Bell Memorial Hospital and Affiliate

Combined Financial Report
with Additional Information
June 30, 2009

Bell Memorial Hospital and Affiliate

Contents

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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, 2009 and 2008 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, 2009 and 2008 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

February 24, 2010

Bell Memorial Hospital and Affiliate

Combined Balance Sheet

	June 30, 2009	June 30, 2008
Assets		
Current Assets		
Cash and cash equivalents	$ 6,826,309	$ 11,416,701
Accounts receivable (Note 2)	6,101,497	4,054,866
Estimated third-party payor settlements (Note 3)	2,287,100	1,232,904
Assets limited as to use (Note 5)	1,192,492	5,608,140
Inventory	1,364,370	1,490,920
Prepaid expenses and other	304,167	245,580
Total current assets	18,075,935	24,049,111
Property and Equipment - Net (Note 4)	46,571,864	38,583,944
Other Assets (Note 5)	4,784,936	12,664,306
Total assets	**$ 69,432,735**	**$ 75,297,361**
Liabilities and Net Assets		
Current Liabilities		
Current portion of long-term debt (Note 7)	$ 948,861	$ 930,385
Accounts payable	1,980,760	1,591,358
Construction payables (Note 4)	-	5,608,140
Accrued liabilities	2,310,981	2,882,404
Total current liabilities	5,240,602	11,012,287
Long-term Debt - Net of current portion (Note 7)	34,254,636	35,203,497
Other Liabilities (Note 9)	6,350,737	2,659,393
Total liabilities	45,845,975	48,875,177
Net Assets		
Unrestricted	22,696,777	25,424,004
Temporarily restricted	889,983	998,180
Total net assets	23,586,760	26,422,184
Total liabilities and net assets	**$ 69,432,735**	**$ 75,297,361**

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245,384
23,832,146

26,422,184
230,272
26,652,456

Bell Memorial Hospital and Affiliate

Combined Statement of Changes in Net Assets

	Year Ended June 30, 2009	Year Ended June 30, 2008
Unrestricted Net Assets		
Excess of revenue (under) over expenses	$ (876,472)	$ 2,204,832
Pension-related changes other than net periodic pension costs	(1,950,755)	(972,341)
Net assets released from restriction	100,000	-
(Decrease) Increase in Unrestricted Net Assets	(2,727,227)	1,232,491
Temporarily Restricted Net Assets		
Change in interest of net assets of charitable foundation	641,803	809,603
Net assets released from restriction	(750,000)	-
(Decrease) Increase in Temporarily Restricted Net Assets	(108,197)	809,603
(Decrease) Increase in Net Assets	(2,835,424)	2,042,094
Net Assets - Beginning of year	26,422,184	24,380,090
Net Assets - End of year	**$ 23,586,760**	**$ 26,422,184**

See Notes to Combined Financial Statements.

Bell Memorial Hospital and Affiliate

Combined Statement of Operations

	Year Ended June 30, 2009	Year Ended June 30, 2008
Unrestricted Revenue, Gains, and Other Support		
Net patient service revenue	$ 51,190,904	$ 47,072,674
Other	1,400,470	1,040,336
Net assets released from restrictions used for operations	650,000	-
Total unrestricted revenue, gains, and other support	53,241,374	48,113,010
Expenses		
Salaries and wages	23,082,283	20,264,900
Employee benefits	6,188,366	4,747,715
Supplies	7,264,987	5,751,469
Purchased services	3,090,919	3,396,602
Insurance	618,336	540,416
Other healthcare expenses	5,428,549	4,708,073
Depreciation and amortization (Note 4)	2,561,759	1,675,016
Provision for bad debts	3,427,361	3,263,024
Interest expense	1,372,640	84,823
Total expenses (Note 12)	53,035,200	44,432,038
Operating Income	206,174	3,680,972
Other Income (Loss)		
Investment income (Note 5)	14,217	473,940
Contributions	208,577	18,697
Net change in unrealized gains and losses on investments (Note 5)	(185,172)	(278,841)
Change in fair value of interest rate swap agreements	(1,045,268)	(939,936)
Total other loss	(1,007,646)	(726,140)
Excess of Revenue (Under) Over Expenses Before Unusual Event	(801,472)	2,954,832
Unusual Event - Sale of old facility (Note 4)	(75,000)	(750,000)
Excess of Revenue (Under) Over Expenses	(876,472)	2,204,832
Pension-related Changes Other Than Net Periodic Pension Costs (Note 10)	(1,950,755)	(972,341)
Net Assets Released from Restriction	100,000	-
(Decrease) Increase in Unrestricted Net Assets	$ (2,727,227)	$ 1,232,491

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Bell Memorial Hospital and Affiliate

Combined Statement of Cash Flows

	Year Ended June 30, 2009	Year Ended June 30, 2008	
Cash Flows from Operating Activities			
(Decrease) increase in net assets	$ (2,835,424)	$ 2,042,094	
Adjustments to reconcile (decrease) increase in net assets to net cash from operating activities:			
Depreciation and amortization	2,561,759	1,675,016	
Net change in unrealized gains and losses on investments	185,172	278,841	
Realized loss on sales of investments	206,525	14,709	
Change in beneficial interest in net assets of Bell Foundation	(641,803)	(809,603)	
Pension-related changes other than net periodic pension costs	1,950,755	972,341	
Change in fair value of interest rate swap agreements	1,045,268	939,936	
Unusual event - Conditional asset retirement obligation	75,000	750,000	
Provision for bad debts	3,427,361	3,263,024	
Loss on disposal of property and equipment	256,285	-	
Changes in assets and liabilities which provided (used) cash:			
Accounts receivable	(5,473,992)	(2,172,747)	
Estimated third-party payor settlements receivable	(1,054,196)	(932,904)	
Inventory	126,550	(243,378)	
Prepaid expenses and other	(58,587)	338	
Other assets	108,197	(809,603)	
Accounts and construction payable	389,402	773,583	
Estimated third-party payor settlements payable	-	(578,094)	
Accrued liabilities	45,321	402,384	
Other liabilities	3,577	(194,097)	
Net cash provided by operating activities	317,170	5,371,840	6181443
Cash Flows from Investing Activities			
Purchase of property and equipment	(16,401,892)	(23,929,214)	
Proceeds from sale of property and equipment	7,345	22,490	
Purchase of investments held by trustee under self-insurance arrangements	(878,167)	(1,590,823)	
Proceeds from sales of investments held by trustee under self-insurance arrangements	907,564	1,509,398	
Purchase of investments held by trustees under bond indenture	(14,420,844)	(2,688,624)	
Proceeds from sales of investments held by trustee under bond indenture	26,083,113	19,979,245	
Collection of note receivable from affiliate	83,901	743,099	
Net cash used in investing activities	(4,618,980)	(5,954,429)	
Cash Flows from Financing Activities			
Proceeds from the issuance of debt	-	3,680,000	
Principal payments on long-term debt	(930,385)	(2,295,683)	
Bond financing costs	-	(89,635)	
Temporarily restricted contributions	641,803	809,603	
Net cash (used in) provided by financing activities	(288,582)	2,104,285	
Net (Decrease) Increase in Cash and Cash Equivalents	(4,590,392)	1,521,696	
Cash and Cash Equivalents - Beginning of year	11,416,701	9,895,005	
Cash and Cash Equivalents - End of year	$ 6,826,309	$ 11,416,701	
Supplemental Cash Flow Information			
Cash paid for interest, including capitalized interest of $1,117,416 during 2008	$ 1,363,491	$ 1,202,239	
Abatement for future liability capitalized	75,000	750,000	
Noncash investing activity - Construction payable (property and equipment additions)	-	4,492,605	

See Notes to Combined Financial Statements.

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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 Bell Medical 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, 2009, the uninsured cash balances approximated $6,150,000.

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 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 over expenses, unless the income or loss is restricted by the donor.

In previous years, investments held by the Hospital were classified as available-for-sale securities with unrealized gains and losses that were considered temporary excluded from excess of revenue over expenses. During 2009, the Hospital determined that substantially all its investment portfolio was more appropriately classified as trading, with unrealized gains and losses included in excess of revenue over expenses. Therefore, certain amounts in the accompanying combined financial statements have been reclassified to reflect this change in classification. These reclassifications did not impact the decrease in net assets previously reported; however, the excess of revenue over expenses for 2008 decreased by $278,841 as a result of the reclassification.

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") reflect 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 Subsidiary.

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

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 $20,077 for the year ended June 30, 2009.

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 11).

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 subsidiary, 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.

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

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, 2009 and 2008 totaled approximately $402,000 and $685,000, respectively.

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 10).

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) Over Expenses - The combined statement of operations includes excess of revenue (under) over expenses. Changes in unrestricted net assets, which are excluded from excess of revenue (under) over 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.

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

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.

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, liabilities, and disclosure of contingent assets and liabilities at the date of the combined financial statements and the reported amounts of revenues 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, 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 2008 amounts have been reclassified to conform to the 2009 presentation.

Subsequent Events - The combined financial statements and related disclosures include evaluation of events up through and including February 24, 2010, which is the date the combined financial statements were issued.

Note 2 - Patient Accounts Receivable

Accounts receivable consist of the following:

	2009	2008
Patients, insurance companies, and governmental agencies	$ 16,675,882	$ 12,416,778
Less:		
Allowance for uncollectible accounts	(2,146,125)	(1,792,872)
Allowance for contractual adjustments and interim payment advances	(8,653,482)	(6,824,664)
Total patient accounts receivable	5,876,275	3,799,242
Other	225,222	255,624
Total accounts receivable	$ 6,101,497	$ 4,054,866

The Hospital and its subsidiary 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	
	2009	2008
Medicare	31	28
Blue Cross/Blue Shield of Michigan	23	20
Medicaid	11	11
Commercial insurance and HMOs	18	20
Patients	17	21
Total	100	100

Note 3 - Patient Service Revenue

Approximately 88 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 subsidiary 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.

Note 3 - Patient Service Revenue (Continued)

- **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.

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, 2009 and the final cost report settlements increased net patient service revenue by approximately $1,200,000 for the year ended June 30, 2008, reflecting amount 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 RAC program is scheduled for Michigan hospitals in 2009. The Hospital is unable to determine if it will be audited and, if so, the extent of liability for overpayments, if any. If selected for audit, the potential exists for significant overpayment of claims liability for the Hospital at a future date.

Note 4 - Property and Equipment

Cost of property and equipment and depreciable lives are summarized as follows.

	2009	2008	Depreciable Life - Years
Land	$ 2,217,184	$ 2,470,402	-
Buildings	40,048,421	17,336,435	20-40
Equipment	15,381,754	15,283,652	3-5
Construction in progress	533,864	28,535,221	-
Total cost	58,181,223	63,625,710	
Less accumulated depreciation	(11,609,359)	(25,041,766)	
Net carrying amount	$ 46,571,864	$ 38,583,944	

Depreciation expense on property plant and equipment totaled $2,541,682 and $1,675,016 in 2009 and 2008, respectively.

Construction in progress at June 30, 2008 relates to the construction of a replacement hospital facility. The project was completed during the year ended June 30, 2009 and placed into service. In connection with the construction of the replacement hospital facility, the Hospital reduced its estimate of the useful lives of certain buildings and equipment that will no longer be utilized upon the completion of the new facility. This change had the effect of increasing depreciation expense by approximately $450,000 for the year ended June 30, 2008.

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. The Hospital has recorded a liability of $825,000 related to this agreement with the developer. This amount is payable in annual amounts totaling $125,000, $100,000, $100,000, and $500,000 during the years ending June 30, 2010, 2011, 2012, and 2013, respectively (see Note 9).

Note 5 - Other Assets

Other assets consist of the following:

	2009	2008
Assets limited as to use:		
Funds held by trustee for payment of professional liability claims	$ 1,751,949	$ 2,123,417
Funds held by trustees under bond indenture	2,536,022	14,247,917
Total assets limited as to use	4,287,971	16,371,334
Less amount for payment of current liabilities	(1,192,492)	(5,608,140)
Total assets limited as to use - Long term	3,095,479	10,763,194
Beneficial interest in net assets of Bell Foundation	889,983	998,180
Bond issues costs - Net	619,474	639,551
Other	180,000	263,381
Total other assets	$ 4,784,936	$ 12,664,306

Investments consist of the following:

	2009	2008
Money market investments	$ 2,589,234	$ 2,882,757
U.S. government obligations	-	8,680,696
Municipal government obligations	-	2,750,000
Corporate bonds	479,769	600,342
Common and preferred stocks	1,218,968	1,457,539
Total	$ 4,287,971	$ 16,371,334

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:

	2009	2008
Investment income - Interest and dividends	$ 220,742	$ 488,649
Investment income - Realized loss on sale of investments	(206,525)	(14,709)
Net change in unrealized gains and losses on investments	(185,172)	(278,841)
Total investment (loss) income	$ (170,955)	$ 195,099

Note 6 - Fair Value

Accounting standards require certain assets and liabilities 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, 2009 and 2008 is as follows:

	2009	2008
Notes payable to Michigan State Hospital Finance Authority	$ 306,639	$ 442,923
Adjustable Rate Demand Limited Obligation Revenue Bonds, Series 2007	31,575,000	32,285,000
Adjustable Rate Demand Limited Obligation Revenue Bonds, Series 2007B	3,620,000	3,700,000
Other	-	16,524
Total	35,501,639	36,444,447
Less original issue discount	298,142	310,565
Less current portion	948,861	930,385
Long-term portion	$ 34,254,636	$ 35,203,497

The note payable to 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 2.50 percent at June 30, 2009 (2.95 percent at June 30, 2008). The letter of credit expires 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 0.19 percent at June 30, 2009 (1.65 percent at June 30, 2008). Effective March 15, 2010, the LIBOR floor will be 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 $740,000 to $2,125,000 through March 1, 2033.

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 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.

Note 7 - Long-term Debt (Continued)

The bonds are secured by irrevocable direct-pay letters of credit, which expire on March 15, 2011 for the 2007 Series, and on August 15, 2010 for the 2007B Series. 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. Letter of credits fees are 1.5 percent on the 2007 Series and .85 percent on the 2007 B Series.

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 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.

Minimum principal payments on long-term debt to maturity for the next five years are as follows:

2010		$ 948,861
2011		1,017,932
2012		882,577
2013		932,577
2014		972,577
Thereafter		30,747,115
	Total	$ 35,501,639

Note 8 - Interest Rate Swap Agreement

The Hospital has entered into interest rate swaps of 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.

Note 8 - Interest Rate Swap Agreement (Continued)

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 2007B Bonds. The effect of the swaps was to effectively 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 2007B Bonds, respectively. Due to decreasing interest rates, the swaps had a negative fair value of approximately $1,985,000 and $940,000 as of June 30, 2009 and 2008, respectively (see Note 9). The swap's 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 agreement 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.

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	$ 21,213,750
March 1, 2009 - February 28, 2010	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:

	2009	2008
Accrued pension cost (Note 10)	$ 2,959,612	$ 980,985
Accrued professional liability claims (Note 11)	705,921	738,472
Fair market value of interest rate swap agreement (Note 8)	1,985,204	939,936
Accrued obligation on old facility (Note 4)	700,000	-
Total other liabilities	$ 6,350,737	$ 2,659,393

Note 10 - Pension and Other Postretirement Benefit Plans

The Hospital has two noncontributory defined contribution pension plans that together cover substantially all employees who meet minimum 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 costs other than to pay fixed amounts per hour worked by eligible employees.

Effective November 1, 2005, nonunion employees are covered under a defined contribution plan. For those nonunion employees who were not eligible for the defined benefit plan, the plan allows for employee contributions and requires a matching contribution 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 $1,025,000 and $974,000 for the years ended June 30, 2009 and 2008, respectively.

Nonunion employees are covered under a defined benefit 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 1974 (ERISA). Contributions were intended to provide not only for benefits attributed to services to date, but also for those expected to be earned in the future.

Note 10 - Pension and Other Postretirement Benefit Plans (Continued)

Obligations and Funded Status

	Pension Benefits	
At June 30	2009	2008
Change in Benefit Obligation		
Benefit obligation at beginning of year	$ 8,372,120	$ 8,390,597
Interest cost	533,831	515,100
Actuarial loss (gain)	127,859	(264,868)
Benefits paid	(275,859)	(268,709)
Benefit obligation at end of year	8,757,951	8,372,120
Change in Plan Assets		
Fair value of plan assets at beginning of year	7,391,135	8,249,049
Actual return on plan assets	(1,316,937)	(589,205)
Benefits paid	(275,859)	(268,709)
Fair value of plan assets at end of year	5,798,339	7,391,135
Funded status at end of year	$ (2,959,612)	$ (980,985)

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

	Pension Benefits	
	2009	2008
Noncurrent liabilities (Note 9)	$ (2,959,612)	$ (980,985)

The accumulated benefit obligation for all defined benefit pension plans was $8,757,951 and $8,372,120 at June 30, 2009 and 2008, respectively.

Note 10 - Pension and Other Postretirement Benefit Plans (Continued)

Components of Net Periodic Benefit Cost and Other Amounts Recognized in Other Comprehensive Income

	2009	2008
Net Periodic Benefit Cost		
Interest cost	$ 533,831	$ 515,100
Expected return on plan assets	(506,226)	(648,004)
Total net periodic benefit cost (income)	$ 27,605	$ (132,904)
Amounts Recognized in Other Comprehensive Income		
Total recognized in net periodic benefit cost and other comprehensive income	$ 1,950,755	$ 972,341

Assumptions

Weighted Average Assumptions Used to Determine Benefit Obligations at June 30

	Pension Benefits	
	2009	2008
Discount rate	6.25 %	6.50 %

Weighted Average Assumptions Used to Determine Net Periodic Benefit Cost for Years Ended June 30

	Pension Benefits	
	2009	2008
Discount rate	6.50 %	6.25 %
Expected long-term return on plan assets	7.00	8.00

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, 2009.

Note 10 - Pension and Other Postretirement Benefit Plans (Continued)

Plan Assets

	2009	2008
Asset Category		
Mutual funds - Equity	70 %	69 %
Mutual funds - Fixed income	27	28
Cash and cash equivalents	3	3
Total	100 %	100 %

The goals of the 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 of equities.

Contributions

No contributions are required for 2009 and also were not required for 2008 under the minimum funding requirements of ERISA, as the plan is frozen.

Estimated Future Benefit Payments

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

	Pension Benefits
2010	$ 313,936
2011	329,701
2012	347,788
2013	382,356
2014	440,824
2015-2019	2,885,264

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, 2009 and 2008 (see Note 9).

Note 11 - Professional Liability Insurance (Continued)

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, 2009 and 2008 are as follows:

	2009	2008
Healthcare services	$ 42,843,685	$ 36,213,963
General and administrative	10,191,515	8,218,075
Total	$ 53,035,200	$ 44,432,038

Additional Information

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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, 2009 and 2008. 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

February 24, 2010

Bell Memorial Hospital and Affiliate

Combining Statement of Operations
Year Ended June 30, 2009

	Bell Memorial Hospital	Bell Medical Center	Eliminating Entries	Total
Unrestricted Revenue, Gains, and Other Support				
Net patient service revenue	$ 42,343,289	$ 8,847,615	$ -	$ 51,190,904
Other	1,254,800	145,670	-	1,400,470
Net assets released from restrictions used for operations	650,000	-	-	650,000
Total unrestricted revenue, gains, and other support	44,248,089	8,993,285	-	53,241,374
Expenses				
Salaries and wages	15,101,220	7,981,063	-	23,082,283
Employee benefits	5,060,696	1,127,670	-	6,188,366
Supplies	6,712,331	552,656	-	7,264,987
Purchased services	2,141,637	949,282	-	3,090,919
Insurance	375,662	242,674	-	618,336
Other healthcare expenses	4,883,479	545,070	-	5,428,549
Depreciation and amortization	2,319,354	242,405	-	2,561,759
Provision for bad debts	2,758,994	668,367	-	3,427,361
Interest expense	1,304,608	68,032	-	1,372,640
Total expenses	40,657,981	12,377,219	-	53,035,200
Operating Income (Loss)	3,590,108	(3,383,934)	-	206,174
Other Income (Loss)				
Investment income	26,529	(12,312)	-	14,217
Contributions	201,400	7,177	-	208,577
Net change in unrealized gains and losses on investments	(185,172)	-	-	(185,172)
Change in fair value of interest rate swap agreements	(1,045,268)	-	-	(1,045,268)
Total other loss	(1,002,511)	(5,135)	-	(1,007,646)
Excess of Revenue Over (Under) Expenses Before Unusual Event	2,587,597	(3,389,069)	-	(801,472)
Unusual Event	(75,000)	-	-	(75,000)
Excess of Revenue Over (Under) Expenses	2,512,597	(3,389,069)	-	(876,472)
Transfer (to) from Affiliate	(4,669,764)	4,669,764	-	-
Pension-related Changes Other Than Net Periodic Pension Costs	(1,950,755)	-	-	(1,950,755)
Net Assets Released from Restriction	100,000	-	-	100,000
(Decrease) Increase in Unrestricted Net Assets	$ (4,007,922)	$ 1,280,695	$ -	$ (2,727,227)

Bell Memorial Hospital and Affiliate

Combining Balance Sheet
June 30, 2009

	Bell Memorial Hospital	Bell Medical Center	Eliminating Entries	Total
Assets				
Current Assets				
Cash and cash equivalents	$ 6,826,309	$ -	$ -	$ 6,826,309
Accounts receivable	3,894,543	2,206,954	-	6,101,497
Estimated third-party payor settlements	2,287,100	-	-	2,287,100
Assets limited as to use	1,192,492	-	-	1,192,492
Inventory	1,331,553	32,817	-	1,364,370
Prepaid expenses and other	272,455	31,712	-	304,167
Total current assets	15,804,452	2,271,483	-	18,075,935
Property and Equipment - Net	46,050,491	521,373	-	46,571,864
Other Assets	4,778,729	6,207	-	4,784,936
Total assets	**$ 66,633,672**	**$ 2,799,063**	**$ -**	**$ 69,432,735**
Liabilities and Net Assets				
Current Liabilities				
Current portion of long-term debt	$ 948,861	$ -	$ -	$ 948,861
Accounts payable	1,822,574	158,186	-	1,980,760
Accrued liabilities	1,790,474	520,507	-	2,310,981
Total current liabilities	4,561,909	678,693	-	5,240,602
Long-term Debt - Net of current portion	34,254,636	-	-	34,254,636
Other Liabilities	6,350,737	-	-	6,350,737
Total liabilities	45,167,282	678,693	-	45,845,975
Net Assets				
Unrestricted	20,576,407	2,120,370		22,696,777
Temporarily restricted	889,983	-	-	889,983
Total liabilities and net assets	**$ 66,633,672**	**$ 2,799,063**	**$ -**	**$ 69,432,735**

Marquette General Health System

Consolidated Balance Sheet

	June 30 ,2009	June 30, 2008	June 30, 2007
Assets			
Current Assets			
Cash and cash equivalents	$ 28,081,601	$ 11,922,752	$ 14,088,083
Accounts Receivable	44,475,168	37,928,261	39,918,384
Estimated third-party payor settlements	1,314,123	2,830,064	611,672
Assets limited as to use	803,579	430,807	356,327
Other Current Assets	2,117,770	2,482,687	2,227,093
Inventory	8,599,310	7,673,263	7,924,963
Total Current Assets	85,391,551	63,267,834	65,126,522
Assets Limited as to Use	38,101,802	51,489,434	81,072,497
Property and Equipment	105,402,559	110,242,567	115,167,071
Assets Held for Sale	-	2,851,032	6,677,805
Other Assets			
Investment in unconsolidated affiliates	16,130,462	14,105,171	8,293,200
Bond Issue Costs	1,251,304	1,398,667	2,460,309
Other Current Assets	6,342,195	5,385,452	3,619,007
Total Assets	$ 252,619,873	$ 248,740,157	$ 282,416,411
Liabilities & Net Assets			
Current Liabilities			
Accounts Payable	$ 14,622,717	$ 7,708,997	$ 11,707,784
Current Portion of Long-Term Debt	6,808,575	3,697,592	3,517,592
Estimated third-party payor settlements	1,067,956	-	-
Accrued Liabilities and Other:			
Current Portion of Employee Compensation & Benefits	19,065,833	16,886,921	18,060,887
Accrued Interest	331,315	375,407	489,060
Other Accrued Liabilities	1,044,760	1,509,286	
Total Current Liabilities	42,941,156	30,178,203	33,775,323
Long-term Debt	67,361,548	74,170,123	77,867,715
Accrued Pension Liability	50,677,144	22,853,505	53,080,860
Fair Value of Interest Rate Swap Agreement	3,995,153	1,881,882	-
Other Liabilities			
Long-term portion of Employee Compensation & Benefits	3,674,898	3,832,044	2,876,474
Other long-term liabilities	4,608,241	3,965,882	3,808,432
Total Liabilities	173,258,140	136,881,639	171,408,804
Net Assets			
Unrestricted	77,499,381	110,750,790	110,361,928
Temporarily Restricted	1,862,352	1,107,728	645,679
Total Net Assets	79,361,733	111,858,518	111,007,607
Total Liabilities & Net Assets	$ 252,619,873	$ 248,740,157	$ 282,416,411
	-	-	-