SCHEDULE 1.1(j)
ASSUMED NAMES

Portage Health, Inc.

Assumed Names:	Id Number	Creation Date	Renew Date	Expiration Date
PORTAGE HEALTH EXPRESS CARE	828082	11-23-2009		12-31-2014
PORTAGE HEALTH HOUGHTON	828082	11-23-2009		12-31-2014
PORTAGE HEALTH UNIVERSITY CENTER	828082	11-23-2009		12-31-2014
PORTAGE HEALTH DIALYSIS CENTER	828082	11-28-2006	12-31-2011	12-31-2016
PORTAGE HEALTH FITNESS CONNECTION	828082	8-15-2006	12-31-2011	12-31-2016
PORTAGE HEALTH REHAB	828082	8-15-2006	12-31-2011	12-31-2016
PORTAGE HEALTH HOSPITAL	828082	8-15-2006	12-31-2011	12-31-2016
PORTAGE HEALTH MEDICAL GROUP	828082	8-15-2006	12-31-2011	12-31-2016
PORTAGE HEALTH HOME CARE & HOSPICE	828082	8-15-2006	12-31-2011	12-31-2016
PORTAGE HEALTH HEARING SERVICES	828082	8-15-2006	12-31-2011	12-31-2016
PORTAGE HEALTH SPORTS MEDICINE INSTITUTE	828082	8-15-2006	12-31-2011	12-31-2016
PORTAGEPOINTE	828082	8-15-2006	12-31-2011	12-31-2016
PORTAGE INTERNAL MEDICINE ASSOCIATES	828082	7-23-2004	11-20-2009	12-31-2014

Copper Country Apothecaries, Inc.

Assumed Names:	Id Number	Creation Date	Renew Date	Expiration Date
APOTHECARY-HOME MEDICAL EQUIPMENT	169415	5-1-2007	11-1-2012	12-31-2017
APOTHECARY - HOUGHTON	169415	11-1-1999	11-20-2009	12-31-2014
APOTHECARY - HANCOCK	169415	11-1-1999	11-20-2009	12-31-2014
COOPER COUNTRY APOTHECARY	169415	11-1-1999	11-20-2009	12-31-2014

Portage Health Home Services, Inc. - NONE

SCHEDULE 1.1(j)
ASSUMED NAMES

<u>Portage Health Resources, Inc</u>.- NONE

SCHEDULE 1.2(e)
EXCLUDED CONTRACTS

To the extent that contracts are set forth on Schedule 1.1(f), but ultimately are disclosed on Schedule 7.11, Buyer shall have the right to update this Schedule 1.2(e) to exclude such contracts.

Bond Documents
*The 2006 and 2010 Bonds – will be redeemed/paid off with the proceeds from transaction

1. Documents related to the City of Hancock Hospital Finance Authority Variable Rate Demand Revenue Refunding Bonds (Portage Health, Inc.) Series 2006 Bond in the amount of $27,920,000.
2. Documents related to the City of Hancock Finance Authority Multi-Modal Limited Obligation Revenue Bonds, Series 2010 in the amount of $4,000,000.

Employment Agreements

1. Physician Employment Agreement, dated as of December 9, 2010, between Portage Health and Anthony Beardmore, MD.

Joint Venture Agreements

1. Joint Venture Agreement, dated as of April 23, 2007, between Portage Health and Keweenaw Memorial Medical Center (Mercy EMS).

Real Property Agreements*

1. Lease Agreement, effective as of January 1, 2012, by and between Portage Health Medical Group ("Lessee") and Bell Memorial Hospital for premises located at 901 Lakeshore Drive, 201 East Main Street and known as the Bell Memorial Hospital medical office building, City of Ishpeming, MI.
2. Lease Agreement, dated as of February 1, 2013, between Portage Health and Marquette General Health System (Rovin, Vermeulen, Himes).
3. Lease Agreement, dated as of February 1, 2013, between Portage Health and Upper Michigan Cardiovascular Associates, PC.
4. Lease Agreement, dated as of March 1, 2013, between Portage Health and Ear, Nose, & Throat Associates of Marquette, PC.
5. Lease Agreement , dated as of February 1, 2013, between Portage Health and Allergy & Asthma Associates of the UP.
6. Lease Agreement, dated as of February 1, 2013, between Portage Health and UP Asthma & Allergy Center.
7. PIMA Shared Services Agreement-Lease A for Portage Internal Medicine Associates, dated as of July 1, 2004, between Portage Health and Marquette General Health System.
8. PIMA Shared Services Agreement-Lease B for Portage Internal Medicine Associates, dated as of July 1, 2004, between Portage Health and Marquette General Health System.
9. PIMA Shared Services Agreement-Lease C for Portage Internal Medicine Associates, dated as of July 1, 2004, between Portage Health and Marquette General Health System.

*The Joint Venture will enter into new lease agreements for the leases listed here at or sometime shortly after Closing.

Equipment/ Equipment Services Agreements

1. Rollover Assurance Agreement, dated October 15, 2012, between Portage Health and Covidien.

SCHEDULE 1.2(e)
EXCLUDED CONTRACTS

Other Agreements

1. Master Agreement, dated as of January 1, 2011, between Portage Health and MedAssets Supply Chain Systems, LLC.
2. Contract Pharmacy Services-340B Agreement, dated as of March 11, 2011, between Portage Health and Copper Country Apothecaries.
3. 340B Program Agreement, dated as of March 11, 2011, between Portage Health and Department of Health and Human Services.
4. 340B ARCHITECT Software Agreement, dated as of March 3, 2011, between Portage Health and Macro Helix.
5. 340B Pharmacy Services Agreement, dated as of August 15, 2012, between Portage Health and Wal-Mart Stores, Inc.

SCHEDULE 1.2(p)
EXCLUDED ENTITIES

1. Portage Health Foundation, Inc.
2. Mercy EMS, Inc.

SCHEDULE 1.2(t)
CURRENT ASSETS NOT INCLUDED IN DETERMINATION OF NET WORKING CAPITAL

None.

SCHEDULE 1.2(w)

OTHER ASSETS

1. Remaining rights to the distribution payment expected in the second quarter of 2014 at approximately $78/share resulting from Portage's shares of MHA Insurance Company as set forth in that certain letter dated as of June 20, 2013 to Portage Health System, Inc. from Coverys.

SCHEDULE 2.4(k)
EXCLUDED LIABILITIES

None.

SCHEDULE 4.1
SELLERS SECURITIES AND MEMBERSHIP INTERESTS

None.

SCHEDULE 4.2(b)
SELLERS 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)
SELLERS CONFLICTS

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

SCHEDULE 4.4(b)
INCLUDED JOINT VENTURES

1. Ontonagon Community Health Center, Inc.

   (a) Marquette General Hospital – 50% Interest and Portage Health, Inc. – 50% Interest Joint Venture Agreement, effective as of August 20, 2007, between Portage Health, Inc. and Marquette General Hospital (Ontonagon Community Health Center, Inc.).

   (b) 50% interest held by Marquette General Hospital transferred to DLP Marquette JV, LLC pursuant to Assignment of Membership Interest Agreement, dated as of August 31, 2012, by and between DLP Marquette JV, LLC and Marquette General Hospital.

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.

3. Joint Venture Agreement, as amended, effective as of August 20, 2007, between Portage Health, Inc. and Marquette General Hospital (Ontonagon Community Health Center, Inc.), has a provision that gives the Ontonagon Community Health Center, Inc. the first option to purchase a withdrawing member's membership interest.

SCHEDULE 4.6(a)
FINANCIAL STATEMENTS - SELLER

Attached as Schedule 4.6(a).

Portage Health and Subsidiaries

Consolidated Financial Report
with Additional Information
June 30, 2010

Portage Health and Subsidiaries

Contents

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Independent Auditor's Report

To the Board of Directors
Portage Health and Subsidiaries

We have audited the accompanying consolidated balance sheet of Portage Health and Subsidiaries (the "Organization") as of June 30, 2010 and 2009 and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of wholly owned subsidiaries, Copper Country Apothecaries, Inc., Portage Health Resources, Inc., and Portage Health Home Services, Inc., whose statements reflect total assets of $3,316,511 and $2,830,830, and total revenue of $10,928,765 and $10,441,830 as of and for the years ended June 30, 2010 and 2009, respectively. Those statements were audited by other auditors whose reports have been furnished to us and our opinion, insofar as it relates to the amounts included for Copper Country Apothecaries, Inc., Portage Health Resources, Inc., and Portage Health Home Services, Inc., is based solely on the reports of the other auditors.

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

In our opinion, based on our audits and the reports of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Portage Health and Subsidiaries at June 30, 2010 and 2009 and the results of their operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Plante & Moran, PLLC

November 10, 2010

Portage Health and Subsidiaries

Consolidated Balance Sheet

	June 30, 2010	June 30, 2009 (as restated)
Assets		
Current Assets		
Cash and cash equivalents	$ 16,966,393	$ 13,434,031
Accounts receivable (Note 2)	7,972,748	6,713,155
Estimated third-party payor settlements (Note 3)	1,025,696	606,173
Prepaid expenses and other	2,170,473	2,047,531
Total current assets	28,135,310	22,800,890
Assets Limited as to Use (Note 5)	14,469,152	13,096,971
Property and Equipment - Net (Note 6)	42,382,483	44,042,306
Other Assets		
Investments in joint ventures (Note 12)	668,562	711,497
Bond issue costs	359,075	380,301
Total assets	**$ 86,014,582**	**$ 81,031,965**
Liabilities and Net Assets		
Current Liabilities		
Current portion of long-term debt (Note 7)	$ 1,365,000	$ 1,320,000
Accounts payable	2,605,699	2,074,852
Estimated third-party payor settlements (Note 3)	1,010,984	879,078
Accrued liabilities and other	3,279,639	3,143,415
Total current liabilities	8,261,322	7,417,345
Long-term Debt - Net of current portion (Note 7)	22,869,900	24,235,000
Fair Value of Interest Rate Swap Agreement (Note 7)	2,598,082	1,778,553
Total liabilities	33,729,304	33,430,898
Net Assets - Unrestricted	52,285,278	47,601,067
Total liabilities and net assets	**$ 86,014,582**	**$ 81,031,965**

See Notes to Consolidated Financial Statements.

Portage Health and Subsidiaries

Consolidated Statement of Operations

	Year Ended June 30, 2010	Year Ended June 30, 2009 (as restated)
Unrestricted Revenue, Gains, and Other Support		
Net patient service revenue	$ 73,458,320	$ 70,128,124
Apothecary retail pharmacy revenue	8,985,275	8,484,350
Other	1,980,500	1,835,247
Total unrestricted revenue, gains, and other support	84,424,095	80,447,721
Expenses		
Salaries and wages	33,713,027	32,415,343
Employee benefits and payroll taxes	10,365,047	9,246,889
Operating supplies and expenses	17,986,507	17,333,616
Professional services and consultant fees	472,102	541,443
Purchased services	7,240,356	6,578,003
Insurance	770,858	929,043
Utilities	1,339,057	1,245,705
Depreciation	4,556,969	4,406,763
Provision for bad debts	1,257,529	1,143,937
Interest expense	1,055,379	1,248,133
Other	3,648,039	3,279,622
Total expenses (Note 11)	82,404,870	78,368,497
Operating Income	2,019,225	2,079,224
Other Income (Expenses)		
Interest income (Note 5)	711,688	784,998
Equity in losses of unconsolidated investees (Note 12)	(239,598)	(188,721)
Realized gain (loss) on sale of investments (Note 5)	2,539,942	(320,823)
Other (expense) income	(30,020)	66,081
Change in unrealized investment gain (loss) (Note 5)	452,664	(545,212)
Change in fair value of interest swap agreements (Note 7)	(819,529)	(1,267,968)
Rent income	180,948	172,656
Other expense	(131,109)	(81,606)
Total other income (expenses)	2,664,986	(1,380,595)
Excess of Revenue Over Expenses	**$ 4,684,211**	**$ 698,629**

Portage Health and Subsidiaries

Consolidated Statement of Changes in Net Assets

	Year Ended June 30	
	2010	2009 (as restated)
Net Assets - Beginning of year	$ 47,601,067	$ 46,902,438
Excess of Revenue Over Expenses	4,684,211	698,629
Net Assets - End of year	**$ 52,285,278**	**$ 47,601,067**

Portage Health and Subsidiaries

Consolidated Statement of Cash Flows

	Year Ended June 30, 2010	Year Ended June 30, 2009 (as restated)
Cash Flows from Operating Activities		
Cash received from patients and third-party payors	$ 73,168,639	$ 74,528,853
Cash paid to suppliers and employees	(77,505,922)	(73,193,473)
Interest and dividends received	711,688	784,998
Interest paid	(1,034,153)	(1,226,907)
Other receipts from operations	10,790,536	10,503,696
Net cash provided by operating activities (Note 10)	6,130,788	11,397,167
Cash Flows from Investing Activities		
Purchase of property and equipment	(2,898,751)	(3,203,262)
Purchase of investments	(2,320,893)	(4,744,093)
Proceeds from sales and maturities of investments	3,941,318	1,275,000
Net cash used in investing activities	(1,278,326)	(6,672,355)
Cash Flows from Financing Activities - Principal payments on debt obligations	(1,320,100)	(1,275,000)
Net Increase in Cash and Cash Equivalents	3,532,362	3,449,812
Cash and Cash Equivalents - Beginning of year	13,434,031	9,984,219
Cash and Cash Equivalents - End of year	**$ 16,966,393**	**$ 13,434,031**

Note 1 - Nature of Business and Significant Accounting Policies

Reporting Entity - Portage Health (the "Hospital") and Subsidiaries (together, the "Organization") provides inpatient, outpatient, and long-term care services primarily to the citizens of the northwest region of Michigan's Upper Peninsula. Admitting physicians are primarily practitioners in the local area. The Hospital is responsible for the overall direction of its subsidiaries. Each subsidiary operates independently with its own board of directors and management. Each of the subsidiaries is described below:

- Copper Country Apothecaries, Inc. (CCA), a Michigan for-profit corporation, operates a retail pharmacy for the sale of pharmaceuticals to residents of the surrounding area.
- Portage Health Resources, Inc. (PHR), a Michigan not-for-profit corporation, distributes a variety of meals to homebound residents in the local area.
- Portage Health Foundation (the "Foundation"), a Michigan not-for-profit corporation, was organized to provide fundraising activities for the benefit of Portage Health.
- Portage Health Home Services, Inc. (Home Services), a Michigan not-for-profit corporation, provides private-duty care to residents of the surrounding area.

Principles of Consolidation - The accompanying consolidated financial statements include the accounts of Portage Health and its subsidiaries. Intercompany transactions and balances have been eliminated in consolidation.

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

Cash and Cash Equivalents - Cash and cash equivalents include cash and investments in highly liquid investments purchased with an original maturity of three months or less, excluding those amounts included in assets limited as to use.

The Hospital and its subsidiaries maintain cash and investment balances at several financial institutions located in northern Michigan. At June 30, 2010 and 2009, accounts at each institution are insured by the Federal Deposit Insurance Corporation up to $250,000 or 100 percent for qualifying institutions. As of June 30, 2010 and 2009, the uninsured cash balance was $1,526,559 and $415,537, respectively.

As of July 1, 2010, the Federal Deposit Insurance Corporation coverage significantly declined due to the opt-out provisions in the Transaction Account Guarantee Program.

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

Investments - Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the consolidated balance sheet. Investment income or loss, including realized and unrealized gains and losses on investments, interest, and dividends, is included in nonoperating income unless the income or loss is restricted by donor or law.

Substantially all of the Organization's investment portfolio is comprised of trading securities, with unrealized gains and losses included in excess of revenue over (under) expenses.

Investments - Equity Method - Investments in companies in which the Hospital has a 20 percent to 50 percent interest are carried at cost, adjusted for the Hospital's proportionate share of its undistributed earnings or losses.

Assets Limited as to Use - Assets limited as to use include assets designated by the board of directors for future capital improvement, over which the board retains control, and may, at its discretion, subsequently use for other purposes and assets held by trustee under bond indentures and other arrangements.

Risks and Uncertainties - The Organization 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 consolidated balance sheet.

Property and Equipment - Property and equipment acquisitions are recorded at cost. Donated property and equipment are recorded at the estimated fair market value at the time of donation. Depreciation is computed on the straight-line basis over the estimated useful lives of the assets. Costs of maintenance and repairs are charged to expense when incurred.

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

Contributions - The Organization 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 consolidated statement of changes in net assets as net assets released from restriction. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying consolidated financial statements.

The Organization reports gifts of property and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. 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, the Organization reports the expiration of donor restrictions when the assets are placed in service.

Bond Issuance Costs - Bond issuance costs were incurred by the Hospital in connection with obtaining the Series 2006 bonds. These costs are amortized over the term of the related debt.

Professional and Other Liability Insurance - The Organization accrues an estimate of the ultimate expense, including litigation and settlement expense, for incidents of potential improper professional services and other liability claims occurring during the year as well as for those claims that have not been reported at year end (see Note 9).

Interest Rate Swap - The Hospital entered into an interest rate swap transaction 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 income from operations and are presented as part of interest expense in the consolidated 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 income from operations.

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

Net Patient Service Revenue - The Organization has agreements with third-party payors that provide for payments to the Organization at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactively calculated adjustments arising under reimbursement agreements with third-party payors 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. Final determination of compliance with such laws and regulations is subject to future government review and interpretation. Violations may result in significant regulatory action including fines, penalties, and exclusions from the Medicare and Medicaid programs.

Excess of Revenue Over Expenses - The consolidated statement of operations includes excess of revenue over expenses. Changes in unrestricted net assets, which are excluded from excess of revenue over expenses, consistent with industry practice, include permanent transfers of assets to and from affiliates for other than 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 established rates. Because the Organization does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. Charity care totaled approximately $900,000 and $1,252,000 for the years ended June 30, 2010 and 2009, respectively.

Tax Status - The Organization is a nonprofit organization under Section 501(c)(3) of the Internal Revenue Code and is not subject to income tax. CCA is the only entity subject to income taxes; therefore, any tax provisions reflected in the consolidated financial statements are associated with this company.

Subsequent Events - The consolidated financial statements and related disclosures include evaluation of events up through and including November 10, 2010, which is the date the consolidated financial statements were available to be issued.

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

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. The interest rate swap is recorded at fair value on the Hospital's consolidated balance sheet.

Note 2 - Accounts Receivable

The details of patient accounts receivable are set forth below:

	2010	2009
Patient accounts receivable	$ 13,276,178	$ 13,003,185
Less:		
Allowance for uncollectible accounts	(1,493,977)	(1,325,127)
Allowance for contractual adjustments	(4,854,539)	(5,876,395)
Net patient accounts receivable	6,927,662	5,801,663
Other	1,045,086	911,492
Total accounts receivable	$ 7,972,748	$ 6,713,155

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 adjusted for economic conditions and other trends affecting the Hospital's ability to collect outstanding amounts. Uncollectible amounts are written off against the allowance for uncollectible accounts in the period they are deemed to be uncollectible. The allowance for contractual adjustments and interim payment advances is based on expected payment rates from payors based on current reimbursement methodologies. This amount also included amounts received as interim payments against unpaid claims by certain payors.

Note 2 - Accounts Receivable (Continued)

The Hospital grants 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 was as follows:

	Percentage	
	2010	2009
Medicare	20	20
Blue Cross/Blue Shield of Michigan	12	20
Medicaid	13	17
Commercial insurance and HMOs	33	15
Self-pay	22	28
Total	100	100

Note 3 - Cost Report Settlements

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Approximately 76.9 percent of the Hospital's net patient service revenue is received from the Medicare, Medicaid, and Blue Cross/Blue Shield of Michigan programs. A summary of the basis of reimbursement is as follows:

- **Medicare** - Inpatient, acute-care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system based on clinical, diagnostic, and other factors. Most outpatient services, including ambulatory surgery, outpatient radiology, and other diagnostic-related services, are reimbursed on a prospectively determined ambulatory payment classification system. Physical therapy, outpatient laboratory, and physician services are reimbursed on a fee-for-service methodology.

- **Medicaid** - Inpatient, acute-care services rendered to Medicaid program beneficiaries are also paid at prospectively determined rates per discharge. 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. Long-term care services are reimbursed at established per diem rates plus the cost for allowable ancillary services.

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

Note 3 - Cost Report Settlements (Continued)

Cost report settlements result from the adjustment of interim payments to final reimbursement under these programs that are subject to audit by fiscal intermediaries. Although these audits may result in some changes in these amounts, they are not expected to have a material effect on the accompanying consolidated financial statements.

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 began for Michigan hospitals in 2009. The Hospital has been selected for audit, but is unable to determine the extent of liability for overpayments, if any.

Note 4 - Fair Value

Accounting standards require certain assets and liabilities be reported at fair value in the financial statements and provide a framework for measuring 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 Organization 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 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 Organization's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

Note 4 - Fair Value (Continued)

Assets and Liabilities Measured at Fair Value on a Recurring Basis at June 30, 2010

	Balance at June 30, 2010	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Cash and cash equivalents	$ 3,711,639	$ 3,711,639	$ -	$ -
Mutual funds	916,309	916,309	-	-
U.S. government securities	226,859	-	226,859	-
Investment certificates	1,153,880	1,153,880	-	-
Corporate bonds	3,172,298	-	3,172,298	-
Common stocks	4,303,487	4,303,487	-	-
Mortgage- and asset-backed securities	866,501	-	866,501	-
Other	118,179	-	118,179	-
Assets Limited as to Use	$ 14,469,152	$ 10,085,315	$ 4,384,837	$ -
Liabilities - Interest rate swap	$ 2,598,082	$ -	$ 2,598,082	$ -

Assets and Liabilities Measured at Fair Value on a Recurring Basis at June 30, 2009

	Balance at June 30, 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Cash and cash equivalents	$ 3,024,828	$ 3,024,828	$ -	$ -
Mutual funds	771,833	771,833	-	-
U.S. government securities	1,004,097	-	1,004,097	-
Investment certificates	1,779,866	1,779,866	-	-
Corporate bonds	1,855,179	-	1,855,179	-
Common stocks	3,932,833	3,932,833	-	-
Mortgage- and asset-backed securities	574,284	-	574,284	-
Other	154,051	-	154,051	-
Assets Limited as to Use	$ 13,096,971	$ 9,509,360	$ 3,587,611	$ -
Liabilities - Interest rate swap	$ 1,778,553	$ -	$ 1,778,553	$ -

Note 5 - Assets Limited as to Use

The composition of assets limited as to use at June 30, 2010 and 2009 is set forth in the following tables. Investments are stated at fair value.

	2010	2009
Purpose:		
Designated by Hospital board of directors for future use and capital improvements	$ 10,370,623	$ 9,840,469
Mortgage reserve fund - Bonds (Note 7)	2,446,481	1,621,757
Designated by the Foundation board of directors for benefit of the Hospital and its affiliates	1,560,586	1,501,685
Other	91,462	133,060
Total assets limited as to use	$ 14,469,152	$ 13,096,971

Assets limited as to use are comprised of the following:

	2010	2009
Cash and cash equivalents	$ 3,711,639	$ 3,024,828
Mutual funds	916,309	771,833
U.S. government securities	226,859	1,004,097
Investment certificates	1,153,880	1,779,866
Corporate bonds	3,172,298	1,855,179
Common stocks	4,303,487	3,932,833
Other	984,680	728,335
Total	$ 14,469,152	$ 13,096,971

Investment income and realized and unrealized gains (losses) included in increase in unrestricted net assets are comprised of the following for the years ended June 30, 2010 and 2009:

	2010	2009
Income (expense):		
Interest and dividend income	$ 711,688	$ 784,998
Realized gains (losses) on investments	2,539,942	(320,823)
Change in unrealized gains (losses) on investments	452,664	(545,212)
Total	$ 3,704,294	$ (81,037)

Interest and dividend income includes amounts for dividends from Upper Peninsula Health Plan, Inc., which were $346,465 and $180,047 for 2010 and 2009, respectively.

Note 5 - Assets Limited as to Use (Continued)

During the fiscal year ended June 30, 2010, the Hospoital recognized a gain of $2,544,298 on the sale of FinCor Holdings, Inc. (FinCor) stock pursuant to the acquisition of FinCor by Medical Professional Mutual Insurance Company. This gain is included in the realized gain (loss) on sale of investments amount above.

Note 6 - Property and Equipment

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

	2010	2009	Depreciable Life - Years
Land	$ 176,339	$ 176,339	-
Land improvements	1,320,954	1,320,954	10-15
Buildings	53,828,642	51,971,977	7-40
Equipment	27,152,364	26,155,503	3-10
Construction in progress	768,461	881,922	-
Total cost	83,246,760	80,506,695	
Accumulated depreciation	(40,864,277)	(36,464,389)	
Net property and equipment	$ 42,382,483	$ 44,042,306	

Construction in progress at year end is comprised of various renovation and remodeling projects to be financed from operations.

Note 7 - Long-term Debt

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

	2010	2009
Variable rate demand revenue refunding bonds, Series 2006	$ 24,234,900	$ 25,555,000
Less current portion	1,365,000	1,320,000
Long-term portion	$ 22,869,900	$ 24,235,000

Variable Rate Demand Revenue Refunding Bonds - Series 2006 were issued on December 20, 2006 and consist of City of Hancock Hospital Finance Authority Variable Rate Demand Revenue Refunding Bonds. The bonds mature on August 1, 2026 and have a variable interest rate established on a weekly basis. The effective interest rate as of June 30, 2010 and 2009 was 0.24 percent and 0.22 percent, respectively.

Note 7 - Long-term Debt (Continued)

The bonds are secured by an irrevocable direct-pay letter of credit which expires on December 1, 2011. The bonds are subject to mandatory redemption upon the expiration or termination of the letter of credit unless the existing letter of credit has been extended or an alternate letter of credit has been issued. The letter of credit is secured by gross revenue of the Hospital.

Beginning August 1, 2007, the bonds require annual payments (funded monthly into an escrow account, the Mortgage Reserve Fund - see Note 5) ranging from $585,000 to $2,190,000 through August 1, 2026.

The bonds are remarketed on a weekly basis. Should the remarketing agent be unable to remarket the bonds based on its best efforts, these bonds would be "put" back to the bond trustee, who would draw down on the letter of credit to pay down the 2006 bonds. Under the terms of the reimbursement agreement, the Hospital may defer reimbursement of amounts advanced by the bank. Such reimbursement obligations would be considered a term loan with payment due upon expiration of the letter of credit or upon other conditions detailed in the reimbursement agreement.

In conjunction with the issuance of the irrevocable letter of credit and related agreement, the Hospital has agreed to certain quarterly and annual reporting requirements, certain financial covenants, and various other operational covenants, including restrictions on transfers of assets and additional indebtedness.

In addition, to manage the economic risks associated with fluctuations in interest rates, the Hospital has entered into an interest rate swap agreement to reduce the impact of changes in the interest rate on the Series 2006 bonds. At June 30, 2010 and 2009, the notional principal amount of the Hospital's portion of the outstanding interest rate swap was $24,234,900 and $25,555,000, respectively, which matures August 1, 2026. Under the terms of the agreement, the Hospital pays the counterparty a fixed rate of 3.438 percent.

Standards require all derivative instruments, such as interest rate swaps, to be recorded on the consolidated balance sheet at estimated fair value. The fair value of the interest rate swap as of June 30, 2010 and 2009 was a liability in the accompanying consolidated balance sheet of $2,598,082 and $1,778,553, respectively. Management has recorded the change in the liability as other expense in the consolidated statement of operations.

Note 7 - Long-term Debt (Continued)

Minimum principal payments on long-term debt to maturity as of June 30, 2010 are as follows:

2011		$ 1,365,000
2012		1,410,000
2013		1,170,000
2014		1,215,000
2015		1,250,000
Thereafter		17,824,900
	Total	$ 24,234,900

Note 8 - Pension Plan

The Organization entered into a defined contribution noncontributory pension plan effective January 1, 2007. The plan covers substantially all employees of the Organization who meet the minimum service and age requirements. The plan calls for a base contribution of 5 percent of eligible employee wages and an employer-matching contribution equal to $.50 for every dollar contributed by employees up to a maximum of 2 percent of eligible compensation. Certain union employees who meet the minimum service and age requirements continue to be covered under the prior defined contribution pension plan. Contributions to this plan are made based on employee earnings of 4 percent up to $24,000 and 8 percent for amounts over $24,000. Pension expense included in the consolidated statement of operations was $1,857,293 and $1,869,009 in 2010 and 2009, respectively.

As of July 1, 2008, the Organization terminated the 403(b) Annuity Program for employees who are not represented by the Michigan Nurses Association. All accounts maintained under this plan were distributed in accordance with the participants' written elections.

As of November 9, 2008, the Organization terminated the 403(b) Annuity Program for employees who are represented by the Michigan Nurses Association. All accounts maintained under this plan were distributed in accordance with the participants' written elections.

Note 9 - Professional Liability Self-insurance

The Hospital is insured against 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 must pay a deductible toward the costs of litigating or settling any asserted claims. The Hospital has accrued $150,000 for this contingency at June 30, 2010 and 2009. In addition, the Hospital bears the risk of the ultimate costs exceeding the policy limits of $2,000,000 for individual claims and $6,000,000 for total claims asserted in the policy year.

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 10 - Cash Flows

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

	2010	2009
Increase in net assets	$ 4,684,211	$ 698,629
Adjustments to reconcile increase in net assets to net cash from operating activities:		
Depreciation and amortization	4,578,195	4,427,989
Provision for doubtful accounts	1,257,529	1,143,937
Loss on sale of property and equipment	1,605	26,968
Change in fair value of interest rate swap	819,529	1,267,968
Net realized and unrealized (gain) loss on investments	(2,992,606)	866,035
Loss attributable to joint ventures	239,598	188,721
(Increase) decrease in assets:		
Accounts receivable	(2,713,785)	805,468
Prepaid expenses and other	(122,942)	111,862
Cost report settlements receivable	(419,523)	428,309
Increase in liabilities:		
Accounts payable	530,847	389,610
Accrued liabilities	136,224	162,593
Cost report settlements payable	131,906	879,078
Net cash provided by operating activities	$ 6,130,788	$ 11,397,167

Note 11 - Functional Expenses

The Organization provides inpatient, long-term care and outpatient healthcare services primarily to the citizens of the northwest region of Michigan's Upper Peninsula. Expenses related to providing these services for the years ended June 30, 2010 and 2009 are as follows:

	2010	2009
Healthcare services	$ 69,068,875	$ 65,838,791
General and administrative	13,179,333	12,429,891
Fundraising	156,662	99,815
Total	$ 82,404,870	$ 78,368,497

Note 12 - Investments in Joint Ventures

The Hospital has a 50 percent interest in both Mercy EMS, Inc. and Ontonagon Community Health Center, Inc. Mercy EMS, Inc. is an ambulance service providing transport and life support services to the surrounding areas. The Ontonagon Community Health Center provides medical diagnosis and treatment for patients in Ontonagon County. Transactions with the joint ventures were immaterial. Investment loss relating to the ambulance service was $52,597 and $71,201 during June 30, 2010 and 2009, respectively. Investment loss relating to the health center was $187,001 and $117,520 during June 30, 2010 and 2009, respectively. Both are reported as other expenses.

The Hospital has a 10 percent interest in Upper Peninsula Health Plan, Inc., with an investment carried at cost of $360,095. Transactions with the health plan were immaterial.

The following is a summary of financial position and results of operations of the joint ventures as of June 30, 2010 and 2009:

	2010	2009
Total assets	$ 46,221,057	$ 35,468,974
Total liabilities	17,507,065	13,426,840
Net assets	$ 28,713,992	$ 22,042,134
Increase in net assets	$ 3,299,591	$ 2,110,895

Note 13 - Union Contracts

As of June 30, 2010 and 2009, approximately 35 percent and 33 percent, respectively, of the Hospital's employees belong to one of two unions at the Hospital. The AFSCME union contract agreement expires on October 31, 2012 and the MNA union contract agreement expires on June 6, 2012.

Note 14 - Prior Period Adjustment

The consolidated accompanying financial statements for 2009 have been restated to correct an error related to understatement of the LIFO inventory reserve made in 2009 for Copper Country Apothecaries, Inc.

As a result of the prior period adjustment, net assets as of June 30, 2008 decreased from $47,099,109, as originally reported, to $46,902,438. Operating supplies and expenses for the year ended June 30, 2009 decreased from $17,353,417, as originally reported, to $17,333,616.

Additional Information

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To the Board of Directors
Portage Health and Subsidiaries

We have audited the consolidated financial statements of Portage Health and Subsidiaries as of June 30, 2010 and 2009. Our audits were made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. We did not audit the financial statements or additional information of Copper Country Apothecaries, Inc., Portage Health Resources, Inc., or Portage Health Home Services, Inc., wholly owned subsidiaries, for the years ended June 30, 2010 and 2009. Those statements were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for Copper Country Apothecaries, Inc., Portage Health Resources, Inc., and Portage Health Home Services, Inc., is based solely on the reports of the other auditors. The consolidating information and schedule of net patient service revenue are presented for the purpose of additional analysis of the consolidated financial statements rather than to present the financial position and results of operations of the individual entities or the details of the net service patient revenue. The accompanying additional information has been subjected to the procedures applied in the audits of the consolidated financial statements and, in our opinion, based on our audits and the reports of other auditors, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Plante & Moran, PLLC

November 10, 2010

Portage Health and Subsidiaries

Consolidating Balance Sheet
June 30, 2010
(with comparative totals as of June 30, 2009)

	Portage Health	Copper Country Apothecaries, Inc.	Portage Health Resources, Inc.	Portage Health Foundation	Portage Health Home Services, Inc.	Eliminating Entries	June 30, 2010 Consolidated	June 30, 2009 Consolidated (as restated)
Assets								
Current Assets								
Cash and cash equivalents	$ 15,033,735	$ 1,295,446	$ 246,158	$ 42,819	$ 348,235	$ -	$ 16,966,393	$ 13,434,031
Accounts receivable	7,206,382	638,670	9,745	-	164,888	(46,937)	7,972,748	6,713,155
Estimated third-party payor settlements	1,025,696	-	-	-	-	-	1,025,696	606,173
Prepaid expenses and other	1,581,337	588,571	565	-	-	-	2,170,473	2,047,531
Total current assets	24,847,150	2,522,687	256,468	42,819	513,123	(46,937)	28,135,310	22,800,890
Assets Limited as to Use	15,550,452	-	-	1,560,586	-	(2,641,886)	14,469,152	13,096,971
Property and Equipment - Net	42,358,250	24,233	-	-	-	-	42,382,483	44,042,306
Other Assets								
Investments in joint ventures	668,562	-	-	-	-	-	668,562	711,497
Bond issue costs	359,075	-	-	-	-	-	359,075	380,301
Total assets	$ 83,783,489	$ 2,546,920	$ 256,468	$ 1,603,405	$ 513,123	$ (2,688,823)	$ 86,014,582	$ 81,031,965
Liabilities and Net Assets								
Current Liabilities								
Current portion of long-term debt	$ 1,365,000	$ -	$ -	$ -	$ -	$ -	$ 1,365,000	$ 1,320,000
Accounts payable	2,279,633	311,021	2,687	-	12,358	-	2,605,699	2,074,852
Estimated third-party payor settlements	1,010,984	-	-	-	-	-	1,010,984	879,078
Accrued liabilities and other	3,223,764	14,995	5,239	-	73,951	(38,310)	3,279,639	3,143,415
Total current liabilities	7,879,381	326,016	7,926	-	86,309	(38,310)	8,261,322	7,417,345
Long-term Debt - Net of current portion	22,869,900	-	-	-	-	-	22,869,900	24,235,000
Fair Value of Interest Rate Swap Agreement	2,598,082	-	-	-	-	-	2,598,082	1,778,553
Total liabilities	33,347,363	326,016	7,926	-	86,309	(38,310)	33,729,304	33,430,898
Stockholders' Equity	-	2,220,904	-	-	-	(2,220,904)	-	-
Net Assets - Unrestricted	50,436,126	-	248,542	1,603,405	426,814	(429,609)	52,285,278	47,601,067
Total liabilities and net assets	$ 83,783,489	$ 2,546,920	$ 256,468	$ 1,603,405	$ 513,123	$ (2,688,823)	$ 86,014,582	$ 81,031,965

Portage Health and Subsidiaries

Consolidating Statement of Operations
Year Ended June 30, 2010
(with comparative totals for the year ended June 30, 2009)

	Portage Health	Copper Country Apothecaries, Inc.	Portage Health Resources, Inc.	Portage Health Foundation	Portage Health Home Services, Inc.	Eliminating Entries	June 30, 2010 Consolidated	June 30, 2009 Consolidated (as restated)
Unrestricted Revenue, Gains, and Other Support								
Total patient service revenue	$ 113,690,159	$ -	$ -	$ -	$ 1,104,949	$ -	$ 114,795,108	$ 108,595,803
Revenue deductions	(41,336,788)	-	-	-	-	-	(41,336,788)	(38,467,679)
Net patient service revenue	72,353,371	-	-	-	1,104,949	-	73,458,320	70,128,124
Apothecary retail pharmacy revenue	-	9,242,514	-	-	-	(257,239)	8,985,275	8,484,350
Other	2,965,851	-	581,302	-	-	(1,566,653)	1,980,500	1,835,247
Total unrestricted revenue, gains, and other support	75,319,222	9,242,514	581,302	-	1,104,949	(1,823,892)	84,424,095	80,447,721
Expenses								
Salaries and wages	32,843,210	-	166,782	-	703,035	-	33,713,027	32,415,343
Employee benefits and payroll taxes	10,519,794	-	-	-	102,492	(257,239)	10,365,047	9,246,889
Operating supplies and expenses	10,644,812	7,126,675	203,015	-	12,005	-	17,986,507	17,333,616
Professional services and consultant fees	472,102	-	-	-	-	-	472,102	541,443
Purchased services	7,080,343	1,617,592	136,226	-	66,505	(1,660,310)	7,240,356	6,578,003
Insurance	764,832	-	-	-	6,026	-	770,858	929,043
Utilities	1,321,900	6,218	-	-	10,939	-	1,339,057	1,245,705
Depreciation	4,547,496	7,241	-	2,232	-	-	4,556,969	4,406,763
Provision for bad debts	1,257,529	-	-	-	-	-	1,257,529	1,143,937
Interest expense	1,055,379	-	-	-	-	-	1,055,379	1,248,133
Other	3,296,539	75,922	67,157	128,616	62,715	17,090	3,648,039	3,279,622
Total expenses	73,803,936	8,833,648	573,180	130,848	963,717	(1,900,459)	82,404,870	78,368,497
Operating Income (Loss)	1,515,286	408,866	8,122	(130,848)	141,232	76,567	2,019,225	2,079,224
Other Income (Expense)	3,144,304	(97,336)	-	188,452	-	(570,434)	2,664,986	(1,380,595)
Increase in Unrestricted Net Assets	**$ 4,659,590**	**$ 311,530**	**$ 8,122**	**$ 57,604**	**$ 141,232**	**$ (493,867)**	**$ 4,684,211**	**$ 698,629**

Portage Health and Subsidiaries

Schedule of Net Patient Service Revenue

	Year Ended June 30	
	2010	2009
Patient service revenue:		
Inpatient services:		
Routine services	$ 12,294,809	$ 11,710,088
Ancillary services	18,612,940	16,801,481
Outpatient ancillary services	83,887,359	80,084,234
Total patient service revenue	114,795,108	108,595,803
Revenue deductions:		
Medicare	18,449,444	16,817,905
Medicaid	5,307,127	4,704,288
Blue Cross/Blue Shield of Michigan	4,670,921	5,021,108
Other	12,013,110	10,672,861
Charity care	896,186	1,251,517
Total revenue deductions	41,336,788	38,467,679
Total net patient service revenue	**$ 73,458,320**	**$ 70,128,124**

Portage Health and Subsidiaries

Consolidated Financial Report with Additional Information June 30, 2011

Portage Health and Subsidiaries

Contents

Independent Auditor's Report

To the Board of Directors
Portage Health and Subsidiaries

We have audited the accompanying consolidated balance sheet of Portage Health and Subsidiaries (the "Organization") as of June 30, 2011 and 2010 and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of wholly owned subsidiaries, Copper Country Apothecaries, Inc., Portage Health Resources, Inc., and Portage Health Home Services, Inc., whose statements reflect total assets of $3,128,070 and $3,316,511 and total revenue of $10,387,832 and $10,928,765 as of and for the years ended June 30, 2011 and 2010, respectively. Those statements were audited by other auditors whose reports have been furnished to us and our opinion, insofar as it relates to the amounts included for Copper Country Apothecaries, Inc., Portage Health Resources, Inc., and Portage Health Home Services, Inc., is based solely on the reports of the other auditors.

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

In our opinion, based on our audits and the reports of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Portage Health and Subsidiaries at June 30, 2011 and 2010 and the results of their operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

October 20, 2011

Portage Health and Subsidiaries

Consolidated Balance Sheet

	June 30, 2011	June 30, 2010
Assets		
Current Assets		
Cash and cash equivalents	$ 12,989,035	$ 16,966,393
Accounts receivable (Note 2)	8,409,751	7,972,748
Estimated third-party payor settlements (Note 3)	880,125	1,025,696
Prepaid expenses and other	1,731,110	2,170,473
Total current assets	24,010,021	28,135,310
Assets Limited as to Use (Note 5)	29,718,651	14,469,152
Property and Equipment - Net (Note 6)	41,105,771	42,382,483
Other Assets		
Investments in joint ventures (Note 12)	669,668	668,562
Bond issue costs	433,363	359,075
Total assets	**$ 95,937,474**	**$ 86,014,582**
Liabilities and Net Assets		
Current Liabilities		
Current portion of long-term debt (Note 7)	$ 1,540,000	$ 1,365,000
Accounts payable	2,459,540	2,605,699
Estimated third-party payor settlements (Note 3)	1,404,228	1,010,984
Accrued liabilities and other	2,954,922	3,279,639
Total current liabilities	8,358,690	8,261,322
Long-term Debt - Net of current portion (Note 7)	25,329,900	22,869,900
Fair Value of Interest Rate Swap Agreement (Note 7)	2,263,565	2,598,082
Total liabilities	35,952,155	33,729,304
Net Assets - Unrestricted	59,985,319	52,285,278
Total liabilities and net assets	**$ 95,937,474**	**$ 86,014,582**

Portage Health and Subsidiaries

Consolidated Statement of Operations

	Year Ended June 30, 2011	Year Ended June 30, 2010
Unrestricted Revenue, Gains, and Other Support		
Net patient service revenue	$ 71,941,040	$ 73,458,320
Apothecary retail pharmacy revenue	8,452,221	8,985,275
Other	1,936,103	1,980,500
Total unrestricted revenue, gains, and other support	82,329,364	84,424,095
Expenses		
Salaries and wages	34,757,720	33,713,027
Employee benefits and payroll taxes	9,024,760	10,365,047
Operating supplies and expenses	16,531,422	17,986,507
Professional services and consultant fees	390,729	472,102
Purchased services	6,745,161	7,240,356
Insurance	516,487	770,858
Utilities	1,299,818	1,339,057
Depreciation	4,281,298	4,556,969
Provision for bad debts	1,195,555	1,257,529
Interest expense	1,222,794	1,055,379
Other	3,494,278	3,648,039
Total expenses (Note 11)	79,460,022	82,404,870
Operating Income	2,869,342	2,019,225
Other Income (Expenses)		
Interest income (Note 5)	2,299,783	711,688
Equity in losses of unconsolidated investees (Note 12)	(234,449)	(239,598)
Realized gain on sale of investments (Note 5)	810,343	2,539,942
Other expense	(26,663)	(30,020)
Change in unrealized investment gain (Note 5)	1,626,564	452,664
Change in fair value of interest swap agreements (Note 7)	334,517	(819,529)
Rent income	182,598	180,948
Other expense	(161,994)	(131,109)
Total other income	4,830,699	2,664,986
Excess of Revenue Over Expenses	**$ 7,700,041**	**$ 4,684,211**

Portage Health and Subsidiaries

Consolidated Statement of Changes in Net Assets

	Year Ended June 30, 2011	Year Ended June 30, 2010
Net Assets - Beginning of year	$ 52,285,278	$ 47,601,067
Excess of Revenue Over Expenses	7,700,041	4,684,211
Net Assets - End of year	**$ 59,985,319**	**$ 52,285,278**

Consolidated Statement of Cash Flows

	Year Ended June 30, 2011	Year Ended June 30, 2010
Cash Flows from Operating Activities		
Cash received from patients and third-party payors	$ 73,238,407	$ 73,168,639
Cash paid to suppliers and employees	(75,182,998)	(77,505,922)
Interest and dividends received	2,299,783	711,688
Interest paid	(1,196,541)	(1,034,153)
Other receipts from operations	10,188,954	10,790,536
Net cash provided by operating activities (Note 10)	9,347,605	6,130,788
Cash Flows from Investing Activities		
Purchase of property and equipment	(3,084,279)	(2,898,751)
Proceeds from sale of property and equipment	37,449	-
Purchase of investments	(23,064,220)	(2,320,893)
Proceeds from sales and maturities of investments	10,251,628	3,941,318
Net cash used in investing activities	(15,859,422)	(1,278,326)
Cash Flows from Financing Activities		
Proceeds from issuance of debt obligations	4,000,000	-
Principal payments on debt obligations	(1,365,000)	(1,320,100)
Payment of bond issue costs	(100,541)	-
Net cash provided by (used in) financing activities	2,534,459	(1,320,100)
Net (Decrease) Increase in Cash and Cash Equivalents	(3,977,358)	3,532,362
Cash and Cash Equivalents - Beginning of year	16,966,393	13,434,031
Cash and Cash Equivalents - End of year	**$ 12,989,035**	**$ 16,966,393**

Note 1 - Nature of Business and Significant Accounting Policies

Reporting Entity - Portage Health (the "Hospital") and Subsidiaries (together, the "Organization") provides inpatient, outpatient, and long-term care services primarily to the citizens of the northwest region of Michigan's Upper Peninsula. Admitting physicians are primarily practitioners in the local area. The Hospital is responsible for the overall direction of its subsidiaries. Each subsidiary operates independently with its own board of directors and management. Each of the subsidiaries is described below:

- Copper Country Apothecaries, Inc. (CCA), a Michigan for-profit corporation, operates a retail pharmacy for the sale of pharmaceuticals to residents of the surrounding area.
- Portage Health Resources, Inc. (PHR), a Michigan not-for-profit corporation, distributes a variety of meals to homebound residents in the local area.
- Portage Health Foundation (the "Foundation"), a Michigan not-for-profit corporation, was organized to provide fundraising activities for the benefit of Portage Health.
- Portage Health Home Services, Inc. (Home Services), a Michigan not-for-profit corporation, provides private-duty care to residents of the surrounding area.

Principles of Consolidation - The accompanying consolidated financial statements include the accounts of Portage Health and its subsidiaries. Intercompany transactions and balances have been eliminated in consolidation.

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

Cash and Cash Equivalents - Cash and cash equivalents include cash and investments in highly liquid investments purchased with an original maturity of three months or less, excluding those amounts included in assets limited as to use.

The Hospital and its subsidiaries maintain cash and investment balances at several financial institutions located in northern Michigan. At June 30, 2011 and 2010, accounts at each institution are insured by the Federal Deposit Insurance Corporation up to $250,000 or 100 percent for qualifying institutions. As of June 30, 2011 and 2010, the uninsured cash balance was $376,498 and $1,526,559, respectively.

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

Investments - Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the consolidated balance sheet. Investment income or loss, including realized and unrealized gains and losses on investments, interest, and dividends, is included in nonoperating income unless the income or loss is restricted by donor or law.

Substantially all of the Organization's investment portfolio is comprised of trading securities, with unrealized gains and losses included in excess of revenue over (under) expenses.

Investments - Equity Method - Investments in companies in which the Hospital has a 20 percent to 50 percent interest are carried at cost, adjusted for the Hospital's proportionate share of its undistributed earnings or losses.

Assets Limited as to Use - Assets limited as to use include assets designated by the board of directors for future capital improvement, over which the board retains control, and may, at its discretion, subsequently use for other purposes and assets held by trustee under bond indentures and other arrangements.

Risks and Uncertainties - The Organization 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 consolidated balance sheet.

Property and Equipment - Property and equipment acquisitions are recorded at cost. Donated property and equipment are recorded at the estimated fair market value at the time of donation. Depreciation is computed on the straight-line basis over the estimated useful lives of the assets. Costs of maintenance and repairs are charged to expense when incurred.

Contributions - The Organization 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 consolidated statement of changes in net assets as net assets released from restriction. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying consolidated financial statements.

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

The Organization reports gifts of property and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. 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, the Organization reports the expiration of donor restrictions when the assets are placed in service.

Bond Issuance Costs - Bond issuance costs were incurred by the Hospital in connection with obtaining the Series 2010 and Series 2006 bonds. These costs are amortized over the term of the related debt.

Professional and Other Liability Insurance - The Organization accrues an estimate of the ultimate expense, including litigation and settlement expense, for incidents of potential improper professional services and other liability claims occurring during the year as well as for those claims that have not been reported at year end (see Note 9).

Interest Rate Swap - The Hospital entered into an interest rate swap transaction 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 income from operations and are presented as part of interest expense in the consolidated 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 income from operations.

Net Patient Service Revenue - The Organization has agreements with third-party payors that provide for payments to the Organization at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactively calculated adjustments arising under reimbursement agreements with third-party payors 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. Final determination of compliance with such laws and regulations is subject to future government review and interpretation. Violations may result in significant regulatory action including fines, penalties, and exclusions from the Medicare and Medicaid programs.

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

Excess of Revenue Over Expenses - The consolidated statement of operations includes excess of revenue over expenses. Changes in unrestricted net assets, which are excluded from excess of revenue over expenses, consistent with industry practice, include permanent transfers of assets to and from affiliates for other than 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 established rates. Because the Organization does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. Charity care totaled approximately $1,000,000 and $900,000 for the years ended June 30, 2011 and 2010, respectively.

Tax Status - The Organization is a nonprofit organization under Section 501(c)(3) of the Internal Revenue Code and is not subject to income tax. CCA is the only entity subject to income taxes; therefore, any tax provisions reflected in the consolidated financial statements are associated with this company. The Organization is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Management believes it is no longer subject to income tax examiniations for years prior to June 30, 2007.

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. The interest rate swap is recorded at fair value on the Hospital's consolidated balance sheet.

Subsequent Events - The consolidated financial statements and related disclosures include evaluation of events up through and including October 20, 2011, which is the date the consolidated financial statements were available to be issued.

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

New Accounting Pronouncements

Revenue Recognition - During 2011, the Financial Accounting Standards Board (FASB) adopted Accounting Standards Update (ASU) *2011 07 Health Care Entities (Topic 954) Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities*, establishing accounting and disclosures for healthcare entities that recognize significant amounts of patient service revenue at the time services are rendered even though the entities do not assess a patient's ability to pay The amendments in the ASU change the presentation of the statement of operations and add new disclosures that are not required under current GAAP for entities within the scope of this update. The provision for bad debts associated with patient service revenue for certain entities is required to be presented on a separate line as a deduction from patient service revenue (net of contractual allowances and discounts) in the consolidated statement of operations. The ASU is effective for the Organization for the year ending June 30, 2012.

Healthcare Claims and Charity Care - During 2010, the Financial Accounting Standards Board (FASB) adopted new accounting guidance that will impact how healthcare organizations account for claims liabilities and charity care. The new guidance requires that the accrued liability for malpractice claims and similar liabilities and the related insurance recovery receivable be presented separately on the consolidated balance sheet on a gross basis. Prior guidance allowed the liability to be reported net of the estimated insurance recovery receivable. This new standard will be effective for the first annual period beginning after December 15, 2010 and interim periods within that first annual period.

New guidance has also been adopted on how to measure the amount of charity care provided to patients. The new guidance requires that cost be used as the measurement basis for charity care disclosure purposes and that the cost be identified as the direct and indirect costs of providing the charity care. No other measurement basis should be used. Prior guidance did not dictate how charity care should be measured. This new standard will be effective for the first annual period beginning after December 15, 2010 and should be applied retrospectively to all prior periods presented.

The Organization is currently assessing the impact these new standards will have on its consolidated financial statements and will implement them for the year ending June 30, 2012.

Note 2 - Accounts Receivable

The details of patient accounts receivable are set forth below:

	2011	2010
Patient accounts receivable	$ 13,156,243	$ 13,276,178
Less:		
Allowance for uncollectible accounts	(1,190,037)	(1,493,977)
Allowance for contractual adjustments	(4,405,825)	(4,854,539)
Net patient accounts receivable	7,560,381	6,927,662
Other	849,370	1,045,086
Total accounts receivable	$ 8,409,751	$ 7,972,748

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 adjusted for economic conditions and other trends affecting the Hospital's ability to collect outstanding amounts. Uncollectible amounts are written off against the allowance for uncollectible accounts in the period they are deemed to be uncollectible. The allowance for contractual adjustments and interim payment advances is based on expected payment rates from payors based on current reimbursement methodologies. This amount also included amounts received as interim payments against unpaid claims by certain payors.

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

	Percentage	
	2011	2010
Medicare	25	20
Blue Cross/Blue Shield of Michigan	19	12
Medicaid	15	13
Commercial insurance and HMOs	30	33
Self-pay	11	22
Total	100	100

Note 3 - Cost Report Settlements

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Approximately 76.9 percent of the Hospital's net patient service revenue is received from the Medicare, Medicaid, and Blue Cross/Blue Shield of Michigan programs. A summary of the basis of reimbursement is as follows:

- **Medicare** - Inpatient, acute-care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system based on clinical, diagnostic, and other factors. Most outpatient services, including ambulatory surgery, outpatient radiology, and other diagnostic-related services, are reimbursed on a prospectively determined ambulatory payment classification system. Physical therapy, outpatient laboratory, and physician services are reimbursed on a fee-for-service methodology.

- **Medicaid** - Inpatient, acute-care services rendered to Medicaid program beneficiaries are also paid at prospectively determined rates per discharge. 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. Long-term care services are reimbursed at established per diem rates plus the cost for allowable ancillary services.

- **Blue Cross/Blue Shield of Michigan** - Services rendered to Blue Cross/Blue Shield of Michigan subscribers are reimbursed as a percent 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 these programs that are subject to audit by fiscal intermediaries. Although these audits may result in some changes in these amounts, they are not expected to have a material effect on the accompanying consolidated financial statements.

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 began for Michigan hospitals in 2009 and as of June 30, 2011, the Hospital has no open audits related to this area.

Note 4 - Fair Value

Accounting standards require certain assets and liabilities be reported at fair value in the financial statements and provide a framework for measuring 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 Organization 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 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 Organization's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

Note 4 - Fair Value (Continued)

Assets and Liabilities Measured at Fair Value on a Recurring Basis at June 30, 2011

	Balance at June 30, 2011	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Mutual funds:				
Fixed-income investments	$ 4,405,859	$ 4,405,859	$ -	$ -
Equity investments	3,005,273	3,005,273	-	-
U.S. government securities	1,004,240	-	1,004,240	-
Investment certificates	1,591,727	1,591,727	-	-
Corporate bonds	1,695,407	-	1,695,407	-
Common stocks:				
Information technology	2,001,490	2,001,490	-	-
Financial	1,719,449	1,719,449	-	-
Health care	1,574,781	1,574,781	-	-
Industrials	1,370,124	1,370,124	-	-
Energy	1,298,156	1,298,156	-	-
Consumer staples	1,210,126	1,210,126	-	-
Consumer discretionary	1,188,886	1,188,886	-	-
Other	2,375,804	2,375,804	-	-
Mortgage- and asset-backed securities	453,404	-	453,404	-
Other	136,626	-	136,626	-
Total assets	$ 25,031,352	$ 21,741,675	$ 3,289,677	$ -
Liabilities - Interest rate swap	$ 2,263,565	$ -	$ 2,263,565	$ -

Assets and Liabilities Measured at Fair Value on a Recurring Basis at June 30, 2010

	Balance at June 30, 2010	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Mutual funds	$ 916,309	$ 916,309	$ -	$ -
U.S. government securities	226,859	-	226,859	-
Investment certificates	1,153,880	1,153,880	-	-
Corporate bonds	3,172,298	-	3,172,298	-
Common stocks	4,303,487	4,303,487	-	-
Mortgage- and asset-backed securities	866,501	-	866,501	-
Other	118,179	-	118,179	-
Total assets	$ 10,757,513	$ 6,373,676	$ 4,383,837	$ -
Liabilities - Interest rate swap	$ 2,598,082	$ -	$ 2,598,082	$ -

Note 5 - Assets Limited as to Use

The composition of assets limited as to use at June 30, 2011 and 2010 is set forth in the following tables. Investments are stated at fair value.

	2011	2010
Purpose:		
Designated by the Hospital board of directors for future use and capital improvements	$ 24,775,941	$ 10,370,623
Mortgage Reserve Fund - Bonds (Note 7)	3,074,611	2,446,481
Designated by the Foundation board of directors for benefit of the Hospital and its affiliates	1,773,349	1,560,586
Other	94,750	91,462
Total assets limited as to use	$ 29,718,651	$ 14,469,152

Assets limited as to use are comprised of the following:

	2011	2010
Cash and cash equivalents	$ 4,687,299	$ 3,711,639
Mutual funds	7,411,132	916,309
U.S. government securities	1,004,240	226,859
Investment certificates	1,591,727	1,153,880
Corporate bonds	1,695,407	3,172,298
Common stocks	12,738,816	4,303,487
Other	590,030	984,680
Total	$ 29,718,651	$ 14,469,152

Investment income and realized and unrealized gains included in increase in unrestricted net assets are comprised of the following for the years ended June 30, 2011 and 2010:

	2011	2010
Income:		
Interest and dividend income	$ 2,299,783	$ 711,688
Realized gains on investments	810,343	2,539,942
Change in unrealized gains on investments	1,626,564	452,664
Total	$ 4,736,690	$ 3,704,294

Interest and dividend income includes amounts for dividends from Upper Peninsula Health Plan, Inc., which were $1,553,052 and $346,465 for 2011 and 2010, respectively.

Note 5 - Assets Limited as to Use (Continued)

During the fiscal year ended June 30, 2010, the Hospital recognized a gain of $2,544,298 on the sale of FinCor Holdings, Inc. (FinCor) stock pursuant to the acquisition of FinCor by Medical Professional Mutual Insurance Company. This gain is included in the realized gain on sale of investments amount above.

Note 6 - Property and Equipment

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

	2011	2010	Depreciable Life - Years
Land	$ 176,339	$ 176,339	-
Land improvements	1,329,074	1,320,954	10-15
Buildings	54,440,130	53,828,642	7-40
Equipment	29,456,345	27,152,364	3-10
Construction in progress	310,654	768,461	-
Total cost	85,712,542	83,246,760	
Accumulated depreciation	(44,606,771)	(40,864,277)	
Net property and equipment	$ 41,105,771	$ 42,382,483	

Construction in progress at year end is comprised of a clinic expansion financed by the Series 2010 bonds (see Note 7). The Hospital has commitments remaining at June 30, 2011 of approximately $3,400,000 related to the clinic expansion.

Note 7 - Long-term Debt

Long-term debt at June 30, 2011 and 2010 is as follows:

	2011	2010
Multi-modal limited obligation revenue bonds, Series 2010	$ 4,000,000	$ -
Variable rate demand revenue refunding bonds, Series 2006	22,869,900	24,234,900
Total	26,869,900	24,234,900
Less current portion	(1,540,000)	(1,365,000)
Long-term portion	$ 25,329,900	$ 22,869,900

Note 7 - Long-term Debt (Continued)

Variable Rate Demand Revenue Refunding Bonds - Series 2006 were issued on December 20, 2006 and consist of City of Hancock Hospital Finance Authority Variable Rate Demand Revenue Refunding Bonds. The bonds mature on August 1, 2026 and have a variable interest rate established on a weekly basis. The effective interest rate as of June 30, 2011 and 2010 was 0.13 percent and 0.24 percent, respectively.

The bonds are secured by an irrevocable direct-pay letter of credit which expires on December 1, 2015. The bonds are subject to mandatory redemption upon the expiration or termination of the letter of credit unless the existing letter of credit has been extended or an alternate letter of credit has been issued. The letter of credit is secured by gross revenue of the Hospital.

Beginning August 1, 2007, the bonds require annual payments (funded monthly into an escrow account, the Mortgage Reserve Fund - see Note 5) ranging from $585,000 to $2,190,000 through August 1, 2026.

The bonds are remarketed on a weekly basis. Should the remarketing agent be unable to remarket the bonds based on its best efforts, these bonds would be "put" back to the bond trustee, who would draw down on the letter of credit to pay down the 2006 bonds. Under the terms of the reimbursement agreement, the Hospital may defer reimbursement of amounts advanced by the bank. Such reimbursement obligations would be considered a term loan with payment due upon expiration of the letter of credit or upon other conditions detailed in the reimbursement agreement.

In conjunction with the issuance of the irrevocable letter of credit and related agreement, the Hospital has agreed to certain quarterly and annual reporting requirements, certain financial covenants, and various other operational covenants, including restrictions on transfers of assets and additional indebtedness.

In addition, to manage the economic risks associated with fluctuations in interest rates, the Hospital has entered into an interest rate swap agreement to reduce the impact of changes in the interest rate on the Series 2006 bonds. At June 30, 2011 and 2010, the notional principal amount of the Hospital's portion of the outstanding interest rate swap was $27,920,000 and $24,234,900, respectively, which matures August 1, 2026. Under the terms of the agreement, the Hospital pays the counterparty a fixed rate of 3.438 percent.

Standards require all derivative instruments, such as interest rate swaps, to be recorded on the consolidated balance sheet at estimated fair value. The fair value of the interest rate swap as of June 30, 2011 and 2010 was a liability in the accompanying consolidated balance sheet of $2,163,013 and $2,598,082, respectively. Management has recorded the change in the liability as other expense in the consolidated statement of operations.

Note 7 - Long-term Debt (Continued)

Multi-Modal Limited Obligation Revenue Bonds - Series 2010 were issued on December 30, 2010. The bonds mature on December 30, 2030 and have a variable interest rate established on a weekly basis, plus 270 basis points. As of June 30, 2011, the indicative floating rate was 1.875770 percent.

The bonds are secured by the gross revenue of the Hospital and its affliate Copper Country Apothecary, Inc.

The bonds are remarketed on a weekly basis. Should the remarketing agent be unable to remarket the bonds based on its best efforts, these bonds would be "put" back to the bond trustee, who would draw down on the letter of credit to pay down the 2010 bonds. Under the terms of the reimbursement agreement, the Hospital may defer reimbursement of amounts advanced by the bank. Such reimbursement obligations would be considered a term loan with payment due upon expiration of the letter of credit or upon other conditions detailed in the reimbursement agreement.

In addition, to manage the economic risks associated with fluctuations in interest rates, the Hospital has entered into an interest rate swap agreement to reduce the impact of changes in the interest rate on the Series 2010 bonds. At June 30, 2011, the notional principal amount of the Hospital's portion of the outstanding interest rate swap was $4,000,000, which matures January 1, 2021. Under the terms of the agreement, the Hospital pays the counterparty a fixed rate of 4.06 percent.

Standards require all derivative instruments, such as interest rate swaps, to be recorded on the consolidated balance sheet at estimated fair value. The fair value of the interest rate swap as of June 30, 2011 was a liability in the accompanying consolidated balance sheet of $100,552. Management has recorded the change in the liability as other expense in the consolidated statement of operations.

Minimum principal payments on long-term debt to maturity as of June 30, 2011 are as follows:

2012		$ 1,540,000
2013		1,385,000
2014		1,440,000
2015		1,480,000
2016		1,540,000
Thereafter		19,484,900
	Total	$ 26,869,900

Note 8 - Pension Plan

The Organization entered into a defined contribution noncontributory pension plan effective January 1, 2007. The plan covers substantially all employees of the Organization who meet the minimum service and age requirements. The plan calls for a base contribution of 5 percent of eligible employee wages and an employer-matching contribution equal to $.50 for every dollar contributed by employees up to a maximum of 2 percent of eligible compensation. Certain union employees who meet the minimum service and age requirements continue to be covered under the prior defined contribution pension plan. Contributions to this plan are made based on employee earnings of 4 percent up to $24,000 and 8 percent for amounts over $24,000. Pension expense included in the consolidated statement of operations was $1,145,627 and $1,857,293 in 2011 and 2010, respectively.

As of July 1, 2008, the Organization terminated the 403(b) Annuity Program for employees who are not represented by the Michigan Nurses Association. All accounts maintained under this plan were distributed in accordance with the participants' written elections.

As of November 9, 2008, the Organization terminated the 403(b) Annuity Program for employees who are represented by the Michigan Nurses Association. All accounts maintained under this plan were distributed in accordance with the participants' written elections.

Note 9 - Professional Liability Self-insurance

The Hospital is insured against 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 must pay a deductible toward the costs of litigating or settling any asserted claims. The Hospital has accrued $150,000 for this contingency at June 30, 2011 and 2010. In addition, the Hospital bears the risk of the ultimate costs exceeding the policy limits of $2,000,000 for individual claims and $6,000,000 for total claims asserted in the policy year.

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 10 - Cash Flows

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

	2011	2010
Excess of revenue over expenses	$ 7,700,041	$ 4,684,211
Adjustments to reconcile excess of revenue over expenses to net cash from operating activities:		
Depreciation and amortization	4,307,551	4,578,195
Provision for doubtful accounts	1,195,555	1,257,529
Loss on sale of property and equipment	42,244	1,605
Change in fair value of interest rate swap	(334,517)	819,529
Net realized and unrealized gain on investments	(2,436,907)	(2,992,606)
Loss attributable to joint ventures	234,449	239,598
(Increase) decrease in assets:		
Accounts receivable	(1,868,113)	(2,713,785)
Prepaid expenses and other	439,363	(122,942)
Cost report settlements receivable	145,571	(419,523)
(Decrease) increase in liabilities:		
Accounts payable	(146,159)	530,847
Accrued liabilities	(324,717)	136,224
Cost report settlements payable	393,244	131,906
Net cash provided by operating activities	$ 9,347,605	$ 6,130,788

Note 11 - Functional Expenses

The Organization provides inpatient, long-term care, and outpatient healthcare services primarily to the citizens of the northwest region of Michigan's Upper Peninsula. Expenses related to providing these services for the years ended June 30, 2011 and 2010 are as follows:

	2011	2010
Healthcare services	$ 66,239,400	$ 69,068,875
General and administrative	13,040,570	13,179,333
Fundraising	180,052	156,662
Total	$ 79,460,022	$ 82,404,870

Note 12 - Investments in Joint Ventures

The Hospital has a 50 percent interest in both Mercy EMS, Inc. and Ontonagon Community Health Center, Inc. Mercy EMS, Inc. is an ambulance service providing transport and life support services to the surrounding areas. The Ontonagon Community Health Center provides medical diagnosis and treatment for patients in Ontonagon County. Transactions with the joint ventures were immaterial. Investment income relating to the ambulance service was $1,105 during the year ended June 30, 2011 with a loss of $52,597 during the year ended June 30, 2010. Investment loss relating to the health center was $235,554 and $187,001 during June 30, 2011 and 2010, respectively. Both are reported as other expenses.

The Hospital has a 10 percent interest in Upper Peninsula Health Plan, Inc., with an investment carried at cost of $360,095. Transactions with the health plan were immaterial.

The following is a summary of financial position and results of operations of the joint ventures as of June 30, 2011 and 2010:

	2011	2010
Total assets	$ 38,360,874	$ 46,221,057
Total liabilities	21,532,672	17,507,065
Net assets	$ 16,828,202	$ 28,713,992
(Decrease) increase in net assets	$ (2,291,227)	$ 3,299,591

Note 13 - Union Contracts

As of June 30, 2011 and 2010, approximately 32 percent and 35 percent, respectively, of the Hospital's employees belong to one of two unions at the Hospital. The AFSCME union contract agreement expires on October 31, 2012 and the MNA union contract agreement expires on June 6, 2012.

Additional Information

Independent Auditor's Report on Additional Information

To the Board of Directors
Portage Health and Subsidiaries

We have audited the consolidated financial statements of Portage Health and Subsidiaries as of June 30, 2011 and 2010. Our audits were made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. We did not audit the financial statements or additional information of Copper Country Apothecaries, Inc., Portage Health Resources, Inc., or Portage Health Home Services, Inc., wholly owned subsidiaries, for the years ended June 30, 2011 and 2010. Those statements were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for Copper Country Apothecaries, Inc., Portage Health Resources, Inc., and Portage Health Home Services, Inc., is based solely on the reports of the other auditors. The consolidating information and schedule of net patient service revenue are presented for the purpose of additional analysis of the consolidated financial statements rather than to present the financial position and results of operations of the individual entities or the details of the net service patient revenue. The accompanying additional information has been subjected to the procedures applied in the audits of the consolidated financial statements and, in our opinion, based on our audits and the reports of other auditors, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

October 20, 2011

Consolidating Balance Sheet
June 30, 2011
(with comparative totals as of June 30, 2010)

	Portage Health	Copper Country Apothecaries, Inc.	Portage Health Resources, Inc.	Portage Health Foundation	Portage Health Home Services, Inc.	Eliminating Entries	Total June 30, 2011	Total June 30, 2010
Assets								
Current Assets								
Cash and cash equivalents	$ 11,123,999	$ 1,213,645	$ 149,048	$ 56,077	$ 446,266	$ -	$ 12,989,035	$ 16,966,393
Accounts receivable	8,309,778	606,718	10,621	-	237,749	(755,115)	8,409,751	7,972,748
Estimated third-party payor settlements	880,125	-	-	-	-	-	880,125	1,025,696
Prepaid expenses and other	1,295,082	435,463	565	-	-	-	1,731,110	2,170,473
Total current assets	21,608,984	2,255,826	160,234	56,077	684,015	(755,115)	24,010,021	28,135,310
Assets Limited as to Use	30,380,569	-	-	1,773,349	-	(2,435,267)	29,718,651	14,469,152
Property and Equipment - Net	41,077,776	27,995	-	-	-	-	41,105,771	42,382,483
Other Assets								
Investments in joint ventures	669,668	-	-	-	-	-	669,668	668,562
Bond issue costs	433,363	-	-	-	-	-	433,363	359,075
Total assets	**$ 94,170,360**	**$ 2,283,821**	**$ 160,234**	**$ 1,829,426**	**$ 684,015**	**$ (3,190,382)**	**$ 95,937,474**	**$ 86,014,582**
Liabilities and Net Assets								
Current Liabilities								
Current portion of long-term debt	$ 1,540,000	$ -	$ -	$ -	$ -	$ -	$ 1,540,000	$ 1,365,000
Accounts payable	2,108,530	345,204	3,358	-	2,448	-	2,459,540	2,605,699
Estimated third-party payor settlements	1,404,228	-	-	-	-	-	1,404,228	1,010,984
Accrued liabilities and other	3,522,077	71,426	5,838	-	110,696	(755,115)	2,954,922	3,279,639
Total current liabilities	8,574,835	416,630	9,196	-	113,144	(755,115)	8,358,690	8,261,322
Long-term Debt - Net of current portion	25,329,900	-	-	-	-	-	25,329,900	22,869,900
Fair Value of Interest Rate Swap Agreement	2,263,565	-	-	-	-	-	2,263,565	2,598,082
Total liabilities	36,168,300	416,630	9,196	-	113,144	(755,115)	35,952,155	33,729,304
Stockholders' Equity	-	1,867,191	-	-	-	(1,867,191)	-	-
Net Assets - Unrestricted	58,002,060	-	151,038	1,829,426	570,871	(568,076)	59,985,319	52,285,278
Total liabilities and net assets	**$ 94,170,360**	**$ 2,283,821**	**$ 160,234**	**$ 1,829,426**	**$ 684,015**	**$ (3,190,382)**	**$ 95,937,474**	**$ 86,014,582**

Consolidating Statement of Operations
Year Ended June 30, 2011
(with comparative totals for the year ended June 30, 2010)

	Portage Health	Copper Country Apothecaries, Inc.	Portage Health Resources, Inc.	Portage Health Foundation	Portage Health Home Services, Inc.	Eliminating Entries	Total June 30, 2011	Total June 30, 2010
Unrestricted Revenue, Gains, and Other Support								
Total patient service revenue	$ 113,169,849	$ -	$ -	$ -	$ 1,346,271	$ -	$ 114,516,120	$ 114,795,108
Revenue deductions	(42,575,080)	-	-	-	-	-	(42,575,080)	(41,336,788)
Net patient service revenue	70,594,769	-	-	-	1,346,271	-	71,941,040	73,458,320
Apothecary retail pharmacy revenue	-	8,478,319	-	-	-	(26,098)	8,452,221	8,985,275
Other	2,941,849	-	563,242	-	-	(1,568,988)	1,936,103	1,980,500
Total unrestricted revenue, gains, and other support	73,536,618	8,478,319	563,242	-	1,346,271	(1,595,086)	82,329,364	84,424,095
Expenses								
Salaries and wages	33,780,557	573	163,791	-	812,799	-	34,757,720	33,713,027
Employee benefits and payroll taxes	8,950,014	-	-	-	100,844	(26,098)	9,024,760	10,365,047
Operating supplies and expenses	9,771,924	6,543,183	201,843	-	14,472	-	16,531,422	17,986,507
Professional services and consultant fees	390,729	-	-	-	-	-	390,729	472,102
Purchased services	6,749,727	1,692,697	138,590	-	66,384	(1,902,237)	6,745,161	7,240,356
Insurance	511,203	-	-	-	5,284	-	516,487	770,858
Utilities	1,282,779	6,437	-	-	10,602	-	1,299,818	1,399,057
Depreciation	4,277,753	3,545	-	-	-	-	4,281,298	4,556,969
Provision for bad debts	1,195,555	-	-	-	-	-	1,195,555	1,257,529
Interest expense	1,222,794	-	-	-	-	-	1,222,794	1,055,379
Other	3,170,145	45,204	66,522	150,578	61,829	-	3,494,278	3,648,039
Total expenses	71,303,180	8,291,639	570,746	150,578	1,072,214	(1,928,335)	79,460,022	82,404,870
Operating Income (Loss)	2,233,438	186,680	(7,504)	(150,578)	274,057	333,249	2,869,342	2,019,225
Other Income	4,511,996	60,107	-	376,599	-	(118,003)	4,830,699	2,664,986
Transfer from (to) Affiliate	820,500	(600,500)	(90,000)	-	(130,000)	-	-	-
Increase (Decrease) in Unrestricted Net Assets	**$ 7,565,934**	**$ (353,713)**	**$ (97,504)**	**$ 226,021**	**$ 144,057**	**$ 215,246**	**$ 7,700,041**	**$ 4,684,211**

Schedule of Net Patient Service Revenue

	Year Ended June 30	
	2011	2010
Patient service revenue:		
Inpatient services:		
Routine services	$ 12,705,269	$ 12,294,809
Ancillary services	19,593,639	18,612,940
Outpatient ancillary services	82,217,212	83,887,359
Total patient service revenue	114,516,120	114,795,108
Revenue deductions:		
Medicare	17,001,041	16,606,115
Medicaid	4,189,556	3,958,337
Blue Cross/Blue Shield of Michigan	3,390,012	3,660,154
Other	16,957,710	16,199,431
Charity care	1,036,761	912,751
Total revenue deductions	42,575,080	41,336,788
Total net patient service revenue	**$ 71,941,040**	**$ 73,458,320**

Portage Health and Subsidiaries

Consolidated Financial Report
with Additional Information
June 30, 2012

Portage Health and Subsidiaries

Contents

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Independent Auditor's Report

To the Board of Directors
Portage Health and Subsidiaries

We have audited the accompanying consolidated balance sheet of Portage Health and Subsidiaries (the "Organization") as of June 30, 2012 and 2011 and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of wholly owned subsidiaries, Portage Health Resources, Inc. and Portage Health Home Services, Inc., whose statements reflect total assets of $1,115,213 and $844,249 and total revenue of $2,146,738 and $1,909,513 as of and for the years ended June 30, 2012 and 2011, respectively. Additionally, we did not audit the financial statements of wholly owned subsidiary, Copper Country Apothecaries, Inc., whose statements reflect total assets of $2,283,821 and total revenue of $8,478,319 as of and for the year ended June 30, 2011. Those statements were audited by other auditors whose reports have been furnished to us and our opinion, insofar as it relates to the amounts included for Copper Country Apothecaries, Inc., Portage Health Resources, Inc., and Portage Health Home Services, Inc., is based solely on the reports of the other auditors.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Portage Health and Subsidiaries at June 30, 2012 and 2011 and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Plante & Moran, PLLC

October 1, 2012

Portage Health and Subsidiaries

Consolidated Balance Sheet

	June 30, 2012	June 30, 2011
Assets		
Current Assets		
Cash and cash equivalents	$ 10,638,340	$ 12,989,035
Accounts receivable (Note 2)	10,978,969	8,409,751
Estimated third-party payor settlements (Note 3)	2,603,830	880,125
Prepaid expenses and other	2,751,037	2,398,192
Total current assets	26,972,176	24,677,103
Assets Limited as to Use (Note 5)	30,347,091	29,718,651
Property and Equipment - Net (Note 6)	43,405,013	41,105,771
Other Assets		
Investments in joint ventures (Note 12)	604,266	669,668
Bond issue costs	410,911	433,363
Total assets	**$ 101,739,457**	**$ 96,604,556**
Liabilities and Net Assets		
Current Liabilities		
Current portion of long-term debt (Note 7)	$ 1,385,000	$ 1,540,000
Accounts payable	2,631,833	2,459,540
Estimated third-party payor settlements (Note 3)	1,212,585	1,404,228
Accrued liabilities and other	4,894,958	3,622,004
Total current liabilities	10,124,376	9,025,772
Long-term Debt - Net of current portion (Note 7)	23,944,900	25,329,900
Fair Value of Interest Rate Swap Agreement (Note 7)	3,782,431	2,263,565
Total liabilities	37,851,707	36,619,237
Net Assets - Unrestricted	63,887,750	59,985,319
Total liabilities and net assets	**$ 101,739,457**	**$ 96,604,556**

See Notes to Consolidated Financial Statements.

Portage Health and Subsidiaries

Consolidated Statement of Operations

	Year Ended	
	June 30, 2012	June 30, 2011
Unrestricted Revenue, Gains, and Other Support		
Net patient service revenue	$ 81,428,575	$ 71,941,040
Apothecary retail pharmacy revenue	6,286,349	8,452,221
Other	1,601,570	1,936,103
Total unrestricted revenue, gains, and other support	89,316,494	82,329,364
Expenses		
Salaries and wages	36,275,837	34,757,720
Employee benefits and payroll taxes	10,102,641	9,024,760
Operating supplies and expenses	16,818,426	16,531,422
Professional services and consultant fees	553,773	390,729
Purchased services	8,078,714	6,745,161
Insurance	526,366	516,487
Utilities	1,369,615	1,299,818
Depreciation	4,041,503	4,281,298
Provision for bad debts	1,874,895	1,195,555
Interest expense	1,266,314	1,222,794
Other	3,315,890	3,494,278
Total expenses (Note 11)	84,223,974	79,460,022
Operating Income	5,092,520	2,869,342
Other Income (Loss)		
Interest income (Note 5)	801,475	2,299,783
Equity in losses of unconsolidated investees	(175,076)	(234,449)
Realized gain on sale of investments (Note 5)	42,936	810,343
Other income (expense)	141,779	(26,663)
Change in unrealized investment (loss) gain (Note 5)	(236,431)	1,626,564
Change in fair value of interest swap agreements	(1,518,866)	334,517
Rent income	48,925	182,598
Other expense	(294,831)	(161,994)
Total other (loss) income	(1,190,089)	4,830,699
Excess of Revenue Over Expenses	**$ 3,902,431**	**$ 7,700,041**

Portage Health and Subsidiaries

Consolidated Statement of Changes in Net Assets

	Year Ended	
	June 30, 2012	June 30, 2011
Net Assets - Beginning of year	$ 59,985,319	$ 52,285,278
Excess of Revenue Over Expenses	3,902,431	7,700,041
Net Assets - End of year	**$ 63,887,750**	**$ 59,985,319**

Portage Health and Subsidiaries

Consolidated Statement of Cash Flows

	Year Ended June 30, 2012	Year Ended June 30, 2011
Cash Flows from Operating Activities		
Cash received from patients and third-party payors	$ 75,501,108	$ 73,238,407
Cash paid to suppliers and employees	(79,698,650)	(75,182,998)
Interest and dividends received	801,475	2,299,783
Interest paid	(1,243,862)	(1,196,541)
Other receipts from operations	10,988,914	10,188,954
Net cash provided by operating activities (Note 10)	6,348,985	9,347,605
Cash Flows from Investing Activities		
Purchase of property and equipment	(6,340,745)	(3,084,279)
Proceeds from sale of property and equipment	3,000	37,449
Purchase of investments	(4,120,190)	(23,064,220)
Proceeds from sales and maturities of investments	3,298,255	10,251,628
Net cash used in investing activities	(7,159,680)	(15,859,422)
Cash Flows from Financing Activities		
Proceeds from issuance of debt obligations	-	4,000,000
Principal payments on debt obligations	(1,540,000)	(1,365,000)
Payment of bond issue costs	-	(100,541)
Net cash (used in) provided by financing activities	(1,540,000)	2,534,459
Net Decrease in Cash and Cash Equivalents	(2,350,695)	(3,977,358)
Cash and Cash Equivalents - Beginning of year	12,989,035	16,966,393
Cash and Cash Equivalents - End of year	**$ 10,638,340**	**$ 12,989,035**

Note 1 - Nature of Business and Significant Accounting Policies

Reporting Entity - Portage Health (the "Hospital") and Subsidiaries (together, the "Organization") provides inpatient, outpatient, and long-term care services primarily to the citizens of the northwest region of Michigan's Upper Peninsula. Admitting physicians are primarily practitioners in the local area. The Hospital is responsible for the overall direction of its subsidiaries. There is one board of directors that oversees the operations of the Hospital, Copper Country Apothecaries, Inc., Portage Health Resources, Inc., and Portage Health Home Services, Inc. The Portage Health Foundation has a separate board of directors. Each of the subsidiaries is described below:

- Copper Country Apothecaries, Inc. (CCAI), a Michigan for-profit corporation, operates a retail pharmacy for the sale of pharmaceuticals to residents of the surrounding area.
- Portage Health Resources, Inc. (PHR), a Michigan not-for-profit corporation, distributes a variety of meals to homebound residents in the local area.
- Portage Health Foundation (the "Foundation"), a Michigan not-for-profit corporation, was organized to provide fundraising activities for the benefit of Portage Health.
- Portage Health Home Services, Inc. (Home Services), a Michigan not-for-profit corporation, provides private-duty care to residents of the surrounding area.

Principles of Consolidation - The accompanying consolidated financial statements include the accounts of Portage Health and its subsidiaries. Intercompany transactions and balances have been eliminated in consolidation.

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

Cash and Cash Equivalents - Cash and cash equivalents include cash and investments in highly liquid investments purchased with an original maturity of three months or less, excluding those amounts included in assets limited as to use.

The Hospital and its subsidiaries maintain cash and investment balances at several financial institutions located in northern Michigan. At June 30, 2012 and 2011, accounts at each institution are insured by the Federal Deposit Insurance Corporation up to $250,000 or 100 percent for qualifying institutions. As of June 30, 2012 and 2011, the uninsured cash balance was $728,751 and $376,498, respectively.

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

Investments - Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the consolidated balance sheet. Investment income or loss, including realized and unrealized gains and losses on investments, interest, and dividends, is included in nonoperating income unless the income or loss is restricted by donor or law.

Substantially all of the Organization's investment portfolio is comprised of trading securities, with unrealized gains and losses included in excess of revenue over expenses.

Investments - Equity Method - Investments in companies in which the Hospital has a 20 percent to 50 percent interest are carried at cost, adjusted for the Hospital's proportionate share of its undistributed earnings or losses.

Assets Limited as to Use - Assets limited as to use include assets designated by the board of directors for future capital improvement, over which the board retains control, and may, at its discretion, subsequently use for other purposes and assets held by trustee under bond indentures and other arrangements.

Risks and Uncertainties - The Organization 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 consolidated balance sheet.

Property and Equipment - Property and equipment acquisitions are recorded at cost. Donated property and equipment are recorded at the estimated fair market value at the time of donation. Depreciation is computed on the straight-line basis over the estimated useful lives of the assets. Costs of maintenance and repairs are charged to expense when incurred.

Contributions - The Organization 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 consolidated statement of changes in net assets as net assets released from restriction. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying consolidated financial statements.

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

The Organization reports gifts of property and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. 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, the Organization reports the expiration of donor restrictions when the assets are placed in service.

Bond Issuance Costs - Bond issuance costs were incurred by the Hospital in connection with obtaining the Series 2010 and Series 2006 bonds. These costs are amortized over the term of the related debt.

Professional and Other Liability Insurance - The Organization accrues an estimate of the ultimate expense, including litigation and settlement expense, for incidents of potential improper professional services and other liability claims occurring during the year as well as for those claims that have not been reported at year end (see Note 9).

Interest Rate Swap - The Hospital entered into an interest rate swap transaction 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 income from operations and are presented as part of interest expense in the consolidated 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 income from operations.

Net Patient Service Revenue - The Organization has agreements with third-party payors that provide for payments to the Organization at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactively calculated adjustments arising under reimbursement agreements with third-party payors 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. Final determination of compliance with such laws and regulations is subject to future government review and interpretation. Violations may result in significant regulatory action including fines, penalties, and exclusions from the Medicare and Medicaid programs.

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

Excess of Revenue Over Expenses - The consolidated statement of operations includes excess of revenue over expenses. Changes in unrestricted net assets, which are excluded from excess of revenue over expenses, consistent with industry practice, include permanent transfers of assets to and from affiliates for other than 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 established rates. Because the Organization does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The estimated cost of providing charity care, calculated by applying an overall operating expense to gross revenue ratio to the gross charity care write-offs, totaled approximately $550,000 and $700,000 for the years ended June 30, 2012 and 2011, respectively.

Tax Status - The Organization is a nonprofit organization under Section 501(c)(3) of the Internal Revenue Code and is not subject to income tax. CCAI is the only entity subject to income taxes; therefore, any tax provisions reflected in the consolidated financial statements are associated with this company. The Organization is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Management believes it is no longer subject to income tax examinations for years prior to June 30, 2007.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the organization and recognize a tax liability if the organization has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS or other applicable taxing authorities. Management has analyzed the tax positions taken by the Organization and has concluded that as of June 30, 2012, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements.

Fair Value of Financial Instruments - The fair value of financial instruments, including cash, accounts receivable, accounts payable, and debt, approximate 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. The interest rate swap is recorded at fair value on the Hospital's consolidated balance sheet.

Subsequent Events - The consolidated financial statements and related disclosures include evaluation of events up through and including October 1, 2012, which is the date the consolidated financial statements were available to be issued.

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

New Accounting Pronouncements

Revenue Recognition - During 2011, the Financial Accounting Standards Board (FASB) adopted Accounting Standards Update (ASU) 2011 07, *Health Care Entities (Topic 954) Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities*, establishing accounting and disclosures for healthcare entities to recognize significant amounts of patient service revenue at the time services are rendered even though the entities do not assess a patient's ability to pay. The amendments in the ASU change the presentation of the statement of operations and add new disclosures that are not required under current GAAP for entities within the scope of this update. The provision for bad debts associated with patient service revenue for certain entities is required to be presented on a separate line as a deduction from patient service revenue (net of contractual allowances and discounts) in the statement of operations. The ASU is effective for the Organization for the year ending June 30, 2013.

Healthcare Claims and Charity Care - The Organization has adopted Accounting Standards Update (ASU) 2010-24 Health, *Care Entities (Topic 954) Presentation of Insurance Claims and Related Insurance Recoveries*, for the year ended June 30, 2012. In accordance with the ASU, the accrued liability for malpractice claims and similar liabilities and the related insurance recovery receivable have been presented separately on the consolidated balance sheet on a gross basis for the years ended June 30, 2012 and 2011. Prior guidance allowed the liability to be reported net of the estimated insurance recovery receivable. There was no impact on beginning net assets related to the implementation of this ASU.

The Organization has also adopted new guidance on how to measure the amount of charity care provided to patients. The new guidance requires that cost be used as the measurement basis for charity care disclosure purposes and that the cost be identified as the direct and indirect costs of providing the charity care. No other measurement basis should be used. Prior guidance did not dictate how charity care should be measured.

Note 2 - Accounts Receivable

The details of patient accounts receivable are set forth below:

	2012	2011
Patient accounts receivable	$ 14,773,053	$ 13,156,243
Less:		
Allowance for uncollectible accounts	(1,194,483)	(1,190,037)
Allowance for contractual adjustments	(4,449,275)	(4,405,825)
Net patient accounts receivable	9,129,295	7,560,381
Other	1,849,674	849,370
Total accounts receivable	$ 10,978,969	$ 8,409,751

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 adjusted for economic conditions and other trends affecting the Hospital's ability to collect outstanding amounts. Uncollectible amounts are written off against the allowance for uncollectible accounts in the period they are deemed to be uncollectible. The allowance for contractual adjustments and interim payment advances is based on expected payment rates from payors based on current reimbursement methodologies. This amount also included amounts received as interim payments against unpaid claims by certain payors.

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

	Percentage	
	2012	2011
Medicare	24	25
Blue Cross/Blue Shield of Michigan	16	19
Medicaid	13	15
Commercial insurance and HMOs	26	30
Self-pay	21	11
Total	100	100

Note 3 - Cost Report Settlements

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Approximately 75 percent of the Hospital's net patient service revenue is received from the Medicare, Medicaid, and Blue Cross/Blue Shield of Michigan programs. A summary of the basis of reimbursement is as follows:

- **Medicare** - Inpatient, acute-care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system based on clinical, diagnostic, and other factors. Most outpatient services, including ambulatory surgery, outpatient radiology, and other diagnostic-related services, are reimbursed on a prospectively determined ambulatory payment classification system. Physical therapy, outpatient laboratory, and physician services are reimbursed on a fee-for-service methodology.

- **Medicaid** - Inpatient, acute-care services rendered to Medicaid program beneficiaries are also paid at prospectively determined rates per discharge. 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. Long-term care services are reimbursed at established per diem rates plus the cost for allowable ancillary services.

- **Blue Cross/Blue Shield of Michigan** - Services rendered to Blue Cross/Blue Shield of Michigan subscribers are reimbursed as a percent 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 these programs that are subject to audit by fiscal intermediaries. Although these audits may result in some changes in these amounts, they are not expected to have a material effect on the accompanying consolidated financial statements.

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 began for Michigan hospitals in 2009 and as of June 30, 2012 and 2011, the Hospital has no open audits related to this area.

Note 4 - Fair Value

Accounting standards require certain assets and liabilities be reported at fair value in the financial statements and provide a framework for measuring 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 Organization 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 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 Organization's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

Note 4 - Fair Value (Continued)

Assets and Liabilities Measured at Fair Value on a Recurring Basis at June 30, 2012

	Balance at June 30, 2012	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Mutual funds:				
Fixed-income investments	$ 4,584,986	$ 4,584,986	$ -	$ -
Equity investments	3,025,055	3,025,055	-	-
U.S. government securities	726,415	-	726,415	-
Investment certificates	439,292	439,292	-	-
Corporate bonds	1,810,956	-	1,810,956	-
Common stocks:				
Information technology	2,142,444	2,142,444	-	-
Financial	1,801,231	1,801,231	-	-
Health care	1,509,678	1,509,678	-	-
Industrials	1,171,276	1,171,276	-	-
Energy	937,992	937,992	-	-
Consumer staples	1,182,492	1,182,492	-	-
Consumer discretionary	1,360,532	1,360,532	-	-
Other	2,121,515	2,121,515	-	-
Mortgage- and asset-backed securities	1,088,247	-	1,088,247	-
Other	135,165	-	135,165	-
Total assets	$ 24,037,276	$ 20,276,493	$ 3,760,783	$ -
Liabilities - Interest rate swap	$ 3,782,431	$ -	$ 3,782,431	$ -

Note 4 - Fair Value (Continued)

Assets and Liabilities Measured at Fair Value on a Recurring Basis at June 30, 2011

	Balance at June 30, 2011	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Mutual funds:				
Fixed-income investments	$ 4,405,859	$ 4,405,859	$ -	$ -
Equity investments	3,005,273	3,005,273	-	-
U.S. government securities	1,004,240	-	1,004,240	-
Investment certificates	1,591,727	1,591,727	-	-
Corporate bonds	1,695,407	-	1,695,407	-
Common stocks:				
Information technology	2,001,490	2,001,490	-	-
Financial	1,719,449	1,719,449	-	-
Health care	1,574,781	1,574,781	-	-
Industrials	1,370,124	1,370,124	-	-
Energy	1,298,156	1,298,156	-	-
Consumer staples	1,210,126	1,210,126	-	-
Consumer discretionary	1,188,886	1,188,886	-	-
Other	2,375,804	2,375,804	-	-
Mortgage- and asset-backed securities	453,404	-	453,404	-
Other	136,626	-	136,626	-
Total assets	$ 25,031,352	$ 21,741,675	$ 3,289,677	$ -
Liabilities - Interest rate swap	$ 2,263,565	$ -	$ 2,263,565	$ -

Note 5 - Assets Limited as to Use

The composition of assets limited as to use at June 30, 2012 and 2011 is set forth in the following tables. Investments are stated at fair value.

	2012	2011
Purpose:		
Designated by the Hospital board of directors for future use and capital improvements	$ 25,173,498	$ 24,775,941
Mortgage Reserve Fund - Bonds (Note 7)	3,236,634	3,074,611
Designated by the Foundation board of directors for benefit of the Hospital and its affiliates	1,842,209	1,773,349
Other	94,750	94,750
Total assets limited as to use	$ 30,347,091	$ 29,718,651

Note 5 - Assets Limited as to Use (Continued)

Assets limited as to use are comprised of the following:

	2012	2011
Cash and cash equivalents	$ 6,309,815	$ 4,687,299
Mutual funds	7,610,041	7,411,132
U.S. government securities	726,415	1,004,240
Investment certificates	439,292	1,591,727
Corporate bonds	1,810,956	1,695,407
Common stocks	12,227,160	12,738,816
Other	1,223,412	590,030
Total	$ 30,347,091	$ 29,718,651

Investment income and realized and unrealized gains included in increase in unrestricted net assets are comprised of the following for the years ended June 30, 2012 and 2011:

	2012	2011
Income:		
Interest and dividend income	$ 801,475	$ 2,299,783
Realized gains on investments	42,936	810,343
Change in unrealized gains on investments	(236,431)	1,626,564
Total	$ 607,980	$ 4,736,690

Interest and dividend income includes amounts for dividends from Upper Peninsula Health Plan, Inc., which were $200,879 and $1,553,052 for 2012 and 2011, respectively.

Note 6 - Property and Equipment

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

	2012	2011	Depreciable Life - Years
Land	$ 176,339	$ 176,339	-
Land improvements	1,329,074	1,329,074	10-15
Buildings	55,136,403	54,440,130	7-40
Equipment	30,817,807	29,456,345	3-10
Construction in progress	4,442,627	310,654	-
Total cost	91,902,250	85,712,542	
Accumulated depreciation	(48,497,237)	(44,606,771)	
Net property and equipment	$ 43,405,013	$ 41,105,771	

Note 6 - Property and Equipment (Continued)

Construction in progress at year end is comprised of a clinic expansion financed by the Series 2010 bonds (see Note 7). The Hospital has commitments remaining at June 30, 2012 of approximately $665,000 related to the clinic expansion.

Note 7 - Long-term Debt

Long-term debt at June 30, 2012 and 2011 is as follows:

	2012	2011
Multi-modal limited obligation revenue bonds, Series 2010	$ 3,870,000	$ 4,000,000
Variable rate demand revenue refunding bonds, Series 2006	21,459,900	22,869,900
Total	25,329,900	26,869,900
Less current portion	(1,385,000)	(1,540,000)
Long-term portion	$ 23,944,900	$ 25,329,900

Variable Rate Demand Revenue Refunding Bonds - Series 2006 were issued on December 20, 2006 and consist of City of Hancock Hospital Finance Authority Variable Rate Demand Revenue Refunding Bonds. The bonds mature on August 1, 2026 and have a variable interest rate established on a weekly basis. The effective interest rate as of June 30, 2012 and 2011 was 0.17 percent and 0.10 percent, respectively.

The bonds are secured by an irrevocable direct-pay letter of credit which expires on December 1, 2015. The bonds are subject to mandatory redemption upon the expiration or termination of the letter of credit unless the existing letter of credit has been extended or an alternate letter of credit has been issued. The letter of credit is secured by gross revenue of the Hospital. The fee for the letter of credit is 1.5 percent.

Beginning August 1, 2007, the bonds require annual payments (funded monthly into an escrow account, the Mortgage Reserve Fund - see Note 5) ranging from $585,000 to $2,190,000 through August 1, 2026.

The bonds are remarketed on a weekly basis. Should the remarketing agent be unable to remarket the bonds based on its best efforts, these bonds would be "put" back to the bond trustee, who would draw down on the letter of credit to pay down the 2006 bonds. Under the terms of the reimbursement agreement, the Hospital may defer reimbursement of amounts advanced by the bank. Such reimbursement obligations would be considered a term loan with payment due upon expiration of the letter of credit or upon other conditions detailed in the reimbursement agreement.

Note 7 - Long-term Debt (Continued)

In conjunction with the issuance of the irrevocable letter of credit and related agreement, the Hospital has agreed to certain quarterly and annual reporting requirements, certain financial covenants, and various other operational covenants, including restrictions on transfers of assets and additional indebtedness.

In addition, to manage the economic risks associated with fluctuations in interest rates, the Hospital has entered into an interest rate swap agreement to reduce the impact of changes in the interest rate on the Series 2006 bonds. At June 30, 2012 and 2011, the notional principal amount of the Hospital's portion of the outstanding interest rate swap was $27,920,000, which matures August 1, 2026. Under the terms of the agreement, the Hospital pays the counterparty a fixed rate of 3.438 percent.

Standards require all derivative instruments, such as interest rate swaps, to be recorded on the consolidated balance sheet at estimated fair value. The fair value of the interest rate swap as of June 30, 2012 and 2011 was a liability in the accompanying consolidated balance sheet of $3,550,022 and $2,163,013, respectively. Management has recorded the change in the liability as other expense in the consolidated statement of operations.

Multi-Modal Limited Obligation Revenue Bonds - Series 2010 were issued on December 30, 2010 under a Bank Qualified Direct Purchase arrangement. The bonds mature on December 30, 2030 and have a variable interest rate established on a weekly basis, plus 270 basis points. The indicative floating rate was 1.913437 percent and 1.875770 percent as of June 30, 2012 and 2011, respectively.

The bonds are secured by the gross revenue of the Hospital and its affiliate, Copper Country Apothecary, Inc.

In addition, to manage the economic risks associated with fluctuations in interest rates, the Hospital has entered into an interest rate swap agreement to reduce the impact of changes in the interest rate on the Series 2010 bonds. The notional principal amount of the Hospital's portion of the outstanding interest rate swap was $3,870,000 and $4,000,000 as of June 30, 2012 and 2011, respectively, which matures January 1, 2021. Under the terms of the agreement, the Hospital pays the counterparty a fixed rate of 4.06 percent.

The Hospital has the right, but not the obligation, to terminate the transaction, without cause, on January 1, 2016 through 2020, subject to no adjustment as an early termination. The Hospital would not be obligated to pay PNC any termination payment with respect to an early termination. The Hospital would give notice of its election to terminate the transaction to PNC in writing at least two business days prior to the applicable early termination date.

Note 7 - Long-term Debt (Continued)

Standards require all derivative instruments, such as interest rate swaps, to be recorded on the consolidated balance sheet at estimated fair value. The fair value of the interest rate swap as of June 30, 2012 and 2011 was a liability in the accompanying consolidated balance sheet of $232,409 and $100,552, respectively. Management has recorded the change in the liability as other expense in the consolidated statement of operations.

Minimum principal payments on long-term debt to maturity as of June 30, 2012 are as follows:

2013		$ 1,385,000
2014		1,440,000
2015		1,480,000
2016		1,540,000
2017		1,585,000
Thereafter		17,899,900
	Total	$ 25,329,900

Note 8 - Pension Plan

The Organization entered into a defined contribution noncontributory pension plan effective January 1, 2007. The plan covers substantially all employees of the Organization who meet the minimum service and age requirements. The plan calls for a base contribution of 5 percent of eligible employee wages and an employer-matching contribution equal to $.50 for every dollar contributed by employees up to a maximum of 2 percent of eligible compensation. Certain union employees who meet the minimum service and age requirements continue to be covered under the prior defined contribution pension plan. Contributions to this plan are made based on employee earnings of 4 percent up to $24,000 and 8 percent for amounts over $24,000. Pension expense included in the consolidated statement of operations was $1,866,413 and $1,847,121 in 2012 and 2011, respectively.

As of July 1, 2008, the Organization terminated the 403(b) Annuity Program for employees who are not represented by the Michigan Nurses Association. All accounts maintained under this plan were distributed in accordance with the participants' written elections.

As of November 9, 2008, the Organization terminated the 403(b) Annuity Program for employees who are represented by the Michigan Nurses Association. All accounts maintained under this plan were distributed in accordance with the participants' written elections.

Note 9 - Professional Liability Self-Insurance

The Hospital is insured against 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 policies for the policy years ended September 30, 2011 and prior, the Hospital must pay a deductible toward the costs of litigating or settling any asserted claims. Effective for the policy years beginning October 1, 2011 and after, the Hospital has reduced the deductible to zero. The Hospital has accrued approximately $720,000 and $820,000 for this contingency and has a receivable from the insurance carrier of approximately $570,000 and $670,000 at June 30, 2012 and 2011, respectively, for a net eligibility of $150,000 at June 30, 2012 and 2011. In addition, the Hospital bears the risk of the ultimate costs exceeding the policy limits of $1,000,000 for individual claims and $5,000,000 for total claims asserted in the policy year.

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 10 - Cash Flows

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

	2012	2011
Excess of revenue over expenses	$ 3,902,431	$ 7,700,041
Adjustments to reconcile excess of revenue over expenses to net cash from operating activities:		
Depreciation and amortization	4,063,955	4,307,551
Provision for doubtful accounts	1,874,895	1,195,555
(Gain) loss on sale of property and equipment	(3,000)	42,244
Change in fair value of interest rate swap	1,518,866	(334,517)
Net realized and unrealized loss (gain) on investments	193,495	(2,436,907)
Loss attributable to joint ventures	175,076	234,449
(Increase) decrease in assets:		
Accounts receivable	(4,553,787)	(1,868,113)
Prepaid expenses and other	(352,845)	(227,719)
Cost report settlements receivable	(1,723,705)	145,571
Increase (decrease) in liabilities:		
Accounts payable	172,293	(146,159)
Accrued liabilities	1,272,954	342,365
Cost report settlements payable	(191,643)	393,244
Net cash provided by operating activities	$ 6,348,985	$ 9,347,605

Note 11 - Functional Expenses

The Organization provides inpatient, long-term care, and outpatient healthcare services primarily to the citizens of the northwest region of Michigan's Upper Peninsula. Expenses related to providing these services for the years ended June 30, 2012 and 2011 are as follows:

	2012	2011
Healthcare services	$ 70,611,918	$ 66,239,400
General and administrative	13,535,520	13,040,570
Fundraising	76,536	180,052
Total	$ 84,223,974	$ 79,460,022

Note 12 - Investments in Joint Ventures

The Hospital has a 50 percent interest in both Mercy EMS, Inc. and Ontonagon Community Health Center, Inc. Mercy EMS, Inc. is an ambulance service providing transport and life support services to the surrounding areas. The Ontonagon Community Health Center provides medical diagnosis and treatment for patients in Ontonagon County. Transactions with the joint ventures were immaterial. Investment loss relating to the ambulance service was $65,401 during the year ended June 30, 2012 and investment income was $1,105 during the year ended June 30, 2011. Investment loss relating to the health center was $109,675 and $235,554 during June 30, 2012 and 2011, respectively. Both are reported as other expenses.

The Hospital has a 10 percent interest in Upper Peninsula Health Plan, Inc., with an investment carried at cost of $360,095. Transactions with the health plan were immaterial.

The following is a summary of financial position and results of operations of the joint ventures as of June 30, 2012 and 2011:

	2012	2011
Total assets	$ 34,297,620	$ 38,360,874
Total liabilities	15,306,209	21,532,672
Net assets	$ 18,991,411	$ 16,828,202
Increase (decrease) in net assets	$ 2,163,209	$ (2,291,227)

Note 13 - Union Contracts

As of June 30, 2012 and 2011, approximately 32 percent of the Hospital's employees belong to one of two unions at the Hospital. The AFSCME union contract agreement expires on October 31, 2012 and the MNA union contract agreement expires on June 6, 2014.

Additional Information

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Independent Auditor's Report on Additional Information

To the Board of Directors
Portage Health and Subsidiaries

We have audited the consolidated financial statements of Portage Health and Subsidiaries as of and for the years ended June 30, 2012 and 2011. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. We did not audit the financial statements or additional information of wholly owned subsidiaries Portage Health Resources, Inc. or Portage Health Home Services, Inc. for the years ended June 30, 2012 and 2011, or Copper Country Apothecaries, Inc. for the year ended June 30, 2011. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for Copper Country Apothecaries, Inc., Portage Heath Resources, Inc., and Portage Health Home Services, Inc., is based solely on the reports of the other auditors. The consolidating information and schedule of net patient service revenue are presented for the purpose of additional analysis rather than to present the financial position and results of operations of the individual entities or the details of the net service patient revenue and are not a required part of the consolidated 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, in our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Plante & Moran, PLLC

October 1, 2012

Consolidating Balance Sheet
June 30, 2012
(with comparative totals as of June 30, 2011)

	Portage Health	Copper Country Apothecaries, Inc.	Portage Health Resources, Inc.	Portage Health Foundation	Portage Health Home Services, Inc.	Eliminating Entries	Total June 30, 2012	Total June 30, 2011
Assets								
Current Assets								
Cash and cash equivalents	$ 9,114,796	$ 709,873	$ 141,451	$ 49,728	$ 622,492	$ -	$ 10,638,340	$ 12,989,035
Accounts receivable	9,710,243	1,331,699	14,067	-	337,203	(414,243)	10,978,969	8,409,751
Estimated third-party payor settlements	2,603,830	-	-	-	-	-	2,603,830	880,125
Prepaid expenses and other	2,144,372	606,665	-	-	-	-	2,751,037	2,398,192
Total current assets	23,573,241	2,648,237	155,518	49,728	959,695	(414,243)	26,972,176	24,677,103
Assets Limited as to Use	31,655,880	-	-	1,842,209	-	(3,150,998)	30,347,091	29,718,651
Property and Equipment - Net	43,367,712	37,301	-	-	-	-	43,405,013	41,105,771
Other Assets								
Investments in joint ventures	604,266	-	-	-	-	-	604,266	669,668
Bond issue costs	410,911	-	-	-	-	-	410,911	433,363
Total assets	**$ 99,612,010**	**$ 2,685,538**	**$ 155,518**	**$ 1,891,937**	**$ 959,695**	**$ (3,565,241)**	**$ 101,739,457**	**$ 96,604,556**
Liabilities and Net Assets								
Current Liabilities								
Current portion of long-term debt	$ 1,385,000	$ -	$ -	$ -	$ -	$ -	$ 1,385,000	$ 1,540,000
Accounts payable	2,790,446	(167,516)	5,115	-	3,788	-	2,631,833	2,459,540
Estimated third-party payor settlements	1,212,585	-	-	-	-	-	1,212,585	1,404,228
Accrued liabilities and other	4,647,318	516,900	6,715	-	138,268	(414,243)	4,894,958	3,622,004
Total current liabilities	10,035,349	349,384	11,830	-	142,056	(414,243)	10,124,376	9,025,772
Long-term Debt - Net of current portion	23,944,900	-	-	-	-	-	23,944,900	25,329,900
Fair Value of Interest Rate Swap Agreement	3,782,431	-	-	-	-	-	3,782,431	2,263,565
Total liabilities	37,762,680	349,384	11,830	-	142,056	(414,243)	37,851,707	36,619,237
Stockholders' Equity	-	2,336,154	-	-	-	(2,336,154)	-	-
Net Assets - Unrestricted	61,849,330	-	143,688	1,891,937	817,639	(814,844)	63,887,750	59,985,319
Total liabilities and net assets	**$ 99,612,010**	**$ 2,685,538**	**$ 155,518**	**$ 1,891,937**	**$ 959,695**	**$ (3,565,241)**	**$ 101,739,457**	**$ 96,604,556**

Portage Health and Subsidiaries

Consolidating Statement of Operations
Year Ended June 30, 2012
(with comparative totals for the year ended June 30, 2011)

	Portage Health	Copper Country Apothecaries, Inc.	Portage Health Resources, Inc.	Portage Health Foundation	Portage Health Home Services, Inc.	Eliminating Entries	Total June 30, 2012	Total June 30, 2011
Unrestricted Revenue, Gains, and Other Support								
Total patient service revenue	$ 126,874,666	$ -	$ -	$ -	$ 1,592,950	$ -	$ 128,467,616	$ 114,516,120
Revenue deductions	(47,037,758)	(1,283)	-	-	-	-	(47,039,041)	(42,575,080)
Net patient service revenue	79,836,908	(1,283)	-	-	1,592,950	-	81,428,575	71,941,040
Apothecary retail pharmacy revenue	-	6,807,017	-	-	-	(520,668)	6,286,349	8,452,221
Other	2,629,907	38	553,788	-	-	(1,582,163)	1,601,570	1,936,103
Total unrestricted revenue, gains, and other support	82,466,815	6,805,772	553,788	-	1,592,950	(2,102,831)	89,316,494	82,329,364
Expenses								
Salaries and wages	35,076,318	1,585	161,653	-	1,036,281	-	36,275,837	34,757,720
Employee benefits and payroll taxes	9,952,250	512	-	-	149,879	-	10,102,641	9,024,760
Operating supplies and expenses	12,281,245	4,319,618	202,948	-	14,615	-	16,818,426	16,531,422
Professional services and consultant fees	553,773	-	-	-	-	-	553,773	390,729
Purchased services	8,492,880	1,629,509	136,572	-	70,899	(2,251,146)	8,078,714	6,745,161
Insurance	521,622	-	-	-	4,744	-	526,366	516,487
Utilities	1,353,454	7,722	-	-	8,439	-	1,369,615	1,299,818
Depreciation	4,034,374	7,129	-	-	-	-	4,041,503	4,281,298
Provision for bad debts	1,874,895	-	-	-	-	-	1,874,895	1,195,555
Interest expense	1,266,314	-	-	-	-	-	1,266,314	1,222,794
Other	3,017,503	95,965	59,965	64,042	61,325	17,090	3,315,890	3,494,278
Total expenses	78,424,628	6,062,040	561,138	64,042	1,346,182	(2,234,056)	84,223,974	79,460,022
Operating Income (Loss)	4,042,187	743,732	(7,350)	(64,042)	246,768	131,225	5,092,520	2,869,342
Other (Loss) Income	(194,917)	(274,769)	-	126,553	-	(846,956)	(1,190,089)	4,830,699
Increase (Decrease) in Unrestricted Net Assets	$ 3,847,270	$ 468,963	$ (7,350)	$ 62,511	$ 246,768	$ (715,731)	$ 3,902,431	$ 7,700,041

Portage Health and Subsidiaries

Schedule of Net Patient Service Revenue

	Year Ended June 30	
	2012	2011
Patient service revenue:		
Inpatient services:		
Routine services	$ 13,515,124	$ 12,705,269
Ancillary services	20,276,230	19,593,639
Outpatient ancillary services	94,676,262	82,217,212
Total patient service revenue	128,467,616	114,516,120
Revenue deductions:		
Medicare	19,690,246	17,001,041
Medicaid	4,379,029	4,189,556
Blue Cross/Blue Shield of Michigan	5,074,928	3,390,012
Other	17,073,513	16,957,710
Charity care	821,325	1,036,761
Total revenue deductions	47,039,041	42,575,080
Total net patient service revenue	**$ 81,428,575**	**$ 71,941,040**

PORTAGE HEALTH
Consolidated Balance Sheet
5/31/2013

	Y-T-D Portage Health	Y-T-D Copper Country Apothecaries	Y-T-D Portage Health Resources	Y-T-D Portage Home Services	Y-T-D Eliminating Entries	Y-T-D Consolidated
ASSETS						
Current Assets:						
Cash and Savings	9,352,036	1,585,665	137,847	517,288	0	11,592,836
Net Accounts Receivable	6,086,228	807,346	4,752	303,664	0	7,201,990
Due from Third-Party Payors	2,222,876	0	0	0	0	2,222,876
Other Receivables	2,832,556	633,408	0	0	(211,530)	3,254,434
Inventories	1,182,860	603,515	0	0	0	1,786,375
Prepaid Expenses	654,373	3,618	0	0	0	657,991
Total Current Assets	22,330,928	3,633,551	142,598	820,952	(211,530)	26,716,502
Other Assets:						
Board Designated/Restricted Assets:						
Investments	31,706,572	0	0	0	0	31,706,572
Investment in Ambulance Service	237,521	0	0	0	0	237,521
Investment in CCAI	2,334,993	0	0	0	(2,334,993)	(0)
Investment in Portage Home Services	817,639	0	0	0	(817,639)	0
Investment in UPHP	360,095	0	0	0	0	360,095
Common Stock Investment in MHA WC	94,000	0	0	0	0	94,000
Investment in Ontonagon Clinic	(644,941)	0	0	0	0	(644,941)
Property, Plant & Equipment	92,632,317	256,448	0	10,702	0	92,899,467
Construction in Progress	3,108,811	0	0	0	0	3,108,811
Accumulated Depreciation	(51,732,813)	(164,829)	0	(10,702)	0	(51,908,344)
Investment in Kew Home Nursing	0	0	0	0	0	(0)
Total Other Assets	78,914,193	91,619	0	0	(3,152,632)	75,853,180
TOTAL ASSETS	101,245,121	3,725,170	142,598	820,952	(3,364,162)	102,569,681
LIABILITIES:						
Current Liabilities:						
Trade Accounts Payable	1,875,854	692,965	2,684	72,204	(211,530)	2,432,177
Accrued Salaries	1,839,321	0	6,323	51,141	0	1,896,785
Accrued Payroll Taxes	87,374	0	0	7,141		94,515
Accrued Paid Time Off	1,309,658	0	0	16,443	0	1,326,101
Other Accrued Expenses	1,240,036	16,378	0	17,766	0	1,274,180
Current Portion of Long-Term Debt	1,440,000	0	0	0	0	1,440,000
Total Current Liabilities	7,792,243	709,343	9,008	164,695	(211,530)	8,463,758
Fair Value Interest Rate Swap	3,263,775	0	0	0	0	3,263,775
Long Term Liabilities:						
Long-Term Debt	22,504,900	0	0	0	0	22,504,900
Total Long Term Liabilities	22,504,900	0	0	0	0	22,504,900
Total Liabilities	33,560,919	709,343	9,008	164,695	(211,530)	34,232,434
FUND BALANCES:						
Prior Fiscal Year End	61,849,324	2,334,993	143,687	817,639	(3,152,632)	61,993,011
Equity Transfer	400,000	0	0	(400,000)	0	0
Net Income (Loss) - Current Year	5,434,879	680,834	(10,096)	238,618	0	6,344,235
Total Fund Balances	67,684,203	3,015,827	133,591	656,257	(3,152,632)	68,337,246
TOTAL LIABILITIES & FUND BALANCE	101,245,121	3,725,170	142,598	820,952	(3,364,162)	102,569,680

PORTAGE HEALTH
Consolidated Statement of Operations
May 31, 2013

	Y-T-D Portage Health	BUDGET Portage Health	Y-T-D Copper Country Apothecaries	BUDGET Copper Country Apothecaries	Y-T-D Portage Health Resources	BUDGET Portage Health Resources	Y-T-D Portage Home Services	BUDGET Portage Home Services	YTD Eliminating Entries	BUDGET Eliminating Entries	Consolidated	Y-T-D BUDGET Consolidated
Unrestricted Revenue												
Total Service Revenue	120,546,104	118,726,287	0	0	454,472	516,254	1,729,532	1,461,334	0	0	122,730,108	120,703,875
Charity Care Deductions	(768,315)	(941,714)	0	0	0	0	0	0	0	0	(768,315)	(941,714)
Revenue Deductions	(51,755,295)	(47,490,515)	0	0	0	0	0	0	0	0	(51,755,295)	(47,490,515)
Net Unrestricted Revenue	68,022,495	70,294,058	0	0	454,472	516,254	1,729,532	1,461,334	0	0	70,206,498	72,271,646
Apothecary Retail Pharmacy Revenue	0	0	6,906,363	6,366,227	0	0	0	0	(488,853)	(569,058)	6,417,510	5,797,169
Other	8,823,617	9,993,336	0	0	0	0	0	0	(2,184,608)	(2,184,608)	6,639,009	7,808,728
Total Unrestricted Revenue	76,846,112	80,287,394	6,906,363	6,366,227	454,472	516,254	1,729,532	1,461,334	(2,673,461)	(2,753,666)	83,263,017	85,877,543
Expenses												
Salaries	34,977,825	34,091,244	830	1,898	126,365	137,510	1,152,789	943,650	(546,588)	(546,588)	35,711,221	34,627,715
Medical Insurance	4,195,661	3,999,588	0	0	0	0	0	0	0	0	4,195,661	3,999,588
Other Benefits	5,357,694	5,475,491	52	145	11,309	18,735	163,008	134,814	0	0	5,532,063	5,629,185
Physician Purchased Services	1,342,021	2,121,079	0	0	0	0	0	0	0	0	1,342,021	2,121,079
Purchased Services	6,496,704	7,289,712	1,699,488	1,726,826	146,521	147,730	61,735	63,560	(2,255,142)	(2,345,315)	6,149,306	6,882,513
Department Supplies	11,666,736	11,948,066	4,344,072	4,160,577	150,678	194,255	21,918	13,131	0	0	16,183,404	16,316,029
Depreciation/Amortization	3,531,238	5,065,137	6,483	4,499	0	0	0	0	0	0	3,537,721	5,069,636
Utilities/Maintenance	1,313,103	1,373,773	5,415	8,348	12,511	14,082	5,024	8,071	0	0	1,336,053	1,404,274
Interest Expense	1,102,841	1,141,646	0	0	0	0	0	0	0	0	1,102,841	1,141,646
Insurance	364,193	490,912	0	0	0	0	4,466	4,466	0	0	368,659	495,378
Bad Debt Expense	1,460,784	1,483,559	529	9,791	0	0	0	0	0	0	1,461,313	1,493,350
Other Expenses	2,835,992	2,952,713	169,037	136,055	20,203	18,534	81,974	61,289	5,697.00	15,664.00	3,112,903	3,184,255
Total Operating Expenses	74,644,792	77,432,919	6,225,906	6,048,139	467,586	530,847	1,490,914	1,228,981	(2,796,033)	(2,876,238)	80,033,166	82,364,648
Operating Income (Loss)	2,201,320	2,854,475	680,458	318,088	(13,114)	(14,593)	238,618	232,353	122,572	122,572	3,229,854	3,512,895
Other Non-Operating Income (Expense)	1,750,468	1,090,866	376	48	3,017	1,100	0	0	(122,572)	(122,572)	1,631,289	969,442
Extraordinary Item	(544,586)	0	0	0	0	0	0	0	0	-	(544,586)	0
Excess of Revenue Over (Under) Expenses	3,407,202	3,945,341	680,834	318,136	(10,096)	(13,493)	238,618	232,353	0	(0)	4,316,557	4,482,338
Change in Value of Interest Swap Agreement	518,656	0	0	0	0	0	0	0	0	0	518,656	0
Equity Transfer	400,000	0	0		0	0	0		0	0	400,000	0
Change in Net Unrealized Gains & Losses on Investments	1,509,021	275,000	0	0	0	0	0	0	0	0	1,509,021	275,000
Increase (Decrease) in Unrestricted Net Assets	5,834,879	4,220,341	680,834	318,136	(10,096)	(13,493)	238,618	232,353	0	0	6,744,234	4,757,338
Net Assets - Unrestricted Beginning of Year	58,002,055	58,002,055	1,867,173	1,867,173	151,037	151,037	570,870	570,870	2,647,717	(2,438,043)	63,238,852	58,153,092
End of Year	63,836,934	62,222,396	2,548,007	2,185,309	140,941	137,544	809,488	803,223	2,647,717	(2,438,043)	69,983,087	62,910,429

SCHEDULE 4.6(b)
GAAP EXCEPTIONS

None.

SCHEDULE 4.7(a)
LISTED CONTRACTS

The information contained in Schedules 1.1(f), 1.2(e) and 4.8(a)(i) is hereby incorporated by reference in their entirety.

SCHEDULE 4.7(b)
ASSUMED CONTRACT EXCEPTIONS

None.

SCHEDULE 4.8(a)
REAL ESTATE ENCUMBRANCES

None.

SCHEDULE 4.9
TITLE TO PERSONAL PROPERTY

1. Lien in favor of Morgan Stanley Capital Services, Inc.; National City Bank; and The Bank of New York Trust Company, N.A. related to Gross Revenues as defined in the Loan Agreement, dated as of December 1, 2006, by and between Portage Health, Inc. and the City of Hancock Hospital Finance Authority – UCC Financing Statement filed with Michigan Department of State on December 20, 2006, as File No. 2006210495-5. This lien will be released upon consummation of the transaction as proceeds from the transaction will be used to pay Sellers' obligations thereunder.

2. Lien in favor of Morgan Stanley Capital Services, Inc. and PNC Bank, National Association related to Gross Revenues as defined in the Bond Purchase, Guaranty and Pledge Agreement, dated as of December 1, 2010, by and between Portage Health, Inc. and the PNC Bank, N.A. – UCC Financing Statement filed with Michigan Department of State on December 30, 2010, as File No. 2010171281-3. This lien will be released upon consummation of the transaction as proceeds from the transaction will be used to pay Sellers' obligations thereunder.

3. Lien in favor of PNC Bank, National Association related to Gross Revenues of Portage Health, Inc., exclusive of defined 2010 Gross Revenues – UCC Financing Statement filed with Michigan Department of State on December 30, 2010, as File No. 2010171282-5. This lien will be released upon consummation of the transaction as proceeds from the transaction will be used to pay Sellers' obligations thereunder.

4. Lien in favor of Smith Medical Partners related to accounts, chattel paper, inventory, equipment, instruments, documents, deposit accounts, fixtures, customer lists, LC rights, general intangibles – UCC Financing Statement filed with Michigan Department of State on January 11, 2012, as File No. 2012006016-6. UCC Termination Statement prepared and will be filed prior to closing.

<u>Equipment Leases:</u>

1. Dishmachine Lease Agreements, dated May 30, 2012, between Portage Hospital and Ecolab, Inc. (Five Dishmachines).

2. Lease Agreement, effective May 28, 2010, between Portage Health, Inc. and XEROX Capital Services LLC (Copier/Printer/Scanner).

3. Subscription/Meter & Scale Rental Agreement, effective as of April 26, 2007, between Portage Health and PitneyBowes (postage scale/meter).

SCHEDULE 4.15
POST-BALANCE SHEET DATE RESULTS

None.

SCHEDULE 4.17(b)
LICENSES

See attached listing of Licenses/Certifications as Schedule 4.17(b)

Certificate of Need History

CON 95-0008
Facility No. 30-0020 (Portage Hospital)
Project: New facility with 30 acute-care beds and 30 LTCU beds
Approved: 12/4/1996

CON 01-0162
Facility No. 30-0020 (Portage Hospital)
Project: Two-story addition including the addition of 6 acute-care beds (this makes a total of 36 acute care beds)
Approved: 10/29/2001

CON 03-0042
Facility No. 31-3020 (PortagePointe)
Project: Expansion and renovation of long term care unit including the addition of 30 LTCU beds (this makes a total of 60 LTCU beds)
Approved: 11/26/2003

CON 05-0105
Facility No. 30-0020 (Portage Hospital)
Project: Replace CT Scanner
Approved: 10/20/2005

CON 06-0196
Facility No. 31-0020 (Portage Hospital)
Project: Fixed MRI
Approved: 9/26/2006

Schedule 4.17(b) Licenses

License/Certificiation	Type	Name	Address	Number	Expiration Date
Portage Health Inc					
Health Systems Facilities	Hospital	Portage Health Hospital	Hancock, MI 49930	1060000055	7/31/2014
Health Systems Facilities	Nursing Home	PortagePointe	Hancock, MI 49930	1070000303	7/31/2014
Health Systems Facilities	Hospice Certified	Portage Home Health & Hospice	Hancock, MI 49930	1041000090	7/31/2014
Pharmacy	Pharmacy	Portage Health (Portage Health Inc)	Hancock, MI 49930	5301002272	6/30/2014
Pharmacy	CS - Facility	Portage Health (Portage Health Inc)	Hancock, MI 49930	5301002272	6/30/2014
DEA - Controlled Substance Registration Certificate	Hospital/Clinic	Portage Health - Inpatient Pharmacy	500 Campus Drive, Hancock, MI 49930	AS2735631	3/31/2015
NRC Materials License		Portage Hospital	500 Campus Drive, Hancock, MI 49930	21-1852-01	9/30/2014
Medical Waste Producers	Hospital-less than 150 beds	Portage Health System	Hancock, MI 49930	MW0001402	3/31/2014
Medical Waste Producers	Private Practice-fewer than 4 licensees	Portage Health Houghton	Houghton, MI 49931	MW0045027	1/31/2016
Medical Waste Producers	Private Practice-fewer than 4 licensees	Lake Linden Clinic	Lake Linden, MI 49945	MW0043362	8/31/2013
Medical Waste Producers	Private Practice-fewer than 4 licensees	Houghton Community Health Center	Houghton, MI 49931	MW0040320	3/31/2014
Medical Waste Producers	Private Practice-fewer than 4 licensees	Ontonagon Community Health Center	Ontonagon, MI 49953	MW0043862	7/31/2014
Certificate of Boiler Inspection		Portage Health System	500 Campus Drive, Hancock, MI 49930	MIR390040	9/19/2015
Certificate of Boiler Inspection		Portage Health System	500 Campus Drive, Hancock, MI 49930	MIR390041	9/19/2015
Certificate of Boiler Inspection		Portage Health System	500 Campus Drive, Hancock, MI 49930	MIR390042	9/19/2015
Certificate of Boiler Inspection		Portage Health System	500 Campus Drive, Hancock, MI 49930	MIR390043	9/19/2013
Certificate of Boiler Inspection		Portage Health System	500 Campus Drive, Hancock, MI 49930	MIR390044	9/19/2013
Certificate of Boiler Inspection		Portage Health System	500 Campus Drive, Hancock, MI 49930	MIR433519	1/31/2016
Certificate of Boiler Inspection		Portage Health System	500 Campus Drive, Hancock, MI 49930	MIR433520	1/31/2016
Certificate of Boiler Inspection		Portage Health System	500 Campus Drive, Hancock, MI 49930	MIR428349	5/22/2013 (waiting on inspection - delayed by insurance inspector)
Certificate of Boiler Inspection		Portage Health System	500 Campus Drive, Hancock, MI 49930	MIR426447	5/22/2013 (waiting on inspection - delayed by insurance inspector)
Certificate of Boiler Inspection		Portage Health System	500 Campus Drive, Hancock, MI 49930	MIR432733	5/7/2014
Annual Elevator Certification of Operation	Passenger	Portage Health	500 Campus Drive, Hancock, MI 49930	033646	10/31/2013
Annual Elevator Certification of Operation	Passenger	Portage Health	500 Campus Drive, Hancock, MI 49930	033647	10/31/2013
Annual Elevator Certification of Operation	Passenger	Portage Health	500 Campus Drive, Hancock, MI 49930	033648	10/31/2013
Annual Elevator Certification of Operation	Passenger	Portage Health / Houghton Community Health Center	600 MacInnes Drive, Houghton, MI 49931	036011	10/31/2013
Underground Storage Tank Registration Certificate		Portage Health System	500 Campus Drive, Hancock, MI 49930	00039744	11/13/2013
Operate a Food Service Establishment		Portage Health System	500 Campus Drive, Hancock, MI 49930	SFE0731007514	4/30/2014
Radio Station Authorization	FCC Registration	Portage Health System	500 Campus Drive, Hancock, MI 49930	0002744127	10/30/2016

License/Certificiation	Type	Name	Address	Number	Expiration Date
CLIA - Certificate of Accreditation		Portage Health Inc	500 Campus Drive, Hancock, MI 49930	23D0382352	1/2/2015
CLIA - Certificate of Provider-Performed Microscopy Procedures		Ontonagon Community Health Center	751 South Seventh Street, Ontonagon, MI 49953	23D1077423	12/9/2013
CLIA - Certificate of Waiver		Houghton Community Health Center	600 MacInnes Drive, Houghton, MI 49931	23D0672737	3/15/2014
CLIA - Certificate of Waiver		Portage Health Medical Group Lake Linden	945 Ninth Street, Lake Linden, MI 49945	23D0672737	3/15/2014
CLIA - Certificate of Waiver		Houghton Center	921 W Sharon Ave., Houghton, MI 49931	23D0672737	3/15/2014
CLIA - Certificate of Waiver		Finlandia University	920 W. Water St, Hancock, MI 49930	23D0672737	3/15/2014

License/Certificiation	Type	Name	Address	Number	Expiration Date
Copper Country Apothecaries Inc					
Pharmacy	Pharmacy	Copper Country Apothecary (Copper Country Apothecaries Inc)	Hancock, MI 49930	5301003759	6/30/2014
Pharmacy	CS - Facility	Copper Country Apothecary (Copper Country Apothecaries Inc)	Hancock, MI 49930	5301003759	6/30/2014
Pharmacy	CS - Facility	Copper Country Apothecary - *(for Houghton County Medical Care Facility nursing home)*	Hancock, MI 49930	5315004722	6/30/2014
Pharmacy	CS - Facility	Copper Country Apothecary *(for Our Lady of Mercy nursing home)*	Hubbell, MI 49934	5315004723	6/30/2014
Pharmacy	Pharmacy	Apothecary - Hancock (Copper Country Apothecaries Inc)	Hancock, MI 49930	5301003222	6/30/2014
Pharmacy	CS - Facility	Apothecary - Hancock (Copper Country Apothecaries Inc)	Hancock, MI 49930	5301003222	6/30/2014
Pharmacy	Pharmacy	Apothecary - Houghton (Copper Country Apothecaries Inc)	Houghton, MI 49931	5301000905	6/30/2015
Pharmacy	CS - Facility	Apothecary - Houghton (Copper Country Apothecaries Inc)	Houghton, MI 49931	5301000905	6/30/2015
Pharmacy	Mfr/Wholesaler	Apothecary Home Medical Equipment	Hancock, MI 49930	5306003353	6/30/2014
DEA - Controlled Substance Registration Certificate	Retail Pharmacy	Apothecary-Houghton	600 MacInnes Drive, Houghton, MI 49931	BC0852245	8/31/2014
DEA - Controlled Substance Registration Certificate	Retail Pharmacy	Copper Country Apothe Inc / Apothecary-Hancock	500 Campus Drive, Hancock, MI 49930	BC0852182	8/31/2014
DEA Controlled Substance Registration Certificate	Retail Pharmacy	Copper Country Apothecary, *(closed-door pharmacy for area nursing home residents only)*	500 Campus Drive, Hancock, MI 49930	BC0852233	8/31/2014
Portage Health Resources Inc					
Operate a Food Service Establishment		Portage Health Resources	821 Water Street, Hancock, MI 49930	SFE0731007504	4/30/2014
Operate a Food Service Establishment		Portage Health Resources-Maple Manor Satellite	210 Calumet St, Lake Linden, MI 49945	SFE0731007585	4/30/2014
Operate a Food Service Establishment		Portage Health Resources-Keweenaw Pines-Satellite	US Forty One Hy, Allouez Twp, MI 49950	SFE0742013211	4/30/2014
Operate a Food Service Establishment		Portage Health Resources-Park Avenue Apts Satelitte	1 Park Ave, Calumet, MI 49913	SFE0731007580	4/30/2014
Operate a Food Service Establishment		Portage Health Resources-Chassell Satellite	Seventh St, Chassell, MI 49916	SFE0731007586	4/30/2014
Operate a Food Service Establishment		Portage Health Resources-Lakeview Manor Satellite	1400 W Quincy St, Hancock, MI 49930	SFE0731007587	4/30/2014
Operate a Food Service Establishment		Portage Health Resources-Arbor Green Satellite	920 Dodge St Houghton, MI 49931	SFE0731007596	4/30/2014
Operate a Food Service Establishment		Portage Health Resources-1st Lutheran Church	3rd & G Streets,Dollar Bay, MI 49922	SFE0731007635	4/30/2014

SCHEDULE 4.17(c)
CERTIFICATES OF NEED

None.

SCHEDULE 4.19
ACCREDITATIONS

Accreditation	Description	Expires
The Joint Commission	Hospital Accreditation (Centers for Medicare and Medicaid (CMS) Deemed Status Survey included) (DME) for Portage Health, Inc. – ID No. 2827	November 2014
The Joint Commission	Home Care Accreditation for Portage Health, Inc. - ID No. 2827	November 2014
The Joint Commission	Laboratory Accreditation for Portage Health, Inc. – ID No. 2827	April 2014
American College of Radiology	Computed Tomography Services Accreditation for Portage Health	January 2016
American College of Radiology	Mammographic Imaging Services Accreditation for Portage Health – Map ID #01949-04	June 2015
US Department of Health & Human Services FDA	Certified Mammography Facility for Portage Health – Facility ID Number 131128	June 2015
American Academy of Sleep Medicine	The Portage Health Sleep Disorders Center for Portage Health	March 2014
American Association of Cardiovascular and Pulmonary Rehabilitation (AACVPR)	Pulmonary Rehabilitation Program of Portage Health and Portage Health Cardiac Rehabilitation of Portage Health	Pulmonary August 2013 Cardiac August 2015
FWA	Federalwide Assurance for the Protection of Human Subjects for Portage Health - No. FWA00012866	June 29, 2016
DME (Copper Country Apothecaries)	DME for Copper Country Apothecaries, Inc.	July 22, 2014

SCHEDULE 4.24
ENVIRONMENTAL MATTERS

None.

SCHEDULE 4.25
CONDITION AND SUFFICIENCY OF ASSETS

None.

SCHEDULE 4.28
INTELLECTUAL PROPERTY

ASSUMED NAMES

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

Domain Names
www.portagehealth.org (main website)
http://portagestaging (staging site)
http://portagedev (development site)
www2.portagehealth.org (old web site, kept alive for myPortage and myHealth)
portagestaging.portagehealth.org (staging site)
email.portagehealth.org (email site)
Portagehealth.wordpress.com (current Portage Post on free wordpress.com)
Portagepostings.wordpress.com (current Portage Post Postings on free wordpress.com)
portagehealthfishtales.wordpress.com/ (current Portage Post Fish Tales on free wordpress.com)
Sp.portagehealth.org (sharepoint site)
Portagepost.com

SCHEDULE 4.29
EXPERIMENTAL PROCEDURES

None.

SCHEDULE 5.1(b)
JOINT VENTURE SECURITIES AND MEMBERSHIP INTERESTS

The Joint Venture is or will be (with respect to entities to be formed) the sole owner of the following entities:

(1) Portage Hospital, LLC, a Michigan limited liability company

(2) Portage Physician Practices, Inc., a Michigan nonprofit corporation

(3) Portage JV, LLC, a Delaware limited liability company

SCHEDULE 5.2(a)
LIFEPOINT 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) and Schedule 1.1(i).

SCHEDULE 5.2(b)
JOINT VENTURE 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) and Schedule 1.1(i).

SCHEDULE 6.2
SELLERS' OPERATIONS

None.

SCHEDULE 6.3
SELLERS' NEGATIVE CONSENTS

None.

SCHEDULE 9.12
CORE SERVICES

1. Inpatient Medical and Surgical
2. Intensive/Critical Care
3. Obstetric Services
4. Long Term Care Services
5. Surgery and Anesthesiology Services
6. Emergency Services (24 hour)
7. Home Health and Hospice Services
8. Dialysis
9. Lab and Pathology
10. Diagnostic Imaging including MRI and CT
11. Cardio-Pulmonary Services
12. Pharmacy
13. Retail Pharmacy
14. Rehab Services
15. Home Services
16. Health Resources
17. Medical Practices (independent or employed) operating the following medical specialties:
    - Oncology / Hematology
    - Otolaryngology (ENT)
    - Family Medicine
    - General Surgery
    - Cardiology
    - Internal Medicine
    - Neurology
    - Orthopaedics
    - Pediatrics
    - Podiatry
    - Rheumatology
    - Sleep Medicine
    - Sports Medicine
    - Obstetrics / Gynecology
    - Urology
    - Cardiopulmonary