively.

Note 5 Investments

Assets Limited as to Use

Assets limited as to use, stated at fair value, consisted of the following at June 30:

	2011	2010
Funds held by trustees under bond indenture	\$ 0	\$ 3,336
By board of trustees for payment of professional liability claims	0	2,006,726
Total assets limited as to use	\$ 0	\$ 2,010,062

Investment income and gains and losses on assets limited as to use, cash equivalents, and other investments included the following for the years ended June 30, 2011 and 2010:

	2011	2010
Investment income - Unrestricted:		
Interest and dividend income	\$ 547,322	\$ 53,998
Net realized gain on sales of investments	408,553	310,644
Total investment income - Unrestricted	\$ 955,875	\$ 364,642
Change in net unrealized gains and losses on investments - Trading securities	\$ (46,275)	\$ 286,954

Bell Memorial Hospital and Affiliate

Notes to Combined Financial Statements

Note 5 Investments (Continued)

Management assesses individual investment securities as to whether declines in market value are temporary or other than temporary. In assessing an issuer's financial condition, management evaluates various financial indicators. The length of time and extent to which the fair value of the investment is less than cost and the Hospital's ability and intent to retain the investment to allow for any anticipated recovery of the investment's fair value are key components as to whether management deems declines in fair value as temporary or other than temporary. Unrealized losses on individual investments and any declines in fair value below cost were deemed to be temporary.

Investments, in general, are exposed to various risks such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the value of certain investments will occur in the near term and such changes could materially affect the amounts reported in the combined financial statements.

Note 6 Investments in Unconsolidated Affiliates

The Organization has a 4.57% interest in Upper Peninsula Managed Care, LLC and Upper Peninsula Health Plan, Inc. ("The Corporations"). The Organization recognized an increase in equity investments in unconsolidated affiliates of \$760,615 for the year ended June 30, 2011.

Detail by investment for the years ended June 30, 2011 and 2010, is as follows:

	2011		2010	
	Investments	Change	Investments	Change
The Corporations	\$ 933,888	\$ 760,615	\$ 173,273	\$ 0

Bell Memorial Hospital and Affiliate

Notes to Combined Financial Statements

Note 6 Investments in Unconsolidated Affiliates (Continued)

The following is a summary of the financial position of the Organization's investments accounted for under the equity method as of June 30:

	Unaudited	
	2011	2010
Assets	\$ 38,891,284	\$ 44,501,052
Liabilities	\$ 20,651,289	\$ 16,010,666
Equity	\$ 18,239,995	\$ 28,490,386

Note 7 Fair Value Measurements

Following is a description of the valuation methodologies used for assets measured at fair value:

- Cash equivalents are valued using \$1 as the net asset value (NAV).
- Mutual funds are valued at quoted market prices which represents the NAV of shares held by the Organization.
- The interest rate swap agreements are recorded at the amount at which they could be settled, based on estimates by a third-party valuation service, which uses a discounted cash flow analysis using observable market-based inputs, including forward interest rate curves.

Bell Memorial Hospital and Affiliate

Notes to Combined Financial Statements

Note 7 Fair Value Measurements (Continued)

The following tables set forth by level, within the fair value hierarchy, the Hospital's assets and liabilities as of June 30:

	2011			Total
	Fair Value Measurements Using			Liabilities
	Level 1	Level 2	Level 3	at Fair Value
Liabilities - Interest rate swap agreements	\$ 0	\$ (2,477,511)	\$ 0	\$ (2,477,511)

	2010			Total Assets/ Liabilities at Fair Value
	Fair Value Measurements Using			
	Level 1	Level 2	Level 3	
Assets:				
Cash equivalents	\$ 63,376	\$ 0	\$ 0	\$ 63,376
Fixed income mutual funds	577,754	0	0	577,754
Equity mutual funds	1,364,877	0	0	1,364,877
Total assets	\$ 2,006,007	\$ 0	\$ 0	\$ 2,006,007

Liabilities - Interest rate swap agreements	\$ 0	\$ (2,834,776)	\$ 0	\$ (2,834,776)
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Bell Memorial Hospital and Affiliate

Notes to Combined Financial Statements

Note 8 Property and Equipment

Property and equipment consisted of the following at June 30:

	2011	2010
Land and land improvements	\$ 2,246,545	\$ 2,229,995
Buildings and building improvements	39,564,401	39,782,554
Equipment	18,099,869	17,979,682
Total property and equipment	59,910,815	59,992,231
Less - Accumulated depreciation	16,811,286	14,220,200
Net depreciated value	43,099,529	45,772,031
Construction in progress	0	15,000
Property and equipment - Net	\$ 43,099,529	\$ 45,787,031

Depreciation expense on property and equipment totaled \$3,097,981 and \$2,840,074 for the years ended June 30, 2011 and 2010, respectively.

Note 9 Long-Term Debt

Long-term debt consisted of the following at June 30:

	2011	2010
Note payable to the Michigan State Hospital Finance Authority (MSHFA) due in monthly installments of approximately \$11,000; paid in full during 2011	\$ 0	\$ 170,355
Limited Obligation Revenue Bonds, Series 2007A, dated March 1, 2007, monthly interest payments at a variable rate of LIBOR times 0.67, maturing in varying amounts through March 1, 2033	30,060,000	30,835,000

Bell Memorial Hospital and Affiliate

Notes to Combined Financial Statements

Note 9 Long-Term Debt (Continued)

	2011	2010
Limited Obligation Revenue Bonds, Series 2007B, dated August 1, 2007, monthly interest payments at a variable rate of LIBOR times 0.67, maturing in varying amounts through August 1, 2032	\$ 3,450,000	\$ 3,535,000
Totals	33,510,000	34,540,355
Less:		
Original issue discounts	266,568	282,614
Current maturities	879,472	1,014,827
Long-term portion	\$ 32,363,960	\$ 33,242,914

The Series 2007A and Series 2007B Limited Obligation Revenue Bonds are secured by irrevocable direct-pay letters of credit, which expire on March 15, 2012 and August 15, 2012, respectively, and are secured by substantially all of the Organization's assets, including property, equipment, accounts receivable, and inventories. The bonds are subject to mandatory redemption upon the expiration or termination of the letters of credit unless the existing letters of credit have been extended or an alternate letter of credit has been issued. The Series 2007A and Series 2007B Limited Obligation Revenue Bonds are also guaranteed by the Organization's sole member, Superior Healthcare System. Letters of credit fees are 1.5% on the Series 2007A and 0.85% on the Series 2007B Limited Obligation Revenue Bonds through March 1, 2011 and July 1, 2011, respectively. Effective in March 1, 2011 and July 1, 2011, these fees are 2.75% for the Series 2007A and Series 2007B Limited Obligation Revenue Bonds, respectively.

The Series 2007A and Series 2007B Limited Obligation Revenue Bonds described above are remarketed on a weekly basis. Should the remarketing agent be unable to remarket the bonds based on its best efforts, the bonds would be "put" back to the trustee who would draw down on the letters of credit to pay down the Series 2007A and Series 2007B Limited Obligation Revenue Bonds.

Bell Memorial Hospital and Affiliate

Notes to Combined Financial Statements

Note 9 Long-Term Debt (Continued)

In connection with the issuance of the letters of credit and related Series 2007A and Series 2007B Limited Obligation Revenue Bonds, the Organization has agreed to certain financial covenants relating to debt service coverage, days cash on hand, aging of accounts receivable, and various other operational covenants. At June 30, 2010, the Organization was in violation of these financial covenants. Amendment No. 2 to the Reimbursement Agreement waived these financial covenants through June 30, 2011, and established new monthly covenants for the period from January 1, 2011 through June 30, 2011, including modifications to certain financial covenants. At June 30, 2011, the Organization was in violation with one of the new covenants, resulting in the bank hiring an independent consultant for the purpose of reviewing the financial reporting and system processes of the Organization.

Effective January 26, 2012, the Organization entered into a Forbearance Agreement and Amendment No. 3 to the Reimbursement Agreement related to the Series 2007A Limited Obligation Revenue Bonds. The agreements stipulate additional covenants that the Organization must comply with related to the bonds. With these agreements in place, the Organization's letter of credit related to the Series 2007A Limited Obligation Revenue Bonds was extended through March 15, 2015. Based on the extension of the letter of credit, the Organization classified the related debt as long-term on the accompanying combined balance sheets at June 30, 2011.

Scheduled payments of principal on long-term debt at June 30, 2011, including current maturities, are summarized as follows:

2012	\$ 879,472
2013	945,000
2014	985,000
2015	1,035,000
2016	1,080,000
Thereafter	28,585,528
Total	<u>\$ 33,510,000</u>

Bell Memorial Hospital and Affiliate

Notes to Combined Financial Statements

Note 10 Interest Rate Swap Agreements

In conjunction with the issuance of the Series 2007A and Series 2007B Limited Obligation Revenue Bonds (Note 9), the Organization entered into two interest rate swap agreements for the purpose of mitigating the floating interest rate risk on the variable rate bonds. The notional amount of the swap agreements was \$23,576,250 and \$24,216,250 at June 30, 2011 and 2010, respectively. The Organization pays a fixed rate of 3.500% and 3.665% for the Series 2007A and Series 2007B Limited Obligation Revenue Bonds, respectively, and receives a variable rate of 0.67 of LIBOR.

The interest rate swap agreements were recorded as liabilities of \$2,477,511 and \$2,834,776 as of June 30, 2011 and 2010, respectively. The Organization recognized income of \$357,265 and expense of \$849,572 during the years ended June 30, 2011 and 2010, respectively, included in other income (deductions) in the accompanying combined statements of operations.

The Organization is exposed to credit loss in the event of nonperformance by the counterparty to the interest rate swap agreements. However, the Organization does not anticipate nonperformance by the counterparty.

Note 11 Temporarily Restricted Net Assets

Temporarily restricted net assets reflect the interest in the Foundation and are restricted for the replacement Hospital facility project and related property and equipment purchases.

Bell Memorial Hospital and Affiliate

Notes to Combined Financial Statements

Note 12 Leases

The Hospital leases various equipment under capital lease obligations. Capital assets included the following amounts at June 30 for leases that have been capitalized:

	2011	2010
Equipment	\$ 281,762	\$ 143,901
Less - Accumulated amortization	41,667	3,430
Totals	\$ 240,095	\$ 140,471

Future minimum payments, by year and in the aggregate, under capital leases with initial or remaining terms in excess of one year consisted of the following:

2012	\$ 75,263
2013	75,263
2014	61,678
2015	16,224
2016	1,279
Total minimum lease payments	229,707
Amount representing interest	21,309
Present value of net minimum lease payments	208,398
Less - Current portion	64,519
Long-term obligations under capital leases	\$ 143,879

Bell Memorial Hospital and Affiliate

Notes to Combined Financial Statements

Note 13 Net Patient Service Revenue

Net patient service revenue consisted of the following:

	2011	2010
Gross patient service revenue:		
Inpatient services	\$ 21,532,023	\$ 22,152,093
Outpatient services	73,684,699	64,836,861
Total gross patient service revenue	95,216,722	86,988,954
Less - Contractual adjustments and other discounts	46,199,141	39,641,641
Net patient service revenue	\$ 49,017,581	\$ 47,347,313

The Hospital's mix of gross revenue from patients and third-party payors at June 30 is as follows:

	2011	2010
Medicare	44%	44%
Medicaid	13%	11%
Blue Cross	31%	31%
Other commercial payors	9%	11%
Patients	3%	3%
Totals	100%	100%

Bell Memorial Hospital and Affiliate

Notes to Combined Financial Statements

Note 14 **Malpractice Insurance**

The Organization's professional liability insurance for claim losses of less than \$1 million per claim and \$3 million per year covers professional liability claims reported during a policy year ("claims made" coverage). The professional liability insurance policy is renewable annually and has been renewed by the insurance carrier for the annual period extending through April 2012.

Under a claims-made policy, the risk for claims and incidents not asserted within the policy period remains with the Organization. The Organization has included a provision of \$700,000 and \$750,000 at June 30, 2011 and 2010, respectively, in accrued and other liabilities for potential claims from services provided to patients which have not yet been asserted as of June 30, 2011 and 2010.

Note 15 **Retirement Plans**

The Organization has two noncontributory pension plans that together cover substantially all employees who meet service and age requirements.

Union employees are covered under a defined contribution plan that is administered under a collective bargaining arrangement.

The Plan provides for either profit sharing or matching contributions to be made by the Plan Sponsor to eligible participants. Employees who were eligible for the Bell Memorial Hospital Non-Union Pension Plan prior to it being frozen on November 1, 2005, are eligible to receive employer profit sharing contributions. The amount of profit sharing contributions received by an eligible participant is based on a specified percentage of the participant's annual pay as specified in the plan documents. Nonunion, noncontingent participants who are not eligible to receive the employer profit sharing contributions are instead eligible to receive employer matching contributions. Employer matching contributions are based on 100% of the pretax contributions made by the participant, up to a maximum of 5.5% of the employee's pay. Amounts contributed to the Plan from other qualified plans are not matched.

Bell Memorial Hospital and Affiliate

Notes to Combined Financial Statements

Note 15 Retirement Plans (Continued)

Expenses under the defined contribution plans for the years ended June 30, 2011 and 2010, were approximately \$1,185,000 and \$1,155,000, respectively.

The Organization also sponsors a defined benefit pension plan. The Organization's Board of Directors voted to freeze the future accrual of benefits under the defined benefit pension plan effective November 1, 2005.

The following table sets forth the defined benefit pension plan's funded status and amounts recognized in the accompanying combined balance sheets for the defined benefit pension plan at June 30:

	2011	2010
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 10,301,342	\$ 8,757,684
Interest cost	531,873	536,727
Actuarial (gain) loss	(348,104)	1,303,707
Benefits paid	(326,241)	(296,776)
Benefit obligation at end of year	10,158,870	10,301,342
Change in plan assets:		
Fair value of plan assets at beginning of year	6,345,717	5,798,339
Actual return on plan assets	1,620,562	844,154
Employer contributions	10,887	0
Benefits paid	(326,241)	(296,776)
Fair value of plan assets at end of year	7,650,925	6,345,717
Funded status at end of year	\$ (2,507,945)	\$ (3,955,625)

Bell Memorial Hospital and Affiliate

Notes to Combined Financial Statements

Note 15 Retirement Plans (Continued)

Pension expense for the years ended June 30 was comprised of the following:

	2011	2010
Pension expense:		
Interest cost	\$ 531,873	\$ 536,727
Expected return on assets	(433,820)	(393,980)
Amortization of unrecognized loss	79,075	55,264
Total pension expense	\$ 177,128	\$ 198,011

Amounts recognized in the accompanying combined balance sheets consisted of the following at June 30:

	2011	2010
Pension liability	\$ 2,507,945	\$ 3,955,625
Net assets:		
Net (gain) loss	\$ 1,526,755	\$ (853,533)
Amortization recognized	(79,075)	(55,264)
Total amount recognized in net assets	\$ 1,447,680	\$ (908,797)

Weighted average assumptions used as of June 30, the measurement date, in developing the net periodic benefit cost were as follows:

	2011	2010
Discount rate	5.25%	6.25%
Expected return on plan assets	7.00%	7.00%

Bell Memorial Hospital and Affiliate

Notes to Combined Financial Statements

Note 15 Retirement Plans (Continued)

To develop the expected long-term rate of return on asset assumptions, the Organization considered the historical returns and future expectations for returns in each asset class, as well as targeted asset allocation percentages within the pension portfolio.

The defined benefit pension plan's asset allocations at June 30 were as follows:

	2011	2010
Cash, cash equivalents, and receivables	1.48%	2.20%
Mutual funds - Equity	72.15%	68.52%
Mutual funds - Fixed income	26.37%	29.28%
Totals	100.00%	100.00%

Following is a description of the valuation methodologies used for pension assets measured at fair value. There have been no changes in the methodologies used at June 30, 2011 and 2010. Cash and cash equivalents are valued at historical cost, which approximates fair value. Mutual funds are valued at quoted market prices, which represent the net asset value of shares held by the plan at year-end.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the plan believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Bell Memorial Hospital and Affiliate

Notes to Combined Financial Statements

Note 15 Retirement Plans (Continued)

The following tables set forth by level, within the fair value hierarchy, the Organization's assets within the defined benefit pension plan at fair value as of June 30:

	Assets at Fair Value as of June 30, 2011			
	Level 1	Level 2	Level 3	Total
Money market fund	\$ 111,185	\$ 0	\$ 0	\$ 111,185
Mutual funds:				
Growth funds	3,112,569	0	0	3,112,569
Intermediate-term bond funds	2,019,382	0	0	2,019,382
International funds	825,650	0	0	825,650
Value funds	1,582,139	0	0	1,582,139
Total mutual funds	7,539,740	0	0	7,539,740
Total assets at fair value	\$ 7,650,925	\$ 0	\$ 0	\$ 7,650,925

	Assets at Fair Value as of June 30, 2010			
	Level 1	Level 2	Level 3	Total
Money market fund	\$ 137,158	\$ 0	\$ 0	\$ 137,158
Mutual funds:				
Blend funds	250,649	0	0	250,649
Growth funds	2,400,227	0	0	2,400,227
Intermediate-term bond funds	1,859,976	0	0	1,859,976
International funds	662,903	0	0	662,903
Value funds	1,034,804	0	0	1,034,804
Total mutual funds	6,208,559	0	0	6,208,559
Total assets at fair value	\$ 6,345,717	\$ 0	\$ 0	\$ 6,345,717

Bell Memorial Hospital and Affiliate

Notes to Combined Financial Statements

Note 15 Retirement Plans (Continued)

Estimated Future Benefit Payments

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

2012	\$ 349,792
2013	386,246
2014	443,416
2015	472,047
2016	513,679
Succeeding five years	3,310,852

Note 16 Self-Funded Health Insurance

The Organization sponsors a self-funded health insurance plan covering substantially all of its employees and their dependents, of which some services are provided by the Organization. The health insurance expense is based upon actual claims paid, administration fees, and provisions for unpaid and unreported claims at year-end. Health insurance expense was approximately \$2,300,000 and \$2,700,000 for the years ended June 30, 2011 and 2010, respectively.

A provision of approximately \$300,000 and \$319,000 for unpaid and unasserted claims at June 30, 2011 and 2010, respectively, was included in accrued and other liabilities in the accompanying combined balance sheets. Management believes this provision is sufficient to cover estimated claims, including claims incurred but not yet reported.

Bell Memorial Hospital and Affiliate

Notes to Combined Financial Statements

Note 17 Functional Expenses

The Organization is a general acute care facility that provides inpatient and outpatient health care services and clinic services to patients in Ishpeming, Michigan, and the surrounding area. Expenses related to providing these services were as follows:

	2011	2010
Health care services	\$ 41,738,213	\$ 45,272,338
General and administrative	12,636,992	11,196,046
Total	\$ 54,375,205	\$ 56,468,384

Note 18 Concentration of Credit Risk

Financial instruments that potentially subject the Organization to credit risk consist principally of accounts receivable, interest rate swap agreements, and cash deposits in excess of insured limits in financial institutions.

Accounts receivable consist of amounts due from patients, their insurers, or governmental agencies (primarily Medicare and Medicaid) for health care provided to the patients. The majority of the Hospital's patients are from Ishpeming, Michigan, and the surrounding areas. The mix of receivables from patients and third-party payors was as follows at June 30:

	2011	2010
Medicare	30%	29%
Medicaid	7%	15%
Other third-party payors	42%	33%
Patients	21%	23%
Totals	100%	100%

Bell Memorial Hospital and Affiliate

Notes to Combined Financial Statements

Note 18 **Concentration of Credit Risk (Continued)**

The Organization maintains depository relationships with area financial institutions insured by the Federal Deposit Insurance Corporation (FDIC). On November 9, 2010, the FDIC issued a final rule implementing Section 343 of the Dodd-Frank Wall Street Reform and Consumer Protection Act that provides for unlimited insurance coverage of non-interest-bearing transaction accounts through December 31, 2012. The Organization maintains cash in interest-bearing accounts at these institutions that are insured by the FDIC up to \$250,000. At June 30, 2011, the Organization's bank balances in excess of FDIC-insured limits were approximately \$9,500,000. In addition, other investments held by financial institutions are uninsured.

Note 19 **Reclassifications**

Certain reclassifications have been made to the 2010 combined financial statements to conform to the 2011 classifications.

Additional Information



Independent Auditor's Report on Additional Information

Board of Directors
Bell Memorial Hospital
Ishpeming, Michigan

Our report on our audit of the combined financial statements of Bell Memorial Hospital and Affiliate for the year ended June 30, 2011, appears on page 1. That audit was conducted for the purpose of forming an opinion on the combined financial statements taken as a whole. The additional information appearing on pages 38 through 41 is presented for purposes of additional analysis and is not a required part of the combined financial statements. Such information has been subjected to the auditing procedures applied in the audit of the combined financial statements and, in our opinion, is fairly presented in all material respects in relation to the combined financial statements taken as a whole.

Wipfli LLP

Wipfli LLP

February 21, 2012
Green Bay, Wisconsin

Bell Memorial Hospital and Affiliate

Combining Balance Sheet

June 30, 2011

<i>Assets</i>	Bell Memorial Hospital	Bell Medical Center	Eliminations	Total
Current assets:				
Cash and cash equivalents	\$ 10,270,679	\$ 52,287	\$ 0	\$ 10,322,966
Accounts receivable - Net	4,481,493	1,480,911	0	5,962,404
Inventories	1,560,414	0	0	1,560,414
Prepaid expenses and other	381,269	34,024		415,293
Amounts due from third-party reimbursement programs	3,027	0	0	3,027
Total current assets	16,696,882	1,567,222	0	18,264,104
Property and equipment - Net	42,698,696	400,833	0	43,099,529
Beneficial interest in net assets of Bell Foundation	152,068	0	0	152,068
Other assets:				
Unamortized bond issue costs	251,877	0	0	251,877
Notes receivable	0	393,323	0	393,323
Investments in unconsolidated affiliates	933,888	0	0	933,888
Other	147,036	6,207	0	153,243
Total other assets	1,332,801	399,530	0	1,732,331
TOTAL ASSETS	\$ 60,880,447	\$ 2,367,585	\$ 0	\$ 63,248,032

<i>Liabilities and Net Assets</i>	Bell Memorial Hospital	Bell Medical Center	Eliminations	Total
Current liabilities:				
Current maturities of long-term debt	\$ 879,472	\$ 0	\$ 0	\$ 879,472
Current portion of obligations under capital leases	64,519	0	0	64,519
Accounts payable	1,277,781	102,880	0	1,380,661
Accrued and other liabilities	2,219,297	540,890	0	2,760,187
Total current liabilities	4,441,069	643,770	0	5,084,839
Long-term liabilities:				
Long-term debt	32,363,960	0	0	32,363,960
Obligations under capital leases	143,879	0	0	143,879
Interest rate swap agreements	2,477,511	0	0	2,477,511
Pension liability	2,507,945	0	0	2,507,945
Other liabilities	1,300,000	0	0	1,300,000
Total long-term liabilities	38,793,295	0	0	38,793,295
Total liabilities	43,234,364	643,770	0	43,878,134
Net assets:				
Unrestricted	17,494,015	1,723,815	0	19,217,830
Temporarily restricted	152,068	0	0	152,068
Total net assets	17,646,083	1,723,815	0	19,369,898
TOTAL LIABILITIES AND NET ASSETS	\$ 60,880,447	\$ 2,367,585	\$ 0	\$ 63,248,032

Bell Memorial Hospital and Affiliate

Combining Balance Sheet

June 30, 2010

<i>Assets</i>	Bell Memorial Hospital	Bell Medical Center	Eliminations	Total
Current assets:				
Cash and cash equivalents	\$ 6,433,839	\$ 0	\$ 0	\$ 6,433,839
Accounts receivable - Net	4,983,105	1,655,608	0	6,638,713
Inventories	1,618,717	32,817	0	1,651,534
Prepaid expenses and other	287,811	36,464		324,275
Total current assets	13,323,472	1,724,889	0	15,048,361
Property and equipment - Net	45,151,542	635,489	0	45,787,031
Assets limited as to use	2,010,062	0	0	2,010,062
Beneficial interest in net assets of Bell Foundation	1,825,536	0	0	1,825,536
Other assets:				
Unamortized bond issue costs	266,549	0	0	266,549
Notes receivable	0	1,666	0	1,666
Investments in unconsolidated affiliates	173,273	0	0	173,273
Other	77,858	6,207	0	84,065
Total other assets	517,680	7,873	0	525,553
TOTAL ASSETS	\$ 62,828,292	\$ 2,368,251	\$ 0	\$ 65,196,543

<i>Liabilities and Net Assets</i>	Bell Memorial Hospital	Bell Medical Center	Eliminations	Total
Current liabilities:				
Current maturities of long-term debt	\$ 1,014,827	\$ 0	\$ 0	\$ 1,014,827
Accounts payable	1,810,585	136,363	0	1,946,948
Accrued and other liabilities	2,130,144	524,669	0	2,654,813
Amounts due to third-party reimbursement programs	1,025,437	0	0	1,025,437
Total current liabilities	5,980,993	661,032	0	6,642,025
Long-term liabilities:				
Long-term debt	33,242,914	0	0	33,242,914
Obligations under capital leases	114,793	0		114,793
Interest rate swap agreements	2,834,776	0	0	2,834,776
Pension liability	3,955,625	0	0	3,955,625
Other liabilities	1,350,000	0	0	1,350,000
Total long-term liabilities	41,498,108	0	0	41,498,108
Total liabilities	47,479,101	661,032	0	48,140,133
Net assets:				
Unrestricted	13,523,655	1,707,219	0	15,230,874
Temporarily restricted	1,825,536	0	0	1,825,536
Total net assets	15,349,191	1,707,219	0	17,056,410
TOTAL LIABILITIES AND NET ASSETS	\$ 62,828,292	\$ 2,368,251	\$ 0	\$ 65,196,543

Bell Memorial Hospital and Affiliate

Combining Statement of Operations

Year Ended June 30, 2011

	Bell Memorial Hospital	Bell Medical Center	Eliminations	Total
Revenue:				
Patient service revenue	\$80,115,805	\$15,100,917	\$ 0	\$95,216,722
Revenue deductions	(39,190,805)	(7,008,336)	0	(46,199,141)
Net patient service revenue	40,925,000	8,092,581	0	49,017,581
Other revenue	2,314,019	1,304,051	0	3,618,070
Total revenue	43,239,019	9,396,632	0	52,635,651
Expenses:				
Salaries and wages	16,611,480	7,676,359	0	24,287,839
Employee benefits	4,196,002	1,484,729	0	5,680,731
Supplies	5,928,917	687,127	0	6,616,044
Purchased services	1,909,428	1,566,394	0	3,475,822
Insurance	425,341	143,176	0	568,517
Other health care expenses	5,010,923	600,803	0	5,611,726
Depreciation and amortization	2,708,326	404,327	0	3,112,653
Provision for bad debts	2,990,942	565,285	0	3,556,227
Interest	1,317,797	147,849	0	1,465,646
Total expenses	41,099,156	13,276,049	0	54,375,205
Income (loss) from operations	2,139,863	(3,879,417)	0	(1,739,554)
Other income (deductions):				
Investment income	955,875	0	0	955,875
Contributions	4,182	0	0	4,182
Loss on disposal of property and equipment	(91,932)	0	0	(91,932)
Change in net unrealized gains and losses on investments - Trading securities	(46,275)	0	0	(46,275)
Change in equity investments in unconsolidated affiliates	760,615	0	0	760,615
Change in fair value of interest rate swap agreements	357,265	0	0	357,265
Excess (deficiency) of revenue over expenses	4,079,593	(3,879,417)	0	200,176
Other changes in unrestricted net assets:				
Transfer to affiliate	(3,896,013)	3,896,013	0	0
Pension-related changes other than net periodic pension cost	1,447,680	0	0	1,447,680
Net assets released from restrictions	2,339,100	0	0	2,339,100
Increase in unrestricted net assets	\$ 3,970,360	\$16,596	\$0	\$ 3,986,956

See Independent Auditor's Report on Additional Information.

Bell Memorial Hospital and Affiliate

Combining Statement of Operations

Year Ended June 30, 2010

	Bell Memorial Hospital	Bell Medical Center	Eliminations	Total
Revenue:				
Patient service revenue	\$ 73,754,103	\$ 13,234,851	\$ 0	\$ 86,988,954
Revenue deductions	(34,646,954)	(4,994,687)	0	(39,641,641)
Net patient service revenue	39,107,149	8,240,164	0	47,347,313
Other revenue	961,406	1,128,044	0	2,089,450
Total revenue	40,068,555	9,368,208	0	49,436,763
Expenses:				
Salaries and wages	15,792,332	7,958,544	0	23,750,876
Employee benefits	4,780,359	1,551,007	0	6,331,366
Supplies	5,423,108	687,136	0	6,110,244
Purchased services	1,395,467	1,324,743	0	2,720,210
Insurance	378,900	189,237	0	568,137
Other health care expenses	5,045,062	570,761	0	5,615,823
Depreciation and amortization	2,499,041	355,706	0	2,854,747
Provision for bad debts	4,890,046	1,615,239	0	6,505,285
Interest	1,896,512	115,184	0	2,011,696
Total expenses	42,100,827	14,367,557	0	56,468,384
Loss from operations	(2,032,272)	(4,999,349)	0	(7,031,621)
Other income (deductions):				
Investment income	364,642	0	0	364,642
Contributions	634,142	0	0	634,142
Gain on disposal of property and equipment	38,349	0	0	38,349
Change in net unrealized gains and losses on investments - Trading securities	286,954	0	0	286,954
Change in fair value of interest rate swap agreements	(849,572)	0	0	(849,572)
Deficiency of revenue over expenses	(1,557,757)	(4,999,349)	0	(6,557,106)
Other changes in unrestricted net assets:				
Transfer to affiliate	(4,586,198)	4,586,198	0	0
Pension-related changes other than net periodic pension cost	(908,797)	0	0	(908,797)
Decrease in unrestricted net assets	\$ (7,052,752)	\$ (413,151)	\$ 0	\$ (7,465,903)

