Disclosure Schedule of
Bell Memorial Hospital ("BMH") and
Bell Medical Center ("BMC")
to the
Asset Purchase Agreement
by and among
the BMH, BMC and
ACQUISITION BELL HOSPITAL, LLC ("Buyer")

Dated as of June 19, 2013

The attached Disclosure Schedule (the "Schedule") is being delivered pursuant to the Asset Purchase Agreement dated as of June 19, 2013 (the "Agreement") by and among Bell Memorial Hospital, a Michigan nonprofit corporation ("BMH"), Bell Medical Center, a Michigan nonprofit corporation ("BMC" and, together with BMH, "Seller Group") and Acquisition Bell Hospital, LLC, a Delaware limited liability company ("Buyer"). The information in the Schedule is arranged in paragraphs corresponding to the numbered and lettered sections contained in the Agreement and the disclosures in any section of the Schedule shall be responsive to or list exceptions to the particular paragraph of the Agreement listed and shall also be deemed to be disclosed and incorporated in all other sections of the Schedule where the relevance of such disclosure is reasonably apparent from the text or the disclosure.

Capitalized terms used but not otherwise defined herein shall have the meanings assigned to them in the Agreement.

SCHEDULE 1.1(j)
ASSUMED NAMES

BELL MEMORIAL HOSPITAL

Assumed Names:	Id Num	Creation Date	Renew Date	Expiration Date
WOODLAND SENIOR LIVING	753140	4-17-2012		12-31-2017
F. A. BELL MEMORIAL HOSPITAL	753140	3-10-2004	11-4-2009	12-31-2014
BELL SPORTS HEALTH	753140	3-10-2004	11-4-2009	12-31-2014
FRANCIS A. BELL MEMORIAL HOSPITAL	753140	3-10-2004	11-4-2009	12-31-2014
WOODLAND ASSISTED LIVING	753140	3-10-2004	11-4-2009	4-17-2012
BELL MEMORIAL	753140	3-10-2004	11-4-2009	12-31-2014
BELL BEHAVIORAL SERVICES	753140	3-10-2004		12-31-2009
WOODHAVEN ASSISTED LIVING COMMUNITY	753140	10-23-2003		12-31-2008
BELL HOSPITAL	753140	7-16-2003	12-30-2008	12-31-2013
WOODHAVEN ASSISTED LIVING COMMUNITY	753140	2-9-1999		12-31-2005
WOODLAND ASSISTED LIVING COMMUNITY	753140	12-1-1998		12-31-2005
TEAL LAKE MEDICAL CENTER	753140	8-14-1997		12-31-2005
TWIN CITIES MEDICAL CLINIC	753140	11-7-1994		12-11-1996
TWIN CITIES FAMILY PRACTICE	753140	11-7-1994		12-31-1999
BELLCARE CONVENIENCE CENTER	753140	3-18-1992		12-31-1997
BELL CHILDREN'S CENTER	753140	3-18-1992	12-30-1997	12-31-2005
ISHPEMING-NEGAUNEE HOSPITAL ASSOCIATION, INC.	753140	3-5-1992	12-30-1997	12-31-2005
BELL MEMORIAL	753140	3-5-1992	12-30-1997	3-10-2004
BELL CONVENIENCE CARE	753140	3-5-1992		12-31-1997
BELL CARE	753140	3-5-1992	12-30-1997	12-31-2005
BELL MEMORIAL HOSPITAL	753140	10-20-1983	11-3-1988	12-31-1993
F. A. BELL MEMORIAL HOSPITAL	753140	10-20-1983	11-3-1988	12-31-1993
FRANCIS A. BELL MEMORIAL HOSPITAL	753140	10-20-1983	11-3-1988	12-31-1993

BELL MEDICAL CENTER

Assumed Names:	Id Num	Creation Date	Renew Date	Expiration Date
BELL MEDICAL FAMILY PRACTICE	775191	3-22-2012		12-31-2017
BELL FAMILY HEARING	775191	5-18-2009		12-31-2014
CLIFFS HEALTH CENTER	775191	5-18-2009		12-31-2014
BELL FAMILY PRACTICE	775191	5-18-2009		12-31-2014
BELL INTERNAL MEDICINE	775191	5-18-2009		12-31-2014
BELL PEDIATRICS	775191	5-18-2009		12-31-2014
BELL SURGICAL	775191	5-18-2009		12-31-2014
BELL UROLOGY	775191	5-18-2009		12-31-2014
BELL OCCUPATIONAL HEALTH	775191	5-18-2009		12-31-2014
BELL CORPORATE WELLNESS	775191	5-18-2009		12-31-2014
BELL WALK-IN CLINIC	775191	5-18-2009		12-31-2014
KIDS KORNER	775191	5-18-2009		12-31-2014

SCHEDULE 1.1(j)
ASSUMED NAMES

BELL ORTHOPEDICS	775191	5-18-2009		12-31-2014
UROLOGICAL SERVICES GROUP	775191	3-15-2004		12-31-2009
WOMEN'S HEALTH ASSOCIATES OF THE UPPER PENINSULA	775191	3-15-2004		12-31-2009
FAMILY HEARING CENTER OF UPPER MICHIGAN	775191	3-15-2004		12-31-2009
ISHPEMING MEDICAL CLINIC	775191	3-15-2004	11-4-2009	12-31-2014
SUPERIOR WOMEN'S CARE	775191	3-15-2004	11-4-2009	12-31-2014
BELL OTOLARYNGOLOGY	775191	3-15-2004	11-4-2009	12-31-2014
TWIN CITIES MEDICAL CLINIC	775191	3-15-2004	11-4-2009	12-31-2014
ISHPEMING MEDICAL CENTER	775191	3-15-2004	11-4-2009	12-31-2014
TEAL LAKE MEDICAL CENTER	775191	3-15-2004	11-4-2009	12-31-2014
TWIN CITIES FAMILY PRACTICE	775191	3-15-2004	11-4-2009	12-31-2014
BELL MEDICAL AT REPUBLIC	775191	6-18-2003	12-30-2008	12-31-2013
BELL MEDICAL AT LANSE	775191	5-28-2003	12-30-2008	12-31-2013
BELL MEDICAL AT ISHPEMING	775191	5-28-2003	12-30-2008	12-31-2013
BELL MEDICAL	775191	5-28-2003	12-30-2008	12-31-2013
BELL MEDICAL AT MUNISING	775191	5-28-2003	12-30-2008	12-31-2013
BELL MEDICAL AT TEAL LAKE	775191	5-28-2003	12-30-2008	12-31-2013
BELL MEDICAL AT CHOCOLAY	775191	5-28-2003		12-31-2008
NORTHERN MICHIGAN UROLOGY AT BELL	775191	10-31-2002	11-2-2012	12-31-2017
UPPER PENINSULA ORTHOPEDIC SURGERY	775191	3-12-2002	11-2-2012	12-31-2017
TEAL LAKE INTERNAL MEDICINE	775191	2-5-2001	12-28-2006	12-31-2011
MEMORY DIAGNOSTIC CENTER OF UPPER MICHIGAN	775191	9-10-1999		12-31-2005
ADULT MEDICINE ASSOCIATES	775191	4-21-1999		12-31-2005
FAMILY HEARING CENTER OF UPPER MICHIGAN	775191	10-27-1998		3-15-2004
UDIOLOGICAL SERVICES GROUP	775191	10-13-1998		12-31-2005
ISHPEMING MEDICAL CLINIC	775191	2-24-1998		3-15-2004
SUPERIOR WOMEN'S CARE	775191	1-12-1998		3-15-2004
BELL OTOLARYNGOLOGY	775191	9-3-1997		3-15-2004
TWIN CITIES MEDICAL CLINIC	775191	12-11-1996		3-15-2004
WOMEN'S HEALTH ASSOCIATES OF UPPER MICHIGAN	775191	2-15-1996		9-27-2000
WOMEN'S HEALTH ASSOCIATES OF THE UPPER PENINSULA	775191	2-9-1996		3-15-2004
ISHPEMING MEDICAL CENTER	775191	2-6-1995		12-31-2000

SCHEDULE 1.2(e)
EXCLUDED CONTRACTS

Loan/Bond Documents*

*The 2007 and 2007B Bonds – will be redeemed/paid off with the proceeds from transaction

1. Reimbursement Agreement dated as of March 1, 2007 among RBS Citizens, N.A (as successor by merger to Charter One Bank, N.A.), Bell Memorial Hospital and Bell Medical Center related to $32,285,000 Economic Development Corporation of the County of Marquette, Michigan Adjustable Rate Demand Limited Obligation Revenue Bonds (Series 2007)
    a. Amendment No. 1 to Reimbursement Agreement dated January 29, 2010
    b. Amendment No. 2 to Reimbursement Agreement dated January 27, 2011
    c. Forbearance Agreement and Amendment No. 3 to Reimbursement Agreement dated January 6, 2012
    d. First Amendment to Forbearance Agreement and Amendment No. 3 to Reimbursement Agreement dated April 30, 2012
    e. Second Amendment to Forbearance Agreement and Amendment No. 3 to Reimbursement Agreement dated June 22, 2012
    f. Third Amendment to Forbearance Agreement and Amendment No. 3 to Reimbursement Agreement dated September 30, 2012
    g. Fourth Amendment to Forbearance Agreement and Amendment No. 3 to Reimbursement Agreement dated January 15, 2013
    h. Fifth Amendment to Forbearance Agreement and Amendment No. 3 to Reimbursement Agreement dated June 15, 2013
2. Irrevocable Letter of Credit No S904371 in the original face amount of $32,285,000
3. Bond Purchase Agreement dated March 27, 2007 among Bell Memorial Hospital Economic Development Corporation of the County of Marquette, Michigan, RBS Citizens, N.A. (as successor by merger to Charter One Bank, N.A.), and Lancaster Pollard & Co. (Series 2007)
4. Loan Agreement dated March 1, 2007 between Economic Development Corporation of the County of Marquette, Michigan and Bell Memorial Hospital (Series 2007)
5. Series 2007 Note dated March 29, 2007 in the original principal amount of $32,285,000 by Bell Memorial Hospital in favor of The Bank of New York Trust Company, N.A. as trustee. (Series 2007)
6. Remarketing Agreement dated as of March 1, 2007 between Bell Memorial Hospital and Lancaster Pollard & Co. (Series 2007)
7. Reimbursement Agreement dated as of August 1, 2007 among RBS Citizens, N.A (as successor by merger to Charter One Bank, N.A.), Bell Memorial Hospital and Bell Medical Center related to $3,700,000 Economic Development Corporation of the County of Marquette, Michigan Adjustable Rate Demand Limited Obligation Revenue Bonds (Series 2007B)
    a. Amendment No. 1 to Reimbursement Agreement dated June 18, 2010
    b. Forbearance Agreement and Amendment No. 2 to Reimbursement Agreement dated June 22, 2012
    c. First Amendment to Forbearance Agreement and Amendment No. 2 to Reimbursement Agreement dated September 30, 2012
    d. Second Amendment to Forbearance Agreement and Amendment No. 2 to Reimbursement Agreement dated January 15, 2013
    e. Third Amendment to Forbearance Agreement and Amendment No. 2 to Reimbursement Agreement dated June 15, 2013

SCHEDULE 1.2(e)
EXCLUDED CONTRACTS

8. Irrevocable Letter of Credit No S904925 in the original face amount of $3,700,000 (Series 2007B) as amended on June 17, 2013
9. Bond Purchase Agreement dated August 27, 2007 among Bell Memorial Hospital, Economic Development Corporation of the County of Marquette, Michigan, RBS Citizens, N.A. (as successor by merger to Charter One Bank, N.A.), and Lancaster Pollard & Co. (Series 2007B)
10. Loan Agreement dated August 1, 2007 between Economic Development Corporation of the County of Marquette, Michigan and Bell Memorial Hospital (Series 2007B)
11. Series 2007B Note dated August 28, 2007 in the original principal amount of $3,700,000 by Bell Memorial Hospital in favor of The Bank of New York Trust Company, N.A. as trustee. (Series 2007B)
12. Remarketing Agreement dated as of August 1, 2007 between Bell Memorial Hospital and Lancaster Pollard & Co. (Series 2007B)
13. Pledge and Security Agreement dated March 1, 2007 among Bell Memorial Hospital, RBS Citizens, N.A. (as successor by merger to Charter One Bank, N.A.) and the Bank of New York Trust Company, N.A. (Series 2007)
14. Pledge and Security Agreement dated August 1, 2007 among Bell Memorial Hospital, RBS Citizens, N.A. (as successor by merger to Charter One Bank, N.A.) and the Bank of New York Trust Company, N.A. (Series 2007B)
15. Security Agreement dated March 1, 2007 among Bell Memorial Hospital and Bell Medical Center in favor of RBS Citizens, N.A. (as successor by merger to Charter One Bank, N.A.).
16. Security Agreement dated January 26, 2011 among Bell Memorial Hospital and Bell Medical Center in favor of RBS Citizens, N.A. (as successor by merger to Charter One Bank, N.A.).
17. Mortage dated August 28, 2007 by Bell Hospital in favor of RBS Citizens, N.A. (as successor by merger to Charter One Bank, N.A.) on real property commonly known as 100 Malton Road, Negaunee, Michigan
18. Continuing Collateral Mortgage dated January 26, 2011 by Bell Memorial Hospital in favor of RBS Citizens, N.A. (as successor by merger to Charter One Bank, N.A.) on real property commonly known as 901 Lakeshore Drive, Ishpeming, MI.
19. ISDA Master Agreement dated March 9, 2007 among Bell Memorial Hospital, Bell Medical Center and RBS Citizens, N.A. (as successor by merger to Charter One Bank, N.A.).
20. USD Amortizing Interest Rate Swap dated March 12, 2007 among Bell Memorial Hospital, Bell Medical Center and RBS Citizens, N.A. (as successor by merger to Charter One Bank, N.A.)

<u>Other Agreements</u>

1. Committed Portfolio Participation Agreement dated June 17, 2011 between Bell Hospital and The Broadlane Group, Inc., a division of MedAssets, Inc.

SCHEDULE 1.2(n)
EXCLUDED ENTITIES

1. Bell Foundation, Inc.
2. Bell Hospital Auxiliary

SCHEDULE 1.2(r)
OTHER ASSETS

None.

SCHEDULE 2.4(k)
EXCLUDED LIABILITIES

None.

SCHEDULE 4.1
SELLER GROUP SECURITIES AND MEMBERSHIP INTERESTS

None.

SCHEDULE 4.2(b)
SELLER GROUP CONSENTS

1. Approval for the transfer of the interests in UPHP and UPMC from the Michigan Office of Financial Insurance and Regulation.

2. Approval from the Michigan Attorney General's office.

3. Certificate of Need approval from the Michigan Department of Community Health

SCHEDULE 4.2(c)
SELLER GROUP CONFLICTS

All of the agreements set forth in Schedule 4.7(b)(ix) are hereby incorporated by reference.

SCHEDULE 4.3
UPHP AND UPMC SECURITIES AND OWNERSHIP INTERESTS

1. The Operating Agreement for UPHP, dated August 31, 2012, has a Right of First Refusal provision that requires a Transferring Member to first offer to sell its membership interest to UPHP and next to the other members of UPHP.

2. The Amended and Restated Operating Agreement for UPMC, dated September 25, 2007, as amended on August 31, 2012, has a Right of First Refusal provision that requires a Transferring Member to first offer to sell its membership interest to UPMC and next to the other members of UPMC.

SCHEDULE 4.5
OUTSTANDING OR PREEMPTIVE RIGHTS

1. The Operating Agreement for UPHP, dated August 31, 2012, has a Right of First Refusal provision that requires a Transferring Member to first offer to sell its membership interest to UPHP and next to the other members of UPHP.

2. The Amended and Restated Operating Agreement for UPMC, dated September 25, 2007, as amended on August 31, 2012, has a Right of First Refusal provision that requires a Transferring Member to first offer to sell its membership interest to UPMC and next to the other members of UPMC.

SCHEDULE 4.6(a)
FINANCIAL STATEMENTS – SELLER GROUP

See Attached.

Bell Memorial Hospital and Affiliate

Combined Financial Report
with Additional Information
June 30, 2010

Bell Memorial Hospital and Affiliate

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Independent Auditor's Report

To the Board of Directors
Bell Memorial Hospital and Affiliate

We have audited the accompanying combined balance sheet of Bell Memorial Hospital and Affiliate (the "Hospital") as of June 30, 2010 and 2009 and the related combined statements of operations, changes in net assets, and cash flows for the years then ended. These combined financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the combined financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall combined financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of Bell Memorial Hospital and Affiliate at June 30, 2010 and 2009 and the combined results of their operations, changes in net assets, and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Plante & Moran, PLLC

March 28, 2011

Bell Memorial Hospital and Affiliate

Combined Balance Sheet

	June 30, 2010	June 30, 2009
Assets		
Current Assets		
Cash and cash equivalents	$ 6,433,839	$ 6,826,309
Accounts receivable (Note 2)	6,640,379	6,101,497
Estimated third-party payor settlements (Note 3)	622,791	2,287,100
Assets limited as to use (Note 5)	-	1,192,492
Inventory	1,651,534	1,364,370
Prepaid expenses and other	324,275	304,167
Total current assets	15,672,818	18,075,935
Property and Equipment - Net (Note 4)	45,787,031	46,571,864
Other Assets (Note 5)	4,359,485	4,784,936
Total assets	**$ 65,819,334**	**$ 69,432,735**
Liabilities and Net Assets		
Current Liabilities		
Current portion of long-term debt (Note 7)	$ 1,014,827	$ 948,861
Accounts payable	1,946,252	1,980,760
Estimated third-party payor settlements (Note 3)	1,648,228	-
Accrued liabilities	2,655,509	2,267,323
Total current liabilities	7,264,816	5,196,944
Long-term Debt - Net of current portion (Note 7)	33,357,707	34,298,294
Other Liabilities (Note 9)	8,140,401	6,350,737
Total liabilities	48,762,924	45,845,975
Net Assets		
Unrestricted	15,230,874	22,696,777
Temporarily restricted	1,825,536	889,983
Total net assets	17,056,410	23,586,760
Total liabilities and net assets	**$ 65,819,334**	**$ 69,432,735**

Bell Memorial Hospital and Affiliate

Combined Statement of Operations

	Year Ended June 30, 2010	Year Ended June 30, 2009
Unrestricted Revenue, Gains, and Other Support		
Net patient service revenue	$ 47,347,313	$ 51,436,064
Other	2,089,450	1,400,470
Net assets released from restrictions used for operations	-	650,000
Total unrestricted revenue, gains, and other support	49,436,763	53,486,534
Expenses		
Salaries and wages	23,750,876	23,082,283
Employee benefits	6,331,366	6,188,366
Supplies	6,109,957	7,264,987
Purchased services	2,720,210	3,090,919
Insurance	568,137	618,336
Other healthcare expenses	5,616,110	5,428,549
Depreciation and amortization (Note 4)	2,870,275	2,561,759
Provision for bad debts	6,505,285	3,672,521
Interest expense	1,996,168	1,372,640
Total expenses (Note 12)	56,468,384	53,280,360
Operating (Loss) Income	(7,031,621)	206,174
Other Income (Expenses)		
Investment income (Note 5)	402,991	14,217
Contributions	634,142	208,577
Net change in unrealized gains and losses on investments (Note 5)	286,954	(185,172)
Change in fair value of interest rate swap agreements (Note 8)	(849,572)	(1,045,268)
Total other income (expenses)	474,515	(1,007,646)
Excess of Revenue Under Expenses Before Unusual Event	(6,557,106)	(801,472)
Unusual Event - Sale of old facility (Note 4)	-	(75,000)
Excess of Revenue Under Expenses	(6,557,106)	(876,472)
Pension-related Changes Other Than Net Periodic Pension Costs (Note 10)	(908,797)	(1,950,755)
Net Assets Released from Restrictions	-	100,000
Decrease in Unrestricted Net Assets	**$ (7,465,903)**	**$ (2,727,227)**

Bell Memorial Hospital and Affiliate

Combined Statement of Changes in Net Assets

	Year Ended June 30, 2010	Year Ended June 30, 2009
Unrestricted Net Assets		
Excess of revenue under expenses	$ (6,557,106)	$ (876,472)
Pension-related changes other than net periodic pension costs	(908,797)	(1,950,755)
Net assets released from restriction	-	100,000
Decrease in Unrestricted Net Assets	(7,465,903)	(2,727,227)
Temporarily Restricted Net Assets		
Change in interest of net assets of charitable foundation	935,553	641,803
Net assets released from restrictions	-	(750,000)
Increase (Decrease) in Temporarily Restricted Net Assets	935,553	(108,197)
Decrease in Net Assets	(6,530,350)	(2,835,424)
Net Assets - Beginning of year	23,586,760	26,422,184
Net Assets - End of year	$ **17,056,410**	$ **23,586,760**

Bell Memorial Hospital and Affiliate

Combined Statement of Cash Flows

	Year Ended June 30, 2010	Year Ended June 30, 2009
Cash Flows from Operating Activities		
Decrease in net assets	$ (6,530,350)	$ (2,835,424)
Adjustments to reconcile decrease in net assets to net cash from operating activities:		
Depreciation and amortization	2,870,275	2,561,759
Net change in unrealized gains and losses on investments	(286,954)	185,172
Realized (gain) loss on sales of investments	(348,993)	206,525
Change in beneficial interest in net assets of Bell Foundation	(935,553)	(641,803)
Pension-related changes other than net periodic pension costs	908,797	1,950,755
Change in fair value of interest rate swap agreements	849,572	1,045,268
Unusual event - Conditional asset retirement obligation	-	75,000
Provision for bad debts	6,505,285	3,672,521
(Gain) loss on disposal of property and equipment	(38,349)	256,285
Changes in assets and liabilities which (used) provided cash:		
Accounts receivable	(7,101,512)	(5,719,152)
Estimated third-party payor settlements receivable	1,824,100	(1,054,196)
Inventory	(287,164)	126,550
Prepaid expenses and other	(20,108)	(58,587)
Other assets	-	108,197
Accounts payable	(34,508)	389,402
Estimated third-party payor settlements payable	1,545,782	-
Accrued liabilities	473,713	45,321
Other liabilities	31,295	3,577
Net cash (used in) provided by operating activities	(574,672)	317,170
Cash Flows from Investing Activities		
Purchase of property and equipment	(2,138,708)	(16,401,892)
Proceeds from sale of property and equipment	20,761	7,345
Purchase of investments held by trustee under self-insurance arrangements	(1,501,715)	(878,167)
Proceeds from sales of investments held by trustee under self-insurance arrangements	1,194,870	907,564
Purchase of investments held by trustees under bond indenture	(2,665,861)	(14,420,844)
Proceeds from sales of investments held by trustee under bond indenture	4,951,009	26,083,113
Collection of note receivable from affiliate	260,914	83,901
Net cash provided by (used in) investing activities	121,270	(4,618,980)
Cash Flows from Financing Activities		
Proceeds from the issuance of debt	105,979	-
Principal payments on long-term debt	(980,600)	(930,385)
Temporarily restricted contributions	935,553	641,803
Net cash provided by (used in) financing activities	60,932	(288,582)
Net Decrease in Cash and Cash Equivalents	(392,470)	(4,590,392)
Cash and Cash Equivalents - Beginning of year	6,826,309	11,416,701
Cash and Cash Equivalents - End of year	**$ 6,433,839**	**$ 6,826,309**
Supplemental Cash Flow Information		
Cash paid for interest	$ 1,641,571	$ 1,363,491
Abatement for future liability capitalized	-	75,000

See Notes to Combined Financial Statements.

Note 1 - Nature of Business and Significant Accounting Policies

Reporting Entity - Bell Memorial Hospital (the "Hospital"), located in Ishpeming, Michigan, is a not-for-profit hospital. The Hospital provides inpatient and outpatient health care to residents of Ishpeming, Michigan and the surrounding communities. Admitting physicians are primarily practitioners in the local area. The Hospital's sole member is Superior Healthcare System, a Michigan nonprofit holding company. Bell Medical Center (the "Center") is a nonprofit corporation that operates physicians' offices providing services to patients and is located on the campus of Bell Memorial Hospital. The Center's sole member is Superior Healthcare System. The Hospital provides financial support for the operations of the Center and has the ability to determine direction and assign various healthcare-related functions to the Center.

A significant portion of the Hospital's and the Center's net patient service revenue is receivable under contractual arrangements with the Medicare, Medicaid, and Blue Cross/Blue Shield of Michigan programs.

Principles of Combination - The combined financial statements include the accounts of Bell Memorial Hospital and its affiliate, Bell Medical Center. Intercompany balances and transactions have been eliminated in combination.

Cash and Cash Equivalents - Cash and cash equivalents include temporary investments with a maturity of three months or less, excluding those amounts included in assets limited as to use (see Note 5). The Hospital maintains cash balances at several financial institutions. Accounts at each institution are insured by the FDIC up to $250,000 per institution. As of June 30, 2010, the uninsured cash balances approximated $7,271,000.

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

Inventory - Inventory, which consists primarily of medical and pharmaceutical products, is stated at the lower of cost, determined on a first-in, first-out basis, or market.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Property and Equipment - Property and equipment amounts are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Interest cost incurred on borrowed funds during the period of construction of capital assets, net of income earned on those funds, is capitalized as a component of the cost of constructing those assets.

Assets Limited as to Use - Assets limited as to use labeled "held by trustee for payment of professional liability claims" are self-insurance funds restricted by the self-insurance trust agreement for funding professional liability claims of the Hospital. Assets limited as to use labeled "held by trustee under bond indenture" are bond proceeds restricted by the indenture agreement for funding future bond principal and interest payments and funding the replacement hospital facility (see Note 5).

Investments - Investments are stated at fair market value. Investment income or loss (including realized and changes in unrealized gains and losses on investments, interest, and dividends) is included in excess of revenue under expenses, unless the income or loss is restricted by the donor.

The Hospital's investments are all classified as trading, with unrealized gains and losses included in excess of revenue under expenses.

The Hospital invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the combined balance sheet.

Interest in Net Assets of Charitable Foundation - Interest in net assets of Bell Foundation (the "Foundation") reflects the future beneficial interests to be received by Bell Memorial Hospital for the construction of the replacement hospital. This interest in the future contributions from the Foundation is recorded at the fair market value of the assets in the Foundation specifically designated for the benefit of Bell Memorial Hospital and Affiliate.

Debt Issuance Costs - Debt issuance costs were incurred by the Hospital in connection with obtaining the Series 2007 and Series 2007B Bonds. These costs are amortized over the term of the related debt, commencing with the first bond principal payment made during the year ended June 30, 2009. Amortization expense totaled $14,673 and $20,077 for the years ended June 30, 2010 and 2009, respectively.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Interest Rate Swap - The Hospital entered into an interest rate swap agreement 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 statement of changes in net assets. Unrealized changes in the fair value of the interest rate swap are recognized as part of other income, separate from operating income (see Note 8). The Hospital does not use hedge accounting for these swaps.

Professional Liability Insurance - The Hospital accrues the estimated ultimate expense, including litigation and settlement expense, for any reported and unreported incidents of potential improper professional services during the year that are in excess of applicable insurance coverage or fall within the applicable deductible amounts (see Note 12).

Temporarily Restricted Net Assets - Temporarily restricted net assets reflect assets contributed or pledged to the Bell Foundation on behalf of the Hospital and/or its affiliate, the use of which is restricted by the donor. Temporarily restricted net assets are restricted for the replacement hospital facility project and related property and equipment purchases. Investment earnings on temporarily restricted investments are restricted by donors for specific purposes.

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 adjusted in future periods as final settlements are determined.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. Management believes that it is in compliance with all applicable laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs.

Charity Care - The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. Charity care for the years ended June 30, 2010 and 2009 totaled approximately $897,000 and $402,000, respectively.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Employee Pension Plan - The Hospital maintains a defined contribution plan and a defined benefit plan. Eligibility separately for each plan is for qualified employees who meet certain requirements as to age and length of service as documented in each plan. Each employee's interest is vested as specified in the plans. For the defined contribution plan, pension expense is recognized as it is earned by the employees. For the defined benefit plan, pension expense is actuarially determined (see Note 11).

Operating and Nonoperating Activities - The Hospital's primary mission is to meet the healthcare needs of its local market area through a broad range of general and specialized healthcare services including inpatient acute care, outpatient services, and other healthcare services. Activities directly associated with the furtherance of this purpose are considered to be operating activities. Other activities that result in gains or losses unrelated to the Hospital's primary mission are considered to be nonoperating and are reported in other income, consisting of unrestricted donations, investment income, realized and unrealized gains and losses on investments, and change in the fair value of the interest rate swap agreements.

Excess of Revenue Under Expenses - The combined statement of operations includes excess of revenue under expenses. Changes in unrestricted net assets, which are excluded from excess of revenue under expenses, consistent with industry practice, include contributions of long-lived assets and pension liability adjustments.

Contributions - The Hospital reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the combined statement of operations as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying combined financial statements.

Gifts of long-lived assets such as land, buildings, and equipment are reported as unrestricted support unless explicit donor stipulations specify how 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. Donated long-lived assets are recorded at fair market value at the time of contribution.

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Tax Status - The Hospital and the Center are tax exempt under Section 501(c)(3) of the Internal Revenue Code and, accordingly, no tax provision is reflected in the combined financial statements.

Use of Estimates - The preparation of combined financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the combined financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results may differ from these estimates.

Fair Value of Financial Instruments - The fair value of financial instruments, including cash, accounts receivable, accounts payable, interest rate swap agreements, and debt, approximates carrying values. Investments are recorded at fair value under generally accepted accounting principles. The fair value of debt approximates carrying value because of the variable rate nature of the instrument.

Reclassification - Certain 2009 amounts have been reclassified to conform to the 2010 presentation.

Subsequent Events - The combined financial statements and related disclosures include evaluation of events up through and including March 28, 2011, which is the date the combined financial statements were issued.

Note 2 - Patient Accounts Receivable

Accounts receivable consist of the following:

	2010	2009
Patients, insurance companies, and governmental agencies	$ 18,095,810	$ 16,675,882
Less allowance for uncollectible accounts	(4,040,448)	(2,146,125)
Less allowance for contractual adjustments and interim payment advances	(7,635,336)	(8,653,482)
Total patient accounts receivable	6,420,026	5,876,275
Other	220,353	225,222
Total accounts receivable	$ 6,640,379	$ 6,101,497

Note 2 - Patient Accounts Receivable (Continued)

The Hospital and its affiliate grant credit without collateral to patients, most of whom are local residents and are insured under third-party payor agreements. The composition of receivables from patients and third-party payors is as follows:

	Percent	
	2010	2009
Medicare	29	31
Blue Cross/Blue Shield of Michigan	23	23
Medicaid	15	11
Commercial insurance and HMOs	10	18
Patients	23	17
Total	100	100

Note 3 - Patient Service Revenue

Approximately 87 percent of the Hospital's net patient service revenue is received from the Medicare, Medicaid, and Blue Cross/Blue Shield of Michigan programs. The Hospital and its affiliate have agreements with third-party payors that provide for reimbursement at amounts different from established rates. A summary of the basis of reimbursement with these third-party payors is as follows:

- **Medicare** - The Hospital is reimbursed as a critical access hospital by the Medicare program. Critical access hospitals receive cost reimbursement for all acute-care inpatient and most outpatient services. Other outpatient services are reimbursed on an established fee-for-service methodology.

- **Medicaid** - Inpatient, acute-care services rendered to Medicaid program beneficiaries are also paid at prospectively determined rates per discharge. Inpatient capital costs relating to Medicaid patients are paid on a cost-reimbursement method. Outpatient and physician services are reimbursed on an established fee-for-service methodology or ambulatory payment classification system.

- **Blue Cross/Blue Shield of Michigan** - Services rendered to subscribers are reimbursed as a percentage of charges subject to a limitation on the annual rate of increase.

Note 3 - Patient Service Revenue (Continued)

Cost report settlements result from the adjustment of interim payments to final reimbursement under the Medicare, Medicaid, and Blue Cross/Blue Shield of Michigan programs that are subject to audit by fiscal intermediaries. These audits may result in changes to these estimated cost report settlement balances and will be adjusted in future periods as final settlements are determined. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. There were no significant final cost report settlements impacting net patient service revenue for the year ended June 30, 2010 and the final cost report settlements increased net patient service revenue by approximately $1,200,000 for the year ended June 30, 2009, reflecting the amount of settlements received for prior years in excess of previously estimated amounts.

The Medicare program has initiated a recovery audit contractor (RAC) initiative, whereby claims subsequent to October 1, 2007 will be reviewed by contractors for validity, accuracy, and proper documentation. A demonstration project completed in several other states resulted in the identification of potential significant overpayments. The Hospital has been contacted by the RAC auditors, and is currently unable to determine the extent of liability for overpayments, if any.

Note 4 - Property and Equipment

The cost of property and equipment and depreciable lives are summarized as follows.

	2010	2009	Depreciable Life - Years
Land	$ 2,229,995	$ 2,217,184	-
Buildings and building improvements	39,782,554	40,048,421	20-40
Equipment	17,979,682	15,381,754	3-5
Construction in progress	15,000	533,864	-
Total cost	60,007,231	58,181,223	
Less accumulated depreciation	(14,220,200)	(11,609,359)	
Net carrying amount	$ 45,787,031	$ 46,571,864	

Note 4 - Property and Equipment (Continued)

Depreciation expense on property, plant, and equipment totaled $2,855,602 and $2,541,682 in 2010 and 2009, respectively.

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, 2010 and 2009, the total amount outstanding under this agreement totaled $700,000 and $825,000, respectively. This amount is payable in annual amounts totaling $100,000, $100,000, and $500,000 during the years ending June 30, 2011, 2012, and 2013, respectively (see Note 9).

Note 5 - Other Assets

Other assets consist of the following:

	2010	2009
Assets limited as to use:		
Funds held by trustees under bond indenture	$ 3,336	$ 2,536,022
By board of trustees for payment of professional liability claims	2,006,726	1,751,949
Total assets limited as to use	2,010,062	4,287,971
Less amount for payment of current liabilities	-	(1,192,492)
Total assets limited as to use - Long term	2,010,062	3,095,479
Beneficial interest in net assets of Bell Foundation	1,825,536	889,983
Bond issues costs - Net	266,549	281,222
Other	257,338	518,252
Total other assets	$ 4,359,485	$ 4,784,936

Investments consist of the following:

	2010	2009
Money market investments	$ 67,431	$ 2,589,234
Corporate bonds	577,754	479,769
Common and preferred stocks	1,364,877	1,218,968
Total	$ 2,010,062	$ 4,287,971

Note 5 - Other Assets (Continued)

Investment income and change in net unrealized gains and losses on investments are reported in the combined statements of operations and changes in net assets as follows:

	2010	2009
Investment income - Interest and dividends	$ 53,998	$ 220,742
Investment income - Realized gain (loss) on sale of investments	348,993	(206,525)
Net change in unrealized gains and losses on investments	286,954	(185,172)
Total investment income (loss)	$ 689,945	$ (170,955)

Note 6 - Fair Value

Accounting standards require certain assets and liabilities to be reported at fair value in the financial statements and provide a framework for establishing that fair value. The framework for determining fair value is based on a hierarchy that prioritizes the valuation techniques and inputs used to measure fair value.

In general, fair values determined by Level 1 inputs use quoted prices in active markets for identical assets or liabilities that the Hospital has the ability to access.

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset. These Level 3 fair value measurements are based primarily on management's own estimates using pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset.

In instances where inputs used to measure fair value fall into different levels of the fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Hospital's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

The Hospital measures money market investments, corporate bonds, and common and preferred stocks at fair value on a recurring basis. The fair value of these assets is based primarily on Level 1 inputs as described above.

The Hospital measures its interest rate swap agreement at fair value on a recurring basis. The fair value of this asset is based primarily on Level 2 inputs as described above.

Note 7 - Long-term Debt

Long-term debt at June 30, 2010 and 2009 is as follows:

	2010	2009
Notes payable to Michigan State Hospital Finance Authority	$ 170,355	$ 306,639
Adjustable Rate Demand Limited Obligation Revenue Bonds, Series 2007	30,835,000	31,575,000
Adjustable Rate Demand Limited Obligation Revenue Bonds, Series 2007B	3,535,000	3,620,000
Other	114,793	43,658
Total	34,655,148	35,545,297
Less original issue discount	282,614	298,142
Less current portion	1,014,827	948,861
Long-term portion	$ 33,357,707	$ 34,298,294

The note payable to the Michigan State Hospital Finance Authority (MSHFA) is collateralized by an irrevocable bank letter of credit. This note is due in monthly installments of approximately $11,000 through September 2011, plus interest due at a variable rate of 1.0 percent at June 30, 2010 (2.5 percent at June 30, 2009). The letter of credit expires in conjuction with the final installment in September 2011.

The Adjustable Rate Demand Limited Obligation Revenue Bonds, Series 2007 and Series 2007B, issued by the Economic Development Corporation of the County of Marquette, Michigan, were issued for the primary purpose of constructing a replacement hospital facility.

The Series 2007 Bonds mature on March 1, 2033 and have a variable interest rate established by the bank on a weekly basis using the weekly London Interbank Offering Rate (LIBOR) times .67, for an effective rate of 2.2 percent at June 30, 2010 (0.19 percent at June 30, 2009). Effective March 15, 2010, the LIBOR floor was set at 2.5 percent, for an effective rate floor of 1.675 percent. The bonds required monthly interest-only payments for the period from May 1, 2007 through February 27, 2009. The bonds require annual payments ranging from $775,000 to $2,125,000 through March 1, 2033.

Note 7 - Long-term Debt (Continued)

The Series 2007B Bonds mature on August 1, 2032 and have a variable interest rate established by the bank on a weekly basis using the weekly LIBOR times .67, for an effective rate of 2.2 percent at June 30, 2010 (0.19 percent at June 30, 2009). The bonds required monthly interest-only payments for the period from August 1, 2007 through July 31, 2008. The bonds require annual payments ranging from $85,000 to $250,000 through August 1, 2032.

The bonds are secured by irrevocable direct-pay letters of credit, which expire on March 15, 2012 for the Series 2007 and Series 2007B and are secured by substantially all assets of the Hospital and affiliate, 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 2007 and Series 2007B Bonds are also guaranteed by the Hospital's sole member, Superior Healthcare System. Letters of credit fees are 1.5 percent on the Series 2007 and .85 percent on the Series 2007 B Bonds through March 2011. Effective in March 2011, these fees are 2.75 percent for the Series 2007 and Series 2007B Bonds.

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

In connection with the above note payable to the MSHFA, the Hospital has agreed to certain financial covenants relating to debt service coverage, additional indebtedness, minimum cash requirements, minimum unrestricted net asset balance, and various other operational covenants.

In connection with the issuance of the irrevocable direct-pay letter of credit and related Series 2007 and Series 2007B Bonds, the Hospital 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 Hospital was in violation of these financial covenants. Amendment No. 2 to the Reimbursement Agreement waives these financial covenants through June 30, 2011 and establishes new monthly covenants for the period from January 2011 through June 30, 2011, including modifications to certain financial covenants.

Note 7 - Long-term Debt (Continued)

Scheduled future payments on long-term debt to maturity for the next five years and thereafter are as follows:

2011		$ 1,014,827
2012		879,472
2013		929,472
2014		969,472
2015		1,019,472
Thereafter		29,842,433
	Total	$ 34,655,148

Note 8 - Interest Rate Swap Agreements

The Hospital has entered into interest rate swaps associated with its Adjustable Rate Demand Limited Obligation Revenue Bonds, Series 2007 and 2007B. The Series 2007 Bonds' interest rate swap is in the notional amounts as detailed in the table noted below. The Series 2007B Bonds' interest rate swap is in the amount of the outstanding issuance. The Hospital has entered into these interest rate swaps to reduce the impact of changes in the interest rate on its variable rate long-term debt.

The effective date of the swap is June 1, 2007, and the swap agreement matures on March 1, 2017 for the Series 2007 Bonds. The effective date on the swap is September 1, 2007, and the swap agreement matures on August 1, 2018 for the Series 2007B Bonds. The effect of the swaps was to essentially change the Hospital's variable interest rate on bonds to a synthetic fixed rate of 3.5 percent and 3.665 percent for the Series 2007 and Series 2007B Bonds, respectively. Due to decreasing interest rates, the swaps had a negative fair value of $2,834,776 and $1,985,204 as of June 30, 2010 and 2009, respectively (see Note 9). The swaps' counterparty is rated "A1" by Moody's, "A" by Standard and Poor's, and "AA-" by Fitch. The Hospital or counterparty may terminate the interest rate swap agreements if either party fails to perform under the terms of a standard ISDA Master Agreement as amended. If terminated, the Hospital has the option to enter into a new interest rate swap agreement with another counterparty or to convert its variable rate bonds into fixed rate bonds. However, the Hospital does not anticipate nonperformance by the counterparties.

Note 8 - Interest Rate Swap Agreements (Continued)

The notional amounts for each year for the Series 2007 Bonds, for which the fixed rate will apply under the interest rate swap agreement, are as follows:

	Notional Amounts
Effective date	$ 20,681,250
March 1, 2010 - February 28, 2011	20,126,250
March 1, 2011 - February 28, 2012	19,545,000
March 1, 2012 - February 28, 2013	18,941,250
March 1, 2013 - February 28, 2014	18,303,750
March 1, 2014 - February 28, 2015	17,640,000
March 1, 2015 - February 28, 2016	16,942,500
March 1, 2016 - March 1, 2017	16,215,000

Note 9 - Other Liabilities

The detail of other liabilities is as follows:

	2010	2009
Accrued pension cost (Note 10)	$ 3,955,625	$ 2,959,612
Accrued professional liability claims (Note 11)	750,000	705,921
Fair market value of interest rate swap agreement (Note 8)	2,834,776	1,985,204
Accrued obligation on old facility (Note 4)	600,000	700,000
Total other liabilities	$ 8,140,401	$ 6,350,737

Note 10 - Retirement Benefit Plans

The Hospital 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. Under the defined contribution plan, the Hospital has no liability for current or prior service cost other than to pay fixed amounts per hour worked by eligible employees.

Note 10 - Retirement Benefit Plans (Continued)

Effective November 1, 2005, nonunion employees are covered under a defined contribution plan. For thoses nonunion employees who were not eligible for the defined benefit plan, the plan allows employee contributions and requires a matching contrbution equal to employee deferrals, up to 5.5 percent. For those nonunion employees who were eligible for the defined benefit plan, the plan allows for employee contributions and requires non-elective, monthly deferrals ranging from 7.0 percent to 10.0 percent, based on the employee's period of service as of November 1, 2005.

Pension expense under the defined contribution plans was approximately $1,155,000 and $1,025,000 for the years ended June 30, 2010 and 2009, respectively.

Nonunion employees are covered under a defined beneift plan that pays benefits based on, among other things, an employee's years of service and level of compensation. Effective November 1, 2005, this plan was frozen by the Hospital and participants no longer are accruing benefits under this plan. The funding policy of the Hospital is to contribute annually an amount in compliance with the requirements of the Employee Retirement Income Security Act of 1979 (ERISA). Contributions were intended to provide not only the benefits attributed to services to date, but also for those expected to be earned in the future.

Obligations and Funded Status

At June 30	Pension Benefits 2010	Pension Benefits 2009
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 8,757,684	$ 8,372,120
Interest cost	536,727	533,831
Actuarial loss	1,303,707	127,592
Benefits paid	(296,776)	(275,859)
Benefit obligation at end of year	10,301,342	8,757,684
Change in plan assets:		
Fair value of plan assets at beginning of year	5,798,339	7,391,135
Actual return on plan assets	844,154	(1,316,937)
Benefits paid	(296,776)	(275,859)
Fair value of plan assets at end of year	6,345,717	5,798,339
Funded status at end of year	$ (3,955,625)	$ (2,959,345)

Note 10 - Retirement Benefit Plans (Continued)

Amounts recognized in the combined balance sheet consist of the following:

	Pension Benefits 2010	Pension Benefits 2009
Noncurrent liabilities (Note 9)	$ (3,955,625)	$ (2,959,612)

Amounts recognized in accumulated other comprehensive income consist of net loss of $3,304,322 and $2,506,053 as of June 30, 2010 and 2009, respectively.

The accumulated benefit obligation for all defined benefit pension plans was $10,301,342 and $8,757,684 at June 30, 2010 and 2009, respectively.

The components of net periodic benefit cost and other amounts recognized in other comprehensive income are as follows:

	Pension Benefits 2010	Pension Benefits 2009
Net Periodic Benefit Cost		
Interest cost	$ 536,727	$ 533,831
Expected return on plan assets	(393,980)	(506,226)
Amortization of net loss	55,264	-
Total net periodic benefit cost	$ 198,011	$ 27,605
Amounts Recognized in Other Comprehensive Income		
Total recognized in net periodic benefit cost and other comprehensive income	$ 908,797	$ 1,950,755

The estimated net loss for the defined benefit pension plans that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year is $55,264.

Assumptions

Weighted average assumptions used to determine benefit obligations at June 30 are as follows:

	Pension Benefits 2010	Pension Benefits 2009
Discount rate	5.25 %	6.25 %

Note 10 - Retirement Benefit Plans (Continued)

Weighted average assumptions used to determine net periodic benefit cost for the years ended June 30 are as follows:

	Pension Benefits	
	2010	2009
Discount rate	6.25 %	6.50 %
Expected long-term return on plan assets	7.00	7.00

In selecting the expected long-term rate of return on assets, the Hospital considered the average rate of earnings expected on the funds invested or to be invested to provide for the benefits of the plan. This included considering the allocation of trust assets and the expected returns likely to be earned over the life of the plan. The Hospital's historical rate of return on a fiscal year basis averaged approximately 7.00 percent per annum for the 10-year period ended June 30, 2010.

Pension Plan Assets

The goals of the pension plan investment program are to fully fund the obligation to pay retirement benefits in accordance with the plan documents. Pension funds will be invested in growth-oriented securities up to 65 percent equities.

The target allocation of plan assets is 69 percent equity securities, 29 percent fixed income, and 2 percent cash and cash equivalents.

Equity securities primarily include investments in large-cap and mid-cap companies primarily located in the United States. Fixed-income securities include corporate bonds of companies from diversified industries, mortgage-backed securities, and U.S. Treasuries.

Note 10 - Retirement Benefit Plans (Continued)

The fair values of the Hospital's pension plan assets at June 30, 2010 by major asset classes are as follows:

Fair Value Measurements at June 30, 2010

	Total	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Asset Classes				
Equity (a)	$ 2,151,766	$ 2,151,766	$ -	$ -
International (b)	651,980	651,980	-	-
Small-cap (c)	945,880	945,880	-	-
Large-cap (d)	184,169	184,169	-	-
Wells Fargo proprietary funds (e)	2,411,922	2,411,922	-	-
Total	$ 6,345,717	$ 6,345,717	$ -	$ -

(a) Mutual funds which invest primarily in stocks, usually common stocks

(b) Mutual funds which invest in securities throughout the world

(c) Mutual funds which invest in small capital funds, from $250 million to $1 billion

(d) Mutual funds which invest primarily in stocks of large companies with above-average prospects for growth

(b) Fixed-income funds which focus on the determination of operating income, changes in equity (or cost recovery), financial position, and cash flows

The above table presents information about the pension benefit plan assets measured at fair value at June 30, 2010, and the valuation techniques used by the Hospital to determine those fair values.

In general, fair values determined by Level 1 inputs use quoted prices in active markets for identical assets that the Hospital has the ability to access.

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets in active markets, and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset.

Note 10 - Retirement Benefit Plans (Continued)

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Hospital's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each plan asset.

Cash Flow

Contributions

The Hospital has no mimimum required contributions to make to the pension plan during 2011, however, the Hospital has not determined if any contributions will be made to the pension plan during 2011.

Estimated Future Benefit Payments

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

Year Ending December 31	Pension Benefits
2011	$ 314,649
2012	331,925
2013	365,038
2014	420,639
2015	449,922
2016-2020	3,182,846

Note 11 - Professional Liability Insurance

The Hospital is insured against potential professional liability claims under a claims-made policy whereby only the claims reported to the insurance carrier during the policy period are covered, regardless of when the incident giving rise to the claim occurred. Under the terms of the policy, the Hospital bears the risk of the ultimate costs of any individual and aggregate claims exceeding the policy limits for claims asserted in the policy year. The Hospital has accrued the estimated outstanding claims as of June 30, 2010 and 2009 (see Note 9).

Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during the claims-made term, but reported subsequently, will be uninsured.

Note 12 - Functional Expenses

The Hospital is a general acute-care facility that provides inpatient and outpatient health-care services to patients in Ishpeming, Michigan and surrounding communities. Expenses related to providing these services for the years ended June 30, 2010 and 2009 are as follows:

	2010	2009
Healthcare services	$ 45,272,338	$ 43,093,104
General and administrative	11,196,046	10,187,256
Total	$ 56,468,384	$ 53,280,360

Additional Information

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Independent Auditor's Report on Additional Information

To the Board of Directors
Bell Memorial Hospital and Affiliate

We have audited the combined financial statements of Bell Memorial Hospital and Affiliate as of June 30, 2010 and 2009. Our audits were made for the purpose of forming an opinion on the combined financial statements taken as a whole. The accompanying combining balance sheet and statement of operations information is presented for the purpose of additional analysis of the combined financial statements rather than to present the financial position, results of operations, and cash flows of the individual entities and is not a required part of the basic combined financial statements. The combining information has been subjected to the procedures applied in the audits of the combined financial statements and, in our opinion, is fairly stated in all material respects in relation to the combined financial statements taken as a whole.

Plante & Moran, PLLC

March 28, 2011

Bell Memorial Hospital and Affiliate

Combining Balance Sheet
June 30, 2010

	Bell Memorial Hospital	Bell Medical Center	Eliminating Entries	Total
Assets				
Current Assets				
Cash and cash equivalents	$ 6,433,839	$ -	$ -	$ 6,433,839
Accounts receivable	4,983,105	1,657,274	-	6,640,379
Estimated third-party payor settlements	622,791	-	-	622,791
Inventory	1,618,717	32,817	-	1,651,534
Prepaid expenses and other	287,811	36,464	-	324,275
Total current assets	13,946,263	1,726,555	-	15,672,818
Property and Equipment - Net	45,151,542	635,489	-	45,787,031
Other Assets	4,353,278	6,207	-	4,359,485
Total assets	**$ 63,451,083**	**$ 2,368,251**	**$ -**	**$ 65,819,334**
Liabilities and Net Assets				
Current Liabilities				
Current portion of long-term debt	$ 1,014,827	$ -	$ -	$ 1,014,827
Accounts payable	1,810,585	135,667	-	1,946,252
Estimated third-party payor settlements	1,648,228	-	-	1,648,228
Accrued liabilities	2,130,144	525,365	-	2,655,509
Total current liabilities	6,603,784	661,032	-	7,264,816
Long-term Debt - Net of current portion	33,357,707	-	-	33,357,707
Other Liabilities	8,140,401	-	-	8,140,401
Total liabilities	48,101,892	661,032	-	48,762,924
Net Assets				
Unrestricted	13,523,655	1,707,219		15,230,874
Temporarily restricted	1,825,536	-	-	1,825,536
Total liabilities and net assets	**$ 63,451,083**	**$ 2,368,251**	**$ -**	**$ 65,819,334**

Bell Memorial Hospital and Affiliate

Combining Statement of Operations
Year Ended June 30, 2010

	Bell Memorial Hospital	Bell Medical Center	Eliminating Entries	Total
Unrestricted Revenue, Gains, and Other Support				
Total patient service revenue	$ 73,754,103	$ 13,234,851	$ -	$ 86,988,954
Revenue deductions	(34,646,954)	(4,994,687)	-	(39,641,641)
Net patient service revenue	39,107,149	8,240,164	-	47,347,313
Other	961,406	1,128,044	-	2,089,450
Total unrestricted revenue, gains, and other support	40,068,555	9,368,208	-	49,436,763
Expenses				
Salaries and wages	15,792,332	7,958,544	-	23,750,876
Employee benefits	4,780,359	1,551,007	-	6,331,366
Supplies	5,423,108	686,849	-	6,109,957
Purchased services	1,395,467	1,324,743	-	2,720,210
Insurance	378,900	189,237	-	568,137
Other healthcare expenses	5,045,062	571,048	-	5,616,110
Depreciation and amortization	2,514,569	355,706	-	2,870,275
Provision for bad debts	4,890,046	1,615,239	-	6,505,285
Interest expense	1,880,984	115,184	-	1,996,168
Total expenses	42,100,827	14,367,557	-	56,468,384
Operating Loss	(2,032,272)	(4,999,349)	-	(7,031,621)
Other Income (Expense)				
Investment income	402,991	-	-	402,991
Contributions	634,142	-	-	634,142
Net change in unrealized gains and losses on investments	286,954	-	-	286,954
Change in fair value of interest rate swap agreements (Note 8)	(849,572)	-	-	(849,572)
Total other income	474,515	-	-	474,515
Excess of Revenue Under Expenses	(1,557,757)	(4,999,349)	-	(6,557,106)
Transfer (to) from Affiliate	(4,586,198)	4,586,198	-	-
Pension-related Changes Other Than Net Periodic Pension Costs	(908,797)	-	-	(908,797)
Decrease in Unrestricted Net Assets	$ (7,052,752)	$ (413,151)	$ -	$ (7,465,903)

Superior Healthcare System and Affiliates

Ishpeming, Michigan

Consolidated Financial Statements and Supplementary Information

Years Ended June 30, 2012 and 2011

Superior Healthcare System and Affiliates

Consolidated Financial Statements and Supplementary Information

Years Ended June 30, 2012 and 2011

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WIPFLi LLP

Independent Auditor's Report

Board of Directors
Superior Healthcare System
Ishpeming, Michigan

We have audited the accompanying consolidated balance sheet of Superior Healthcare System and Affiliates (the "Organization") as of June 30, 2012, and the related consolidated 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.

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 2012 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Superior Healthcare System and Affiliates as of June 30, 2012, 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.

The June 30, 2011, consolidated financial statements were compiled by us; thus we did not audit or review the 2011 consolidated financial statements and, accordingly, express no opinion or other form of assurance on them.

Wipfli LLP

(report date), 2012
Green Bay, Wisconsin

Superior Healthcare System and Affiliates

Consolidated Balance Sheets
June 30, 2012 and 2011

Assets	2012	2011
Current assets:		
Cash and cash equivalents	$ 9,980,376	$ 10,518,318
Accounts receivable - Net	7,184,928	6,203,345
Inventories	1,430,671	1,563,414
Prepaid expenses and other	470,961	420,730
Amounts due from third-party reimbursement programs	1,099,217	3,027
Total current assets	20,166,153	18,708,834
Property and equipment - Net	40,602,107	43,120,875
Investments	62,225	49,714
Assets limited as to use	202,902	138,748
Other assets:		
Unamortized bond issue costs	237,204	251,877
Notes receivable	322,366	393,323
Investments in unconsolidated affiliates	1,048,443	933,888
Other	203,386	153,243
Total other assets	1,811,399	1,732,331
TOTAL ASSETS	$ 62,844,786	$ 63,750,502

Liabilities and Net Assets		2012		2011
Current liabilities:				
Current maturities of long-term debt	$	958,421	$	895,608
Current portion of obligations under capital leases		68,325		64,519
Current portion of deferred revenue		410,102		0
Accounts payable		1,094,545		1,351,112
Accrued and other liabilities		3,882,870		2,844,596
Total current liabilities		6,414,263		5,155,835
Long-term liabilities:				
Long-term debt - Less current maturities		31,436,615		32,380,149
Obligations under capital leases - Less current portion		75,554		143,879
Deferred revenue		410,102		0
Interest rate swap agreements		2,967,264		2,477,511
Pension liability		4,901,945		2,507,945
Other liabilities		425,436		1,300,000
Total long-term liabilities		40,216,916		38,809,484
Total liabilities		46,631,179		43,965,319
Net assets:				
Unrestricted		16,010,705		19,646,435
Temporarily restricted		202,902		138,748
Total net assets		16,213,607		19,785,183
TOTAL LIABILITIES AND NET ASSETS	$	62,844,786	$	63,750,502

See accompanying notes to consolidated financial statements.

Superior Healthcare System and Affiliates

Consolidated Statements of Operations
Years Ended June 30, 2012 and 2011

	2012	2011
Revenue:		
Patient service revenue	$ 104,694,247	$ 95,216,722
Revenue deductions	(54,334,660)	(46,199,141)
Net patient service revenue	50,359,587	49,017,581
Other revenue	7,240,758	5,223,756
Total revenue	57,600,345	54,241,337
Expenses:		
Salaries and wages	26,295,946	25,786,160
Employee benefits	6,604,235	6,093,725
Supplies	6,799,750	6,626,115
Purchased services	2,736,831	3,343,872
Insurance	382,637	568,517
Other health care expenses	6,855,248	5,502,796
Depreciation and amortization	3,065,986	3,129,721
Provision for bad debts	4,465,684	3,556,327
Interest	2,143,561	1,468,303
Total expenses	59,349,878	56,075,536
Loss from operations	(1,749,533)	(1,834,199)
Other income (deductions):		
Investment income	103,312	968,738
Contributions	48,106	40,539
Provision (credit) for income taxes	1,546	(160)
Gain (loss) on disposal of property and equipment	14,171	(91,932)
Change in net unrealized gains and losses on investments - Trading securities	81,995	(19,207)
Change in equity investments in unconsolidated affiliates	114,555	760,615
Change in fair value of interest rate swap agreements	(489,753)	357,265
Excess (deficiency) of revenue over expenses	(1,875,601)	181,659
Other changes in unrestricted net assets:		
Pension-related changes other than net periodic pension cost	(2,394,000)	1,447,680
Net assets released from restrictions	633,871	1,322,877
Increase (decrease) in unrestricted net assets	$ (3,635,730)	$ 2,952,216

See accompanying notes to consolidated financial statements.

Superior Healthcare System and Affiliates

Consolidated Statements of Changes in Net Assets

Years Ended June 30, 2012 and 2011

	2012	2011
Unrestricted net assets:		
Excess (deficiency) of revenue over expenses	$ (1,875,601)	$ 181,659
Pension-related changes other than net periodic pension cost	(2,394,000)	1,447,680
Net assets released from restrictions	633,871	1,322,877
Increase (decrease) in unrestricted net assets	(3,635,730)	2,952,216
Temporarily restricted net assets:		
Contributions	698,025	811,439
Net assets released from restrictions	(633,871)	(1,322,877)
Increase (decrease) in temporarily restricted net assets	64,154	(511,438)
Change in net assets	(3,571,576)	2,440,778
Net assets at beginning	19,785,183	17,344,405
Net assets at end	$ 16,213,607	$ 19,785,183

See accompanying notes to consolidated financial statements.

Superior Healthcare System and Affiliates

Consolidated Statements of Cash Flows

Years Ended June 30, 2012 and 2011

	2012	2011
Increase (decrease) in cash and cash equivalents:		
Change in net assets	$ (3,571,576)	$ 2,440,778
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	3,050,458	3,113,675
Amortization of bond issue discount	15,528	16,046
Change in net unrealized gains and losses on investments - Trading securities	(81,995)	19,207
Net realized gain on sales of investments	(2,602)	(408,553)
Pension-related changes other than net periodic pension cost	2,394,000	(1,447,680)
Change in fair value of interest rate swap agreements	489,753	(357,265)
Provision for bad debts	4,465,684	3,556,327
(Gain) loss on disposal of property and equipment	(14,171)	91,932
Change in equity investments in unconsolidated affiliates	(114,555)	(760,615)
Changes in operating assets and liabilities:		
Accounts receivable	(5,447,267)	(2,867,942)
Inventories	132,743	94,390
Prepaid expenses and other	(50,231)	(91,771)
Amounts due from third-party reimbursement programs	(1,096,190)	(3,027)
Other assets	(50,143)	(69,178)
Accounts payable	(256,567)	(687,916)
Amounts due to third-party reimbursement programs	0	(1,025,437)
Accrued and other liabilities	1,038,274	107,418
Deferred revenue	820,204	0
Other liabilities	(874,564)	(50,000)
Total adjustments	4,418,359	(770,389)
Net cash provided by operating activities	846,783	1,670,389

Superior Healthcare System and Affiliates

Consolidated Statements of Cash Flows (Continued)

Years Ended June 30, 2012 and 2011

	2012	2011
Cash flows from investing activities:		
Capital expenditures	$ (533,646)	$ (539,213)
Proceeds from property and equipment disposals	30,800	188,784
Purchase of investments	0	(303,085)
Proceeds from sales of investments	7,932	3,164,218
Issuance of note receivable	(31,759)	(449,088)
Collection of note receivable	102,716	57,431
Net cash provided by (used in) investing activities	(423,957)	2,119,047
Cash flows from financing activities:		
Principal payments on long-term debt	(896,249)	(1,034,476)
Principal payments on obligations under capital leases	(64,519)	(46,642)
Net cash used in financing activities	(960,768)	(1,081,118)
Net increase (decrease) in cash and cash equivalents	(537,942)	2,708,318
Cash and cash equivalents at beginning	10,518,318	7,810,000
Cash and cash equivalents at end	$ 9,980,376	$ 10,518,318
Supplemental cash flow information:		
Cash paid for interest	$ 2,128,033	$ 1,576,469
Noncash financing and investing activities:		
Acquisition of property and equipment under capital lease obligations	$ 0	$ 140,247

See accompanying notes to consolidated financial statements.

Superior Healthcare System and Affiliates

Notes to Consolidated Financial Statements

Note 1 Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements include the assets, liabilities, net assets, and operating activities of Superior Healthcare System and the following related entities controlled by Superior Healthcare System (collectively the "Organization"):

- Bell Memorial Hospital (the "Hospital")
- Bell Medical Center
- Bell Foundation
- Superior Enterprises

All significant intercompany accounts and transactions have been eliminated in preparing the accompanying consolidated financial statements.

The Entities

Superior Healthcare System, a nonprofit, nonstock corporation serves as the parent corporation for the affiliated entities and supports the operations of its affiliates.

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.

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

Bell Foundation is a nonprofit, nonstock corporation that raises funds for specific projects or needs, administers and invests funds, and disburses payments to and for the benefit of tax-exempt organizations at the discretion of its Board of Directors.

Superior Enterprises is a for-profit organization that provides therapy services to organizations in Ishpeming, Michigan, and surrounding areas.

Note 1 Summary of Significant Accounting Policies (Continued)

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 consolidated 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.

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.

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.

Note 1 Summary of Significant Accounting Policies (Continued)

Accounts Receivable and Credit Policy (Continued)

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.

In evaluating the collectability of accounts receivable, the Organization analyzes past results and identifies trends for each major payor source of revenue for the purpose of estimating the appropriate amounts of the allowance for doubtful accounts and the provision for bad debts. Data in each major payor source is regularly reviewed to evaluate the adequacy of the allowance for doubtful accounts. Specifically, for receivables relating to services provided to patients having third-party coverage, an allowance for doubtful accounts and a corresponding provision for bad debts are established based on historical write-off percentages; for receivables relating to self-pay patients, a provision for bad debts is made in the period services are rendered based on experience indicating the inability or unwillingness of patients to pay amounts for which they are financially responsible.

Inventories

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

Note 1 Summary of Significant Accounting Policies (Continued)

Investments

Investments are measured at fair value in the accompanying consolidated 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.

Assets Limited as to Use

Assets limited as to use include cash and investments contributed for specific purposes by donors.

Investments in Unconsolidated Affiliates

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

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.

Note 1 Summary of Significant Accounting Policies (Continued)

Fair Value Measurements (Continued)

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.

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 2012 or 2011.

Note 1 Summary of Significant Accounting Policies (Continued)

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, 2012 and 2011, the Hospital has a recorded liability of $500,000 and $700,000, respectively, which is the balance remaining under this agreement. The liability is included in accrued and other liabilities in 2012 and other liabilities in 2011 in the accompanying consolidated 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.

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 on the accompanying consolidated statements of operations. 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.

Note 1 Summary of Significant Accounting Policies (Continued)

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 consolidated statements of operations and changes in net assets 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.

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 consolidated statements of operations.

The estimated cost of providing care to patients under the Organization's charity care policy is calculated by multiplying the Organization's ratio of cost to gross charges by the gross uncompensated charges associated with providing charity care.

Note 1 Summary of Significant Accounting Policies (Continued)

Donor-Restricted Gifts

Unconditional promises to give cash and other assets to the Organization 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 consolidated 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 consolidated 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.

Note 1 Summary of Significant Accounting Policies (Continued)

Income Taxes

The Hospital, Bell Medical Center, and Bell Foundation 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. These entities are also exempt from state income taxes on related income.

Superior Enterprises is a for-profit entity. The accompanying consolidated statements of operations include a provision/credit for income taxes. Deferred tax assets and liabilities related to these entities are not significant.

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 consolidated financial statements.

The Organization recorded no assets or liabilities for uncertain tax positions or unrecognized tax benefits in 2012 and 2011. Federal income tax returns for the years ended 2009 and beyond remain subject to examination by the Internal Revenue Service.

Electronic Health Record Incentive Funding

The American Recovery and Reinvestment Act of 2009 (ARRA) provides for incentive payments under the Medicare and Medicaid programs for certain hospitals and physician practices that demonstrate meaningful use of certified electronic health record (EHR) technology. The ARRA provisions, collectively referred to as the Health Information Technology for Economic and Clinical Health Act, are intended to promote the adoption and meaningful use of health information technology and qualified EHR technology.

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

Electronic Health Record Incentive Funding (Continued)

The Hospital recognizes revenue for EHR incentive payments when there is reasonable assurance that the Hospital will meet the conditions of the program, primarily demonstrating meaningful use of certified EHR technology for the applicable period. The demonstration of meaningful use is based on meeting a series of objectives. Meeting the series of objectives in order to demonstrate meaningful use becomes progressively more stringent as its implementation is phased in through stages as outlined by the Centers for Medicare & Medicaid Services (CMS).

Amounts recognized under the Medicare and Medicaid EHR incentive programs are based, in part, on management's best estimates of cost report data, which is subject to audit by fiscal intermediaries and, accordingly, amounts recognized are subject to change. In addition, the Hospital's attestation of its compliance with the meaningful use criteria is subject to audit by the federal government or its designee.

The Hospital has deferred recognition of the payment received under the Medicare EHR program. The deferred revenue is being amortized and recognized as revenue over three years, which is the period the software would have been depreciated and cost reimbursed through the cost report.

For the year ended June 30, 2012, the Hospital amortized $410,102 of deferred revenue from the Medicare EHR incentive program, which is included in other revenue in the accompanying consolidated statement of operations. As of June 30, 2012, deferred revenue from the Medicare EHR incentive program totaled $820,204.

Note 1 Summary of Significant Accounting Policies (Continued)

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.* This ASU amends ASC Topic 954 and requires health care entities to change the presentation of their statement 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.

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 was adopted by the Organization for the year ended June 30, 2012.

Subsequent Events

Subsequent events have been evaluated through (report date), 2012, which is the date the consolidated 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 are 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 related to inpatient services 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.

- *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.

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

- *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 consolidated 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, 2009, and June 30, 2011, 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.

CMS uses recovery audit contractors (RACs) as part of its further efforts to ensure accurate payments. RACs 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 any potential reviews is unknown and cannot be reasonably estimated as of June 30, 2012.

Note 3 Accounts Receivable

Accounts receivable consisted of the following at June 30:

	2012	2011
Patient accounts receivable	$ 21,434,786	$ 14,412,416
Less:		
Contractual adjustments	10,937,684	6,082,114
Allowance for doubtful accounts	3,668,002	2,487,522
Net patient accounts receivable	6,829,100	5,842,780
Other receivables	355,828	360,565
Accounts receivable - Net	$ 7,184,928	$ 6,203,345

Note 4 Charity Care

The estimated cost of providing care to patients under the Hospital's charity care policy was approximately $651,000 and $848,000 in 2012 and 2011, respectively.

Note 5 Investments, Assets Limited as to Use, and Investment Income

Investments

Investments, stated at fair value, consisted of the following at June 30:

	2012	2011
Cash	$ 12,488	$ 5,189
Certificates of deposit	26,881	6,257
Mutual funds	3,797	3,304
Equity securities	19,059	34,964
Total investments	$ 62,225	$ 49,714

Note 5 Investments, Assets Limited as to Use, and Investment Income (Continued)

Assets Limited as to Use

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

	2012	2011
Certificates of deposit	$ 0	$ 20,162
Equity securities	202,902	118,586
Total assets limited as to use	$ 202,902	$ 138,748

Investment Income

Investment income and gains and losses on assets limited as to use, cash equivalents, and other investments included the following:

	2012	2011
Investment income:		
Interest and dividend income	$ 100,710	$ 560,185
Net realized gain on sales of investments	2,602	408,553
Total investment income	$ 103,312	$ 968,738
Change in net unrealized gains and losses on investments - Trading securities	$ 81,995	$ (19,207)

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 consolidated financial statements.

Note 6 Investments in Unconsolidated Affiliates

The Organization has a 5.12% interest in Upper Peninsula Managed Care, LLC and Upper Peninsula Health Plan, Inc. (the "Corporations").

Detail by investment for the years ended June 30, 2012 and 2011, is as follows:

	2012		2011	
	Investments	Change	Investments	Change
Corporations	$ 1,048,443	$ 114,555	$ 933,888	$ 760,615

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

	Unaudited	
	2012	2011
Assets	$ 34,525,790	$ 38,891,284
Liabilities	$ 14,048,378	$ 20,651,289
Equity	$ 20,477,412	$ 18,239,995

Note 7 Fair Value Measurements

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

- Mutual funds are valued at quoted market prices which represent the net asset value (NAV) of shares held by the Organization.
- Equity securities are valued at quoted market prices.
- 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.

Note 7 Fair Value Measurements (Continued)

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

2012	Fair Value Measurements Using Level 1	Level 2	Level 3	Total Assets/ Liabilities at Fair Value
Assets:				
Equity securities:				
Basic materials	$ 27,424	$ 0	$ 0	$ 27,424
Technology	193,304	0	0	193,304
Financial	1,233	0	0	1,233
Growth and income mutual fund	3,797	0	0	3,797
Total assets	$ 225,758	$ 0	$ 0	$ 225,758
Liabilities - interest rate swap agreements	$ 0	$ (2,967,264)	$ 0	$ (2,967,264)
2011				
Assets:				
Equity securities:				
Basic materials	$ 15,316	$ 0	$ 0	$ 15,316
Technology	126,965	0	0	126,965
Financial	1,343	0	0	1,343
Health care	9,926	0	0	9,926
Growth and income mutual fund	3,304	0	0	3,304
Total assets	$ 156,854	$ 0	$ 0	$ 156,854
Liabilities - interest rate swap agreements	$ 0	$ (2,477,511)	$ 0	$ (2,477,511)

Note 8 Property and Equipment

Property and equipment consisted of the following at June 30:

	2012	2011
Land and land improvements	$ 2,246,545	$ 2,246,545
Buildings and building improvements	39,564,401	39,564,401
Equipment	18,067,139	18,113,150
Vehicles	109,201	109,201
Total property and equipment	59,987,286	60,033,297
Less - Accumulated depreciation	19,387,334	16,912,422
Net depreciated value	40,599,952	43,120,875
Construction in progress	2,155	0
Property and equipment - Net	$ 40,602,107	$ 43,120,875

Depreciation expense on property and equipment totaled $3,035,785 and $3,099,003 for the years ended June 30, 2012 and 2011, respectively.

Note 9 Long-Term Debt

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

	2012	2011
Limited Obligation Revenue Bonds, Series 2007A, dated March 1, 2007, monthly interest payments at a variable rate of LIBOR times 0.67% (0.30% at June 30, 2012), maturing in varying amounts through March 1, 2033	$ 29,255,000	$ 30,060,000
Limited Obligation Revenue Bonds, Series 2007B, dated August 1, 2007, monthy interest payments at a variable rate of LIBOR times 0.67% (0.29% June 30, 2012), maturing in varying amounts through August 1, 2032	3,360,000	3,450,000

Note 9 Long-Term Debt (Continued)

	2012	2011
Note payable dated September 9, 2009, bearing interest at 6.49%, interest and principal payments due monthly, due September 2012	$ 1,355	$ 6,566
Note payable dated November 24, 2010, bearing interest at 5.99%, interest and principal payments due monthly, due December 2013	5,824	9,426
Note payable dated November 13, 2009, bearing interest at 6.00%, interest and principal payments due monthly, due November 2012	1,967	5,733
Note payable dated November 25, 2009, bearing interest at 5.95%, interest and principal payments due monthly, due December 2012	6,402	10,600
Totals	32,630,548	33,542,325
Less:		
Original issue discounts	235,512	266,568
Current maturities	958,421	895,608
Long-term portion	$ 31,436,615	$ 32,380,149

The Series 2007A and Series 2007B Limited Obligation Revenue Bonds are secured by irrevocable direct-pay letters of credit, which expire on March 15, 2013 and August 15, 2013, respectively, and are secured by substantially all of the Hospital's and Bell Medical Center'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. Letters of credit fees are 3.75% on the Series 2007A and 2.75% on the Series 2007B Limited Obligation Revenue Bonds through March 15, 2013 and August 15, 2013, respectively.

Note 9 Long-Term Debt (Continued)

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.

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 consolidated balance sheets at June 30, 2012.

Note 9 Long-Term Debt (Continued)

Scheduled payments of principal on long-term debt at June 30, 2012, including current maturities, are summarized as follows:

2013	$ 958,421
2014	987,127
2015	1,035,000
2016	1,080,000
2017	1,135,000
Thereafter	27,435,000
Total	$ 32,630,548

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 $22,301,250 and $23,576,250 at June 30, 2012 and 2011, 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% times LIBOR.

The interest rate swap agreements were recorded as liabilities of $2,967,264 and $2,477,511 as of June 30, 2012 and 2011, respectively. The Organization recognized interest income of $91,266 and expense of $357,265 during the years ended June 30, 2012 and 2011, respectively, related to these interest rate swap agreements included in other income (deductions) in the accompanying consolidated 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 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:

	2012	2011
Equipment	$ 281,762	$ 281,762
Less - Accumulated amortization	91,261	41,667
Net book value	$ 190,501	$ 240,095

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:

2013	$ 75,263
2014	61,678
2015	16,224
2016	1,279
Total minimum lease payments	154,444
Amount representing interest	10,565
Present value of net minimum lease payments	143,879
Less - Current portion	68,325
Long-term obligations under capital leases	$ 75,554

Note 12 Net Patient Service Revenue

Net patient service revenue consisted of the following:

	2012	2011
Gross patient service revenue:		
Inpatient services	$ 22,033,556	$ 21,532,023
Outpatient services	82,660,691	73,684,699
Total gross patient service revenue	104,694,247	95,216,722
Less - Contractual adjustments and other discounts	54,334,660	46,199,141
Net patient service revenue	$ 50,359,587	$ 49,017,581

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

	2012	2011
Medicare	44%	44%
Medicaid	12%	13%
Blue Cross	34%	31%
Other commercial payors	7%	9%
Patients	3%	3%
Totals	100%	100%

Note 13 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 2013.

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 $425,000 and $700,000 at June 30, 2012 and 2011, respectively, in accrued and other liabilities for potential claims from services provided to patients which have not yet been asserted as of June 30, 2012 and 2011.

Note 14 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 Hospital's 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.

Note 14 Retirement Plans (Continued)

Expenses under the defined contribution plans for the years ended June 30, 2012 and 2011, were approximately $1,745,000 and $1,207,000, 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 consolidated balance sheets for the defined benefit pension plan at June 30:

	2012	2011
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 10,158,870	$ 10,301,342
Interest cost	548,317	531,873
Actuarial (gain) loss	2,121,486	(348,104)
Benefits paid	(318,258)	(326,241)
Benefit obligation at end of year	12,510,415	10,158,870
Change in plan assets:		
Fair value of plan assets at beginning of year	7,650,925	6,345,717
Actual return on plan assets	11,171	1,620,562
Employer contributions	264,632	10,887
Benefits paid	(318,258)	(326,241)
Fair value of plan assets at end of year	7,608,470	7,650,925
Funded status at end of year	$ (4,901,945)	$ (2,507,945)

Note 14 Retirement Plans (Continued)

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

		2012		2011
Pension expense:				
Interest cost	$	548,317	$	531,873
Expected return on assets		(539,107)		(433,820)
Amortization of unrecognized loss		23,692		79,075
Total pension expense	$	32,902	$	177,128

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

		2012		2011
Pension liability	$	4,901,945	$	2,507,945
Net assets:				
Net (gain) loss	$	(2,370,308)	$	1,526,755
Amortization recognized		(23,692)		(79,075)
Total amount recognized in net assets	$	(2,394,000)	$	1,447,680

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

	2012	2011
Discount rate	5.50%	5.25%
Expected return on plan assets	7.00%	7.00%

Note 14 **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:

	2012	2011
Cash, cash equivalents, and receivables	3.41%	1.48%
Mutual funds - Equity	69.81%	72.15%
Mutual funds - Fixed income	26.78%	26.37%
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, 2012 and 2011. Money market funds are valued at historical cost, which approximates fair value. Mutual funds are valued at quoted market prices, which represent the NAV 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.

Note 14 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, 2012			
	Level 1	Level 2	Level 3	Total
Money market fund	$ 250,212	$ 0	$ 0	$ 250,212
Mututal funds:				
Growth funds	2,781,939	0	0	2,781,939
Intermediate-term bond funds	2,034,471	0	0	2,034,471
International funds	794,463	0	0	794,463
Value funds	1,747,385	0	0	1,747,385
Total mutual funds	7,358,258	0	0	7,358,258
Total assets at fair value	$ 7,608,470	$ 0	$ 0	$ 7,608,470

	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
Mututal 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

Note 14 Retirement Plans (Continued)

Estimated Future Benefit Payments

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

2013	$ 377,172
2014	439,236
2015	467,542
2016	508,218
2017	584,082
Succeeding five years	3,424,561

Superior Enterprises' employees are covered by a defined contribution plan that is administered by a third-party administrator as part of an overall benefits program. The plan provides for matching contributions to be made by Superior Enterprises for employees meeting eligibility requirements. The contributions are based upon 100% of an employee's salary up to a maximum of 3% of the employee's salary. The plan was established as a Simple IRA and amounts contributed to the plan from other plans are not subject to the match. All assets in the plan are deemed to be vested immediately.

Note 15 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 $2,100,000 and $2,300,000 for the years ended June 30, 2012 and 2011, respectively.

A provision of approximately $300,000 for unpaid and unasserted claims at June 30, 2012 and 2011, was included in accrued and other liabilities in the accompanying consolidated balance sheets. Management believes this provision is sufficient to cover estimated claims, including claims incurred but not yet reported.

Note 16 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:

	2012	2011
Health care services	$ 46,775,703	$ 44,056,788
General and administrative	12,430,375	11,888,300
Fundraising	143,800	130,448
Total	$ 59,349,878	$ 56,075,536

Note 17 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:

	2012	2011
Medicare	24%	30%
Medicaid	8%	7%
Other third-party payors	53%	42%
Patients	15%	21%
Totals	100%	100%

Note 17 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, 2012, the Organization's bank balances in excess of FDIC-insured limits were approximately $8,582,000. In addition, other investments held by financial institutions are uninsured.

Note 18 Reclassifications

Certain reclassifications have been made to the 2011 consolidated financial statements to conform to the 2012 classifications.

Supplementary Information

WIPFLi LLP

Independent Auditor's Report on Supplementary Information

Board of Directors
Superior Healthcare System
Ishpeming, Michigan

We have audited the consolidated financial statements of Superior Healthcare System and Affiliates as of and for the year ended June 30, 2012, and our report thereon dated (report date), 2012, which expressed an unqualified opinion on those financial statements, appears on page 1. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information appearing on pages 40 through 47 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

The June 30, 2011, consolidated financial statements were compiled by us, thus we did not audit or review the 2011 consolidated financial statements and, accordingly, express no opinion or other form of assurance on them.

Wipfli LLP

(report date), 2012
Green Bay, Wisconsin

Superior Healthcare System and Affiliates

Consolidating Balance Sheet

June 30, 2012

Assets	Bell Memorial Hospital	Bell Medical Center	Bell Foundation	Superior Enterprises	Eliminations	Consolidated Total
Current assets:						
Cash and cash equivalents	$ 9,250,049	$ 213,579	$ 326,483	$ 190,265	$ 0	$ 9,980,376
Accounts receivable - Net	6,144,751	854,980	0	243,302	(58,105)	7,184,928
Inventories	1,428,171	0	0	2,500	0	1,430,671
Prepaid expenses and other	420,061	46,221	0	4,679	0	470,961
Amounts due from third-party reimbursement programs	1,099,217	0	0	0	0	1,099,217
Total current assets	18,342,249	1,114,780	326,483	440,746	(58,105)	20,166,153
Property and equipment - Net	40,364,134	226,033	0	11,940	0	40,602,107
Investments	0	0	62,225	0	0	62,225
Assets limited as to use	0	0	202,902	0	0	202,902
Beneficial interest in net assets of Bell Foundation	388,708	0	0	0	(388,708)	0
Other assets:						
Unamortized bond issue costs	237,204	0	0	0	0	237,204
Notes receivable	25,000	297,366	0	0	0	322,366
Investments in unconsolidated affiliates	1,048,443	0	0	0	0	1,048,443
Other	197,179	6,207	0	0	0	203,386
Total other assets	1,507,826	303,573	0	0	0	1,811,399
TOTAL ASSETS	$ 60,602,917	$ 1,644,386	$ 591,610	$ 452,686	$ (446,813)	$ 62,844,786

Superior Healthcare System and Affiliates

Consolidating Balance Sheet (Continued)
June 30, 2012

Liabilities and Net Assets	Bell Memorial Hospital	Bell Medical Center	Bell Foundation	Superior Enterprises	Eliminations	Consolidated Total
Current liabilities:						
Current maturities of long-term debt	$ 945,000	$ 0	$ 0	$ 13,421	$ 0	$ 958,421
Current portion of obligations under capital leases	68,325	0	0	0	0	68,325
Current portion of deferred revenue	410,102	0	0	0	0	410,102
Accounts payable	1,065,755	64,619	0	22,276	(58,105)	1,094,545
Accrued and other liabilities	3,117,720	658,109	0	107,041	0	3,882,870
Total current liabilities	5,606,902	722,728	0	142,738	(58,105)	6,414,263
Long-term liabilities:						
Long-term debt - Less current maturities	31,434,488	0	0	2,127	0	31,436,615
Obligations under capital leases - Less current portion	75,554	0	0	0	0	75,554
Deferred revenue	410,102	0	0	0	0	410,102
Interest rate swap agreements	2,967,264	0	0	0	0	2,967,264
Pension liability	4,901,945	0	0	0	0	4,901,945
Other liabilities	425,436	0	0	0	0	425,436
Total long-term liabilities	40,214,789	0	0	2,127	0	40,216,916
Total liabilities	45,821,691	722,728	0	144,865	(58,105)	46,631,179
Net assets:						
Unrestricted	14,392,518	921,658	388,708	307,821	0	16,010,705
Temporarily restricted	388,708	0	202,902	0	(388,708)	202,902
Total net assets	14,781,226	921,658	591,610	307,821	(388,708)	16,213,607
TOTAL LIABILITIES AND NET ASSETS	$ 60,602,917	$ 1,644,386	$ 591,610	$ 452,686	$ (446,813)	$ 62,844,786

Superior Healthcare System and Affiliates

Consolidating Balance Sheet
June 30, 2011

Assets	Bell Memorial Hospital	Bell Medical Center	Bell Foundation	Superior Enterprises	Eliminations	Consolidated Total
Current assets:						
Cash and cash equivalents	$ 10,270,679	$ 52,287	$ 111,783	$ 83,569	$ 0	$ 10,518,318
Accounts receivable - Net	4,481,493	1,480,911	0	273,283	(32,342)	6,203,345
Inventories	1,560,414	0	0	3,000	0	1,563,414
Prepaid expenses and other	381,269	34,024	0	5,437	0	420,730
Amounts receivable from third-party reimbursement programs	3,027	0	0	0	0	3,027
Total current assets	16,696,882	1,567,222	111,783	365,289	(32,342)	18,708,834
Property and equipment - Net	42,698,696	400,833	0	21,346	0	43,120,875
Investments	0	0	49,714	0	0	49,714
Assets limited as to use	0	0	138,748	0	0	138,748
Beneficial interest in net assets of Bell Foundation	152,068	0	0	0	(152,068)	0
Other assets:						
Unamortized bond issue costs	251,877	0	0	0	0	251,877
Notes receivable	0	393,323	0	0	0	393,323
Investments in unconsolidated affiliates	933,888	0	0	0	0	933,888
Other	147,036	6,207	0	0	0	153,243
Total other assets	1,332,801	399,530	0	0	0	1,732,331
TOTAL ASSETS	$ 60,880,447	$ 2,367,585	$ 300,245	$ 386,635	$ (184,410)	$ 63,750,502

Superior Healthcare System and Affiliates

Consolidating Balance Sheet (Continued)
June 30, 2011

Liabilities and Net Assets	Bell Memorial Hospital	Bell Medical Center	Bell Foundation	Superior Enterprises	Eliminations	Consolidated Total
Current liabilities:						
Current maturities of long-term debt	$ 879,472	$ 0	$ 0	$ 16,136	$ 0	$ 895,608
Current portion of obligations under capital leases	64,519	0	0	0	0	64,519
Accounts payable	1,277,781	102,880	0	2,793	(32,342)	1,351,112
Accrued and other liabilities	2,219,297	540,890	0	84,409	0	2,844,596
Total current liabilities	4,441,069	643,770	0	103,338	(32,342)	5,155,835
Long-term liabilities:						
Long-term debt - Less current maturities	32,363,960	0	0	16,189	0	32,380,149
Obligations under capital leases - Less current portion	143,879	0	0	0	0	143,879
Interest rate swap agreements	2,477,511	0	0	0	0	2,477,511
Pension liability	2,507,945	0	0	0	0	2,507,945
Other liabilities	1,300,000	0	0	0	0	1,300,000
Total long-term liabilities	38,793,295	0	0	16,189	0	38,809,484
Total liabilities	43,234,364	643,770	0	119,527	(32,342)	43,965,319
Net assets:						
Unrestricted	17,494,015	1,723,815	161,497	267,108	0	19,646,435
Temporarily restricted	152,068	0	138,748	0	(152,068)	138,748
Total net assets	17,646,083	1,723,815	300,245	267,108	(152,068)	19,785,183
TOTAL LIABILITIES AND NET ASSETS	$ 60,880,447	$ 2,367,585	$ 300,245	$ 386,635	$ (184,410)	$ 63,750,502

See Independent Auditor's Report on Supplementary Information.

Superior Healthcare System and Affiliates

Consolidating Statement of Operations

Year Ended June 30, 2012

	Bell Memorial Hospital	Bell Medical Center	Bell Foundation	Superior Enterprises	Eliminations	Consolidated Total
Revenue:						
Patient service revenue	$ 88,537,802	$ 16,156,445	$ 0	$ 0	$ 0	$ 104,694,247
Revenue deductions	(46,112,760)	(8,221,900)	0	0	0	(54,334,660)
Net patient service revenue	42,425,042	7,934,545	0	0	0	50,359,587
Other revenue	4,094,514	1,476,218	0	2,141,398	(471,372)	7,240,758
Total revenue	46,519,556	9,410,763	0	2,141,398	(471,372)	57,600,345
Expenses:						
Salaries and wages	16,563,376	8,091,096	74,041	1,567,433	0	26,295,946
Employee benefits	4,943,920	1,266,219	22,682	371,414	0	6,604,235
Supplies	6,242,949	549,525	3,341	3,935	0	6,799,750
Purchased services	1,607,163	1,063,619	20,705	45,344	0	2,736,831
Insurance	261,655	120,982	0	0	0	382,637
Other health care expenses	6,536,643	687,787	22,638	79,552	(471,372)	6,855,248
Depreciation and amortization	2,733,302	321,372	393	10,919	0	3,065,986
Provision for bad debts	3,963,508	484,789	0	17,387	0	4,465,684
Interest	1,923,250	217,965	0	2,346	0	2,143,561
Total expenses	44,775,766	12,803,354	143,800	2,098,330	(471,372)	59,349,878
Income (loss) from operations	1,743,790	(3,392,591)	(143,800)	43,068	0	(1,749,533)
Other income (deductions):						
Investment income	100,174	0	7,039	249	(4,150)	103,312
Contributions	0	0	48,106	0	0	48,106
Provision (credit) for income taxes	0	0	0	1,546	0	1,546
Gain (loss) on disposal of property and equipment	(8,072)	22,243	0	0	0	14,171
Change in net unrealized gains and losses on investments - Trading securities	0	0	81,995	0	0	81,995
Change in equity investments in unconsolidated affiliates	114,555	0	0	0	0	114,555
Change in fair value of interest rate swap agreements	(489,753)	0	0	0	0	(489,753)
Excess (deficiency) of revenue over expenses	1,460,694	(3,370,348)	(6,660)	44,863	(4,150)	(1,875,601)
Other changes in unrestricted net assets:						
Transfer (to) from affiliates	(2,168,191)	2,568,191	(400,000)	0	0	0
Pension-related changes other than net periodic pension cost	(2,394,000)	0	0	0	0	(2,394,000)
Dividend	0	0	0	(4,150)	4,150	0
Net assets released from restrictions	0	0	633,871	0	0	633,871
Increase (decrease) in unrestricted net assets	$ (3,101,497)	$ (802,157)	$ 227,211	$ 40,713	$ 0	$ (3,635,730)

See Independent Auditor's Report on Supplementary Information.

Superior Healthcare System and Affiliates

Consolidating Statement of Operations
Year Ended June 30, 2011

	Bell Memorial Hospital	Bell Medical Center	Bell Foundation	Superior Enterprises	Eliminations	Consolidated Total
Revenue:						
Patient service revenue	$ 80,115,805	$ 15,100,917	$ 0	$ 0	$ 0	$ 95,216,722
Revenue deductions	(39,190,805)	(7,008,336)	0	0	0	(46,199,141)
Net patient service revenue	40,925,000	8,092,581	0	0	0	49,017,581
Other revenue	2,314,019	1,304,051	22,875	2,001,596	(418,785)	5,223,756
Total revenue	43,239,019	9,396,632	22,875	2,001,596	(418,785)	54,241,337
Expenses:						
Salaries and wages	16,611,480	7,676,359	64,899	1,433,422	0	25,786,160
Employee benefits	4,196,002	1,484,729	28,081	384,913	0	6,093,725
Supplies	5,928,917	687,127	3,849	6,222	0	6,626,115
Purchased services	1,711,510	1,566,394	3,552	62,416	0	3,343,872
Insurance	425,341	143,176	0	0	0	568,517
Other health care expenses	5,216,096	600,803	29,624	75,058	(418,785)	5,502,796
Depreciation and amortization	2,701,071	404,327	443	23,880	0	3,129,721
Provision for bad debts	2,990,942	565,285	0	100	0	3,556,327
Interest	1,317,797	147,849	0	2,657	0	1,468,303
Total expenses	41,099,156	13,276,049	130,448	1,988,668	(418,785)	56,075,536
Income (loss) from operations	2,139,863	(3,879,417)	(107,573)	12,928	0	(1,834,199)
Other income (deductions):						
Investment income	955,875	0	12,379	484	0	968,738
Contributions	4,182	0	36,357	0	0	40,539
Provision (credit) for incomes taxes	0	0	0	(160)	0	(160)
Loss on disposal of property and equipment	(91,932)	0	0	0	0	(91,932)
Change in net unrealized gains and losses on investments - Trading securities	(46,275)	0	27,068	0	0	(19,207)
Change in equity investments in uncosolidated affiliates	760,615	0	0	0	0	760,615
Change in fair value of interest rate swap agreements	357,265	0	0	0	0	357,265
Excess (deficiency) of revenue over expenses	4,079,593	(3,879,417)	(31,769)	13,252	0	181,659
Other changes in unrestricted net assets:						
Transfers (to) from affiliates	(1,556,913)	3,896,013	(2,339,100)	0	0	0
Pension-related changes other than net periodic pension cost	1,447,680	0	0	0	0	1,447,680
Net assets released from restrictions	0	0	1,322,877	0	0	1,322,877
Increase (decrease) in unrestricted net assets	$ 3,970,360	$ 16,596	$ (1,047,992)	$ 13,252	$ 0	$ 2,952,216

See Independent Auditor's Report on Supplementary Information.

Superior Healthcare System and Affiliates

Consolidating Statement of Changes in Net Assets

Year Ended June 30, 2012

	Bell Memorial Hospital	Bell Medical Center	Bell Foundation	Superior Enterprises	Eliminations	Consolidated Total
Unrestricted net assets:						
Excess (deficiency) of revenue over expenses	$ 1,460,694	$ (3,370,348)	$ (6,660)	$ 44,863	$ (4,150)	$ (1,875,601)
Transfer (to) from affiliates	(2,168,191)	2,568,191	(400,000)	0	0	0
Pension-related changes other than net periodic pension cost	(2,394,000)	0	0	0	0	(2,394,000)
Dividend	0	0	0	(4,150)	4,150	0
Net assets released from restrictions	0	0	633,871	0	0	633,871
Increase (decrease) in unrestricted net assets	(3,101,497)	(802,157)	227,211	40,713	0	(3,635,730)
Temporarily restricted net assets:						
Contributions	0	0	698,025	0	0	698,025
Change in beneficial interest in net assets of Bell Foundation	236,640	0	0	0	(236,640)	0
Net assets released from restrictions	0	0	(633,871)	0	0	(633,871)
Increase (decrease) in temporarily restricted net assets	236,640	0	64,154	0	(236,640)	64,154
Change in net assets	(2,864,857)	(802,157)	291,365	40,713	(236,640)	(3,571,576)
Net assets at beginning	17,646,083	1,723,815	300,245	267,108	(152,068)	19,785,183
Net assets at end	$ 14,781,226	$ 921,658	$ 591,610	$ 307,821	$ (388,708)	$ 16,213,607

See Independent Auditor's Report on Supplementary Information.

Superior Healthcare System and Affiliates

Consolidating Statement of Changes in Net Assets

Year Ended June 30, 2011

	Bell Memorial Hospital	Bell Medical Center	Bell Foundation	Superior Enterprises	Eliminations	Consolidated Total
Unrestricted net assets:						
Excess (deficiency) of revenue over expenses	$ 4,079,593	$ (3,879,417)	$ (31,769)	$ 13,252	$ 0	$ 181,659
Transfers (to) from affiliates	(1,556,913)	3,896,013	(2,339,100)	0	0	0
Pension-related changes other than net periodic pension cost	1,447,680	0	0	0	0	1,447,680
Net assets released from restrictions	0	0	1,322,877	0	0	1,322,877
Increase (decrease) in unrestricted net assets	3,970,360	16,596	(1,047,992)	13,252	0	2,952,216
Temporarily restricted net assets:						
Contributions	0	0	811,439	0	0	811,439
Change in beneficial interest in net assets of Bell Foundation	(1,673,468)	0	0	0	1,673,468	0
Net assets released from restrictions	0	0	(1,322,877)	0	0	(1,322,877)
Increase (decrease) in temporarily restricted net assets	(1,673,468)	0	(511,438)	0	1,673,468	(511,438)
Change in net assets	2,296,892	16,596	(1,559,430)	13,252	1,673,468	2,440,778
Net assets at beginning	15,349,191	1,707,219	1,859,675	253,856	(1,825,536)	17,344,405
Net assets at end	$ 17,646,083	$ 1,723,815	$ 300,245	$ 267,108	$ (152,068)	$ 19,785,183

See Independent Auditor's Report on Supplementary Information.

BELL HOSPITAL AND BELL MEDICAL CENTER
BALANCE SHEET
AS OF MARCH 31, 2013
(UNAUDITED)

	ASSETS	BELL HOSPITAL	BELL MEDICAL	INTER-COMPANY ELIMINATION	CONSOLIDATED	PRIOR YEAR	VARIANCE POS (NEG)	
	CURRENT ASSETS							
1	Cash and cash equivalents	$ 11,864,766	$518,244		$ 12,383,010	$7,653,273	$ 4,729,737	1
2	Bond Proceeds	-	-		-	-	-	2
3	Accounts Receivable (Net of Contractual)	6,538,291	1,350,327		7,888,618	10,848,738	(2,960,120)	3
4	(Allowance for Bad Debts)	(2,199,621)	(361,366)		(2,560,987)	(3,437,796)	876,809	4
5	Net Accounts receivable	4,338,670	988,961		5,327,631	7,410,942	(2,083,311)	5
6	Prepaid expenses	427,310	22,024		449,334	381,295	68,039	6
7	Inventories	1,316,609	-		1,316,609	1,607,536	(290,927)	7
8	Cost report settlements - Third party payors	1,021,794	-		1,021,794	244,309	777,485	8
9	TOTAL CURRENT ASSETS	$ 18,969,149	$ 1,529,229		$ 20,498,378	$17,297,355	$ 3,201,023	9
10	OTHER ASSETS	4,253,290	-	(2,380,362)	1,872,928 *	2,017,278	(144,350)	10
11	PROPERTY, PLANT AND EQUIPMENT	38,493,428	161,559		38,654,987	41,098,991	(2,444,004)	11
12	TOTAL ASSETS	$ 61,715,867	$ 1,690,788		$ 61,026,292	$60,413,624	$ 612,668	12
	LIABILITIES							
	CURRENT LIABILTIES							
13	Current portion long-term debt	$ 1,463,427	$ -		$ 1,463,427	$1,009,519	$ (453,908)	13
14	Accounts payable	1,186,776	140,465		1,327,241	955,685	(371,556)	14
15	Accrued Expenses	2,164,454	456,379		2,620,833	2,891,277	270,444	15
16	Total accrued liabilities	$ 4,814,657	$ 596,844		$ 5,411,501	$ 4,856,481	$ (555,020)	16
17	Cost report settlement payable	2,165,798	-		2,165,798	-	(2,165,798)	17
18	TOTAL CURRENT LIABILITIES	$ 6,980,455	$ 596,844		$ 7,577,299	$ 4,856,481	$ (2,720,818)	18
19	OTHER LIABILITIES	8,009,609	2,380,362	(2,380,362)	8,009,609 *	6,288,474	(1,721,135)	19
20	LONG-TERM DEBT	30,538,821	-		30,538,821	31,506,001	967,180	20
21	TOTAL LIABILITIES	$ 45,528,885	$ 2,977,206		$ 46,125,729	$ 42,866,375	$ (3,259,354)	21
	FUND BALANCE (DEFICIT)							
22	Accumulated excess of revenues and gains over (under) expenses	16,186,981	(1,286,418)		14,900,563	17,547,249	(2,646,686)	22
23	TOTAL LIABILITIES & FUND BALANCE	$ 61,715,867	$ 1,690,788		$ 61,026,292	$ 60,413,624	$ 612,668	23

* Other assets = The consolidated other assets of Bell Hospital (BH) and Bell Medical Center (BMC) net of the due to/due from elimination between BH and BMC.

BELL HOSPITAL AND BELL MEDICAL CENTER
STATEMENT OF OPERATIONS
FOR THE TEN MONTH PERIOD ENDING APRIL 30, 2013
(UNAUDITED)

	Month - to - Date					Year - to - Date					
	Actual	Prior Yr.	Variance Pos (Neg)	Budget	Variance Pos (Neg)	Actual	Prior Yr.	Variance Pos (Neg)	Budget	Variance Pos (Neg)	
PATIENT REVENUES											
1 Patient Revenues	$ 8,554,979	$ 8,135,473	$ 419,506	$8,351,164	$ 203,815	$ 84,528,394	$85,604,789	$ (1,076,395)	$ 85,954,847	$ (1,426,453)	1
Deductions from Revenues:											
2 Charity Care	(83,423)	(54,674)	(28,749)	(113,963)	30,540	(1,199,238)	(1,004,314)	(194,924)	(1,173,770)	(25,468)	2
3 Bad Debt	(210,931)	(1,401,068)	1,190,137	(302,032)	91,101	(3,694,071)	(3,526,644)	(167,427)	(3,119,436)	(574,635)	3
4 Allowance for Contractual	(4,440,803)	(3,881,160)	(559,643)	(4,092,083)	(348,720)	(42,863,730)	(43,463,821)	600,091	(42,243,853)	(619,877)	4
5 Total Revenue Deductions	(4,735,157)	(5,336,902)	601,745	(4,508,078)	(227,079)	(47,757,039)	(47,994,779)	237,740	(46,537,059)	(1,219,980)	6
6 Net Patient Revenues	$ 3,819,822	$ 2,798,571	$ 1,021,251	$ 3,843,086	$ (23,264)	$ 36,771,355	$ 37,610,010	$ (838,655)	$ 39,417,788	$ (2,646,433)	7
7 Other Operating Revenue	469,555	449,567	19,988	333,826	135,729	5,226,497	4,097,473	1,129,024	4,350,085	876,412	8
8 Net Revenues	$ 4,289,377	$ 3,248,138	$ 1,041,239	$ 4,176,912	$ 112,465	$ 41,997,852	$ 41,707,483	$ 290,369	$ 43,767,873	$ (1,770,021)	9
OPERATING EXPENSES											10
9 Salaries	$ 1,899,698	$ 1,991,492	$ 91,794	$ 2,075,102	$ 175,404	$ 19,665,107	$ 20,465,871	$ 800,764	$ 20,539,942	$ 874,835	11
10 Employee Health & Welfare	262,568	334,350	71,782	441,586	179,018	3,332,341	3,777,631	445,290	4,342,481	1,010,140	12
11 Defined Benefit Plan - Frozen *	15,500	31,259	15,759	39,567	24,067	368,500	269,262	(99,238)	395,675	27,175	13
12 Employee Retirement Plan - 403b *	18,681	53,158	34,477	23,393	4,712	197,599	762,410	564,811	233,926	36,327	14
13 Steelworker's Pension *	24,503	25,944	1,441	30,665	6,162	259,402	192,514	(66,888)	306,655	47,253	15
14 Professional Fees & Services	452,551	357,263	(95,288)	295,934	(156,617)	4,024,616	3,032,475	(992,141)	3,327,634	(696,982)	16
15 Education, Books & Subscriptions	20,338	16,119	(4,219)	29,084	8,746	233,451	254,115	20,664	291,247	57,796	17
16 Supplies	553,186	634,715	81,529	567,463	14,277	5,727,719	5,756,079	28,360	5,858,458	130,739	18
17 Repairs & Rentals	136,582	137,820	1,238	140,975	4,393	1,397,539	1,313,867	(83,672)	1,409,743	12,204	19
18 Utilities	89,559	87,037	(2,522)	89,682	123	860,360	967,664	107,304	939,840	79,480	20
19 Dues, Ads, Recruiting & Misc.	104,569	143,236	38,667	152,469	47,900	1,701,188	1,630,983	(70,205)	1,527,265	(173,923)	21
20 Travel & Entertain	4,085	2,349	(1,736)	4,547	462	63,602	69,844	6,242	45,467	(18,135)	
21 Insurance	47,243	39,909	(7,334)	31,542	(15,701)	298,827	314,879	16,052	315,416	16,589	22
22 Total Operating Expenses	3,629,063	3,854,651	225,588	3,922,009	292,946	38,130,251	38,807,594	677,343	39,533,749	1,403,498	23
23 EBITDA	$ 660,314	$ (606,513)	$ 1,266,827	$ 254,903	$ 405,411	$ 3,867,601	$ 2,899,889	$ 967,712	$ 4,234,124	$ (366,523)	24
CAPITAL COSTS											25
24 Interest	$ 172,229	$ 174,655	$ 2,426	$ 166,156	$ (6,073)	$ 1,752,572	$ 1,751,611	$ (961)	$ 1,799,649	$ 47,077	
25 Depreciation	250,625	255,911	5,286	248,225	(2,400)	2,487,290	2,558,855	71,565	2,463,937	(23,353)	26
26 Total Capital Costs	$ 422,854	$ 430,566	$ 7,712	$ 414,381	$ (8,473)	$ 4,239,862	$ 4,310,466	$ 70,604	$ 4,263,586	$ 23,724	27
27 Total Expenses	$ 4,051,917	$ 4,285,217	$ 233,300	$ 4,336,390	$ 284,473	$ 42,370,113	$ 43,118,060	$ 747,947	$ 43,797,335	$ 1,427,222	28
28 Net Income (Loss) From Operations	$ 237,460	$ (1,037,079)	$ 1,274,539	$ (159,478)	$ 396,938	$ (372,261)	$ (1,410,577)	$ 1,038,316	$ (29,462)	$ (342,799)	29
											30
29 Consulting Services	(185,102)	(6,259)	(178,843)	(25,142)	(159,960)	(1,240,030)	(705,328)	(534,702)	(949,716)	(290,314)	31
30 Change in Net Unrealized Gain (Loss)	-	-	-	-	-	-	-	-	-	-	32
31 Other Revenues (Expenses)	128,620	7,101	121,519	248	128,372	255,854	94,676	161,178	2,476	253,378	33
32 Foundation Contributions	3,959	(1,165)	5,124	18,609	(14,650)	118,944	597,066	(478,122)	186,094	(67,150)	34
33 Swap Agreement Unrealized Gain (Loss)	-	-	-	(33,333)	33,333	419,617	(398,487)	818,104	(333,333)	752,950	
34 Net Periodic Pension Costs	-	-	-	-	-	-	-	-	-	-	35
35 Increase (Decrease) in Unrestricted Net Assets	$ 184,937	$ (1,037,402)	$ 1,222,339	$ (199,096)	$ 384,033	$ (817,876)	$ (1,822,650)	$ 1,004,774	$ (1,123,941)	$ 306,065	34

SCHEDULE 4.6(b)
GAAP EXCEPTIONS

None.

SCHEDULE 4.7(b)
ASSUMED CONTRACT EXCEPTIONS

None.

SCHEDULE 4.8(a)
REAL PROPERTY ENCUMBRANCES

None.

SCHEDULE 4.9
TITLE TO PERSONAL PROPERTY

1. Lien in favor of RBS Citizens, N.A. related to all assets of Bell Medical Center and Bell Memorial Hospital – UCC Financing Statement filed with Michigan Department of State on April 17, 2007 as File No. 2007060385-2 and on February 1, 2011 as File No. 2011015116-7. This lien will be released upon consummation of the transaction as proceeds from the sale will be used to pay Seller Group's obligations to RBS Citizens, N.A.

2. Lien in favor of US Bancorp related to one Sonosite M-Turbo 1.2 Ultrasound; one mobile docking system; one transducer L25X/13-6 MHZ; one Cardoac Anesthesiology package; one printer - UCC financing statement filed with the Michigan Department of State on August 13, 2009, File No. 2009118393-2.

3. Lien in favor of Cisco Systems Capital CRP related to all equipment leased or financed by Cisco Systems Capital CRP to or for Bell Memorial Hospital pursuant to Cisco Systems Capital CRP's contract number 25003465, together with all additions, attachments, accessories, and substitutions to or for the same, and all proceeds of the foregoing - UCC financing statement filed with the Michigan Department of State on October 27, 2009, File No. 200915351-5.

4. Lien in favor of U.S. Bancorp Equipment Finance, Inc. related to two 99577-000046 LP15 Monitor/Defib, CPR, Pace to 360J, SPO2/CO, 12L GL, NIBP, CO2, Trend BT, and two 11577- 000011 mobile battery chargers - UCC financing statement filed with the Michigan Department of State on March 12, 2010, File No. 2010034143-5.

5. Lien in favor of General Electric Capital Corporation related to four GE Healthcare Dash 5000 Monitors - UCC financing statement filed with the Michigan Department of State on August 30, 2010, File No. 2010115991-0.

6. Lien in favor of General Electric Capital Corporation related to one GE Healthcare X-Ray Senographe Essential System - UCC financing statement filed with the Michigan Department of State on December 16, 2010, File No. 2010165656-0.

SCHEDULE 4.15
POST-BALANCE SHEET DATE RESULTS

1. Sale of Woodland Senior Living – Property in process of sale, estimated close of July, 2013.

2. Sale of Tobin Building - Property in process of sale, estimated close of July, 2013.

SCHEDULE 4.17(b)
LICENSES

Licenses/Registrations/Permits/Approvals

1. MI Department of Licensing and Regulatory Affairs Hospital License for Bell Memorial Hospital #1060000152

2. MI Department of Licensing and Regulatory Affairs Pharmacy License for Bell Memorial Hospital #5301002397

3. MI Department of Licensing and Regulatory Affairs Controlled Substance License for Bell Memorial Hospital #5301002397

4. Life Support Agency License for Bell EMS Facility #521002

5. Controlled Substance Registration Certificate United States Department of Justice DEA for Bell Memorial Hospital – DEA Registration Number AF2771271

6. Certificate of Mammography Machine Inspection for Bell Memorial Hospital from Licensing and Regulatory Affairs State of Michigan – Registration Number 64905

7. FDA Certified Mammography Facility for Bell Memorial Hospital – Facility ID 102921

8. US Nuclear Regulatory Commission Material License # 21-02037-03 for Bell Memorial Hospital

9. MI Department of Licensing and Regulatory Affairs Radiation Machine Registration Certificate for Bell Memorial Hospital – Facility Registration No. 30344

10. MI Department of Licensing and Regulatory Affairs Radiation Machine Registration Certificate for Bell Memorial Hospital – Facility Registration No. 22460

11. MI Department of Licensing and Regulatory Affairs Radiation Machine Registration Certificate for Bell Memorial Hospital – Facility Registration No. 30343

12. Michigan Department of Agriculture License to operate a food service establishment – License No. SFE3452061280

13. FCC Radio Station Authorization for Bell Memorial Hospital – File Number 005255756, call sign WPKR220

14. FCC Radio Station Authorization for Bell Memorial Hospital – File Number 0004610710, call sign KTS511

15. Michigan Department of Environmental Quality Certificate of Registration as a Producing Facility of Medical Waste for Bell Memorial Hospital – Registration No. MW0009090

16. MI Department of Licensing and Regulatory Affairs Certificate of Boiler Inspection for Bell Memorial Hospital – State No. MIR418584

17. MI Department of Licensing and Regulatory Affairs Certificate of Boiler Inspection for Bell Memorial Hospital – State No. MIR418582

SCHEDULE 4.17(b)
LICENSES

18. MI Department of Licensing and Regulatory Affairs Certificate of Boiler Inspection for Bell Memorial Hospital – State No. MIR418583

19. MI Department of Licensing and Regulatory Affairs Certificate of Boiler Inspection for Bell Memorial Hospital – State No. MIR418580

20. MI Department of Licensing and Regulatory Affairs Certificate of Boiler Inspection for Bell Memorial Hospital – State No. MIR418579

21. MI Department of Licensing and Regulatory Affairs Certificate of Boiler Inspection for Bell Memorial Hospital – State No. MIR418581

22. MI Department of Licensing and Regulatory Affairs Certificate of Boiler Inspection for Bell Memorial Hospital – State No. MIR418585

23. Authority to transact business in the State of Michigan by the MI Department of Licensing and Regulatory Affairs

24. CLIA Laboratory Accreditation for Bell Medical Center d/b/a Twin Cities Medical Clinic – CLIA ID Number 23D1068764

25. CLIA Certificate of Accreditation for Bell Memorial Hospital – CLIA ID Number 23D0038088

26. CLIA Certificate of Accreditation for Teal Lake Medical Center Laboratory – CLIA ID Number 23D0382094

27. Certificate of Registration as Producing Facility of Medical Waste for Teal Lake Medical Center – Registration No. 38159

28. MI Department of Licensing and Regulatory Affairs – Bureau of Construction Codes, Elevator Safety Division Annual Elevator Certification of Operation #691939, State #018386 for the Tobin Building located at 97 S. 4th Street, Ishpeming, MI 49849 (NOTE: THE TOBIN BUILDING WILL BE SOLD WITH AN ESTIMATED CLOSING DATE IN JULY, 2013)

SCHEDULE 4.17(b)
LICENSES

Certificates of Need History for Facility 520051 – Bell Memorial Hospital

Certificate of Need
CONs for Facility: 520051 - BELL MEMORIAL HOSPITAL (HOSP-CAH)
901 LAKESHORE DRIVE, ISHPEMING, 49849, MARQUETTE

CON ID	Project Description	Phase	368 Findings	Director Signed	Final Outcome	Operational Date	Final Date
11-0337	ADD 4TH OPERATING ROOM	DECISION	APPROVED	01/03/2013			
06-0500	REPLACE HOSPITAL WITH 25 BEDS	CLOSED					
06-0109	LITH NETWORK #181 [OUT STATE]	FINAL	APPROVED	07/14/2006	COMPLETED	10/26/2006	10/26/2006
06-0003	REPLACEMENT HOSPITAL WITH 25 BEDS	FINAL	APPROVED	04/30/2007	COMPLETED	09/27/2008	01/12/2009
04-0458	REPLACE CT SCANNER	FINAL	APPROVED	02/14/2005	COMPLETED	03/04/2005	03/04/2005
04-0115	MRI NETWORK #51	CLOSED	WAIVED/NOT REVIEWABLE	04/29/2004	EXPIRED		10/10/2008
99-0124	MOBILE MRI #51	CLOSED					
99-0092	MRI NETWORK #80	FINAL	APPROVED	10/01/1999	COMPLETED	08/25/2000	08/25/2000
98-0281	REPLACE CT SCANNER	FINAL	APPROVED	11/20/1998	COMPLETED	12/21/1998	02/16/1999
93-0047	MOBILE MRI (NETWORK #51)	CLOSED					
91-0073	ESTABLISH AN ADULT PSYCH UNIT	CLOSED	WITHDRAWN	10/04/2002	WITHDRAWN		10/04/2002
90-0232	ADD CT SCANNER (REPLACES MOBILE)	CLOSED	APPROVED	10/31/1991	COMPLETED	01/01/1992	01/01/1992
88-0437	ESTABLISH SWING BED SERVICES	FINAL	APPROVED	11/18/1988	COMPLETED		11/01/1986
86-0226	MOBILE CT SCANNING SERVICES (NETWORK #5)	CLOSED		03/25/1987	COMPLETED		10/01/1987
86-0122	ESTABLISH MOBILE CT SCANNING SERVICES	CLOSED	WITHDRAWN	08/11/1986			
84-0273	BED CONVERSION PROJECT	CLOSED	DISAPPROVED	04/17/1985			

SCHEDULE 4.17(c)
CERTIFICATES OF NEED

There are no applications for any CON or request for a determination of whether a project requires CON approval made by the Seller Group with the MDCH or any other state that is currently pending or open.

There is an application for the addition of the fourth operating room (CON ID 11-0337), which has been approved and is in progress with an estimated completion date of 7/1/13.

SCHEDULE 4.18
ACCREDITATIONS

1. COLA Laboratory Accreditation for Teal Lake Medical Center Laboratory – COLA ID #17208

2. COLA Laboratory Accreditation for Bell Memorial Hospital – COLA ID #17214

3. Joint Commission Accreditation Program for Laboratory (Pathology) dated December 21, 2011 – Facility #503697

4. American College of Radiology accreditation for GE Co. (GE Medical Systems Senographe Essential 2008) – Map ID #00418-04

SCHEDULE 4.23
ENVIRONMENTAL MATTERS

None.

SCHEDULE 4.24
CONDITION AND SUFFICIENCY OF ASSETS

None.

SCHEDULE 4.27
INTELLECTUAL PROPERTY

Domain Name: bellmi.org
Host Name: Bellhospital.org and Bell Memorial.org

Bottom Line Black, Inc. created Bell's original logo, and NONE of the Bell Hospital/Bell Medical logos are trademarked/registered/etc.

ASSUMED NAMES

The information contained in Schedule 1.1(j) is hereby incorporated by reference in its entirety.

SCHEDULE 4.28
EXPERIMENTAL PROCEDURES

None.

SCHEDULE 5.2
BUYER CONSENTS

1. Approval for the transfer of the interests in UPHP and UPMC from the Michigan Office of Financial Insurance and Regulation.

2. Approval from the Michigan Attorney General's office.

3. Certificate of Need approval from the Michigan Department of Community Health

4. Approval/filings for the licenses, permits, accreditations, provider numbers set forth in Schedule 4.17(b) (except for items #23 and #28 and Schedule 1.1(i))

SCHEDULE 6.2
SELLER GROUP'S OPERATIONS

1. Sale of Woodland Senior Living – Property in process of sale, estimated close of July, 2013.

2. Sale of Tobin Building - Property in process of sale, estimated close of July, 2013.

SCHEDULE 6.3
SELLER GROUP'S NEGATIVE CONSENTS

None.

SCHEDULE 9.12
SCHEDULED SERVICES

SERVICES

- Emergency Services (24 hour ER)
- EMS Services
- Diagnostic Radiology Services (X-ray, US, Mammogram, etc.)
- MRI Services
- CT Services
- Nuclear Medicine
- Laboratory and Pathology Services
- Obstetrics Services with Nursery/Gynecology
- Medical Surgical Beds
- Critical Care Beds
- Cardiopulmonary Services
- Inpatient Surgical Services
- Outpatient Surgical Services
- Primary Care Practices and Clinics
- Specialty Clinics
- Angio Lab
- Rehabilitation and Occupational Medicine Services