

Municipal Secondary Market Disclosure Information Cover Sheet

This cover sheet should be sent with all submissions made to the Municipal Securities Rulemaking Board, Nationally Recognized Municipal Securities Information Repositories, and any applicable State Information Depository, whether the filing is voluntary or made pursuant to Securities and Exchange Commission rule 15c2-12 or any analogous state statute.

See www.sec.gov/info/municipal/nrmsir.htm for list of current NRMSIRs and SIDs

IF THIS FILING RELATES TO A SINGLE BOND ISSUE:

Provide name of bond issue exactly as it appears on the cover of the Official Statement
(please include name of state where issuer is located):

\$11,775,000

Michigan State Hospital Finance Authority

Hospital Revenue Bonds, Series 2005A

Hills and Dales General Hospital Obligated Group

Provide nine-digit CUSIP* numbers if available, to which the information relates:

59465HCD6

IF THIS FILING RELATES TO ALL SECURITIES ISSUED BY THE ISSUER OR ALL SECURITIES OF A SPECIFIC CREDIT OR ISSUED UNDER A SINGLE INDENTURE:

Issuer's Name (please include name of state where Issuer is located): _____

Other Obligated Person's Name (if any): _____
(Exactly as it appears on the Official Statement Cover)

Provide six-digit CUSIP* number(s), if available, of Issuer: _____

*(Contact CUSIP's Municipal Disclosure Assistance Line at 212.438.6518 for assistance with obtaining the proper CUSIP numbers.)

TYPE OF FILING:

Electronic (number of pages attached) 36 Paper (number of pages attached) _____

If information is also available on the Internet, give URL: www.firstriver.com

Municipal Secondary Market Disclosure Information Cover Sheet

This cover sheet should be sent with all submissions made to the Municipal Securities Rulemaking Board, Nationally Recognized Municipal Securities Information Repositories, and any applicable State Information Depository, whether the filing is voluntary or made pursuant to Securities and Exchange Commission rule 15c2-12 or any analogous state statute.

See www.sec.gov/info/municipal/nrmsir.htm for list of current NRMSIRs and SIDs

IF THIS FILING RELATES TO A SINGLE BOND ISSUE:

Provide name of bond issue exactly as it appears on the cover of the Official Statement
(please include name of state where issuer is located):

\$1,775,000

County of Tuscola Hospital Finance Authority

Hospital Revenue Refunding Bonds, Series 2006A

Hills and Dales General Hospital Obligated Group

Provide nine-digit CUSIP* numbers if available, to which the information relates:

900777AE3

900777AF0

900777AG8

900777AH6

900777AJ2

900777AK9

900777AL7

900777AM5

900777AN3

900777AP8

900777AQ6

IF THIS FILING RELATES TO ALL SECURITIES ISSUED BY THE ISSUER OR ALL SECURITIES OF A SPECIFIC CREDIT OR ISSUED UNDER A SINGLE INDENTURE:

Issuer's Name (please include name of state where Issuer is located): _____

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TYPE OF FILING:

Electronic (number of pages attached) 36 Paper (number of pages attached) _____

If information is also available on the Internet, give URL: www.firstriver.com

WHAT TYPE OF INFORMATION ARE YOU PROVIDING? (Check all that apply)

A. Annual Financial Information and Operating Data pursuant to Rule 15c2-12
(Financial information and operating data should not be filed with the MSRB.)

Fiscal Period Covered: October 2010 – September 2011 (FY2011)

B. Audited Financial Statements or CAFR pursuant to Rule 15c2-12

Fiscal Period Covered: October 2010 – September 2011 (FY2011)

C. Notice of a Material Event pursuant to Rule 15c2-12 (Check as appropriate)

- | | |
|--|--|
| 1. <input type="checkbox"/> Principal and interest payment delinquencies | 6. <input type="checkbox"/> Adverse tax opinions or events affecting the tax-exempt status of the security |
| 2. <input type="checkbox"/> Non-payment related defaults | 7. <input type="checkbox"/> Modifications to the rights of security holders |
| 3. <input type="checkbox"/> Unscheduled draws on debt service reserves reflecting financial difficulties | 8. <input type="checkbox"/> Bond calls |
| 4. <input type="checkbox"/> Unscheduled draws on credit enhancements reflecting financial difficulties | 9. <input type="checkbox"/> Defeasances |
| 5. <input type="checkbox"/> Substitution of credit or liquidity providers, or their failure to perform | 10. <input type="checkbox"/> Release, substitution, or sale of property securing repayment of the securities |
| | 11. <input type="checkbox"/> Rating changes |

D. Notice of Failure to Provide Annual Financial Information as Required

E. Quarterly or Monthly Financial Information and Operating Data
(Financial information and operating data should not be filed with the MSRB.)

Period Covered: _____

F. Other Secondary Market Information (Specify): _____

I hereby represent that I am authorized by the issuer or obligor or its agent to distribute this information publicly:

Issuer Contact:

Name _____ Title _____
Employer _____
Address _____ City _____ State _____ Zip Code _____
Telephone _____ Fax _____
Email Address _____ Issuer Web Site Address _____

Dissemination Agent Contact, if any:

Name Shelley J. Aronson Title President
Employer First River Advisory L.L.C.
Address 2640 Override Drive City Ann Arbor State MI Zip Code 48104
Telephone (734) 761-3624 Fax _____
Email Address aronson@firstriver.com Relationship to Issuer Dissemination Agent

Obligor Contact, if any:

Name Michael J. Falatko Title President and Chief Executive Officer
Employer Hills & Dales General Hospital
Address 4675 Hill Street City Cass City State MI Zip Code 48726
Telephone (989) 912-6240 Fax (989) 872-3820
Email Address mfalatko@hillsanddales.com Obligor Web Site Address www.hillsanddales.com

Investor Relations Contact, if any:

Name _____ Title _____
Telephone _____ Email Address _____

HILLS & DALES GENERAL HOSPITAL OBLIGATED GROUP
4675 HILL STREET
CASS CITY, MI 48726

OFFICER'S CERTIFICATE

DATED: DECEMBER 29, 2011

This Officer's Certificate is delivered pursuant to:

- Section and 5.10(b)(iii) of the Loan Agreement between Hills & Dales General Hospital (the Corporation) and the Michigan State Hospital Finance Authority (the State Issuer), dated as of December 15, 2005 (the 2005 Loan Agreement), delivered in connection with the Issuer's Hospital Revenue Bonds, Series 2005A (the Series 2005A Bonds);
- Section and 3.07(b)(iii) of the Trust Indenture the Corporation and Wells Fargo Bank, N.A. as Trustee, dated as of December 15, 2005 (the 2005 Taxable Indenture), delivered in connection with the Corporation's Taxable Hospital Revenue Refunding Bonds, Series 2005 (the Series 2005 Taxable Bonds); and
- Section 5.10(b)(iii) of the Loan Agreement between the Corporation and the County of Tuscola Hospital Finance Authority (the County Issuer), dated as of January 25, 2006 (the 2006 Loan Agreement), delivered in connection with the Issuer's Hospital Revenue Refunding Bonds, Series 2006A (the Series 2006A Bonds).

All capitalized terms used herein are as defined in the documents cited above, or in a Master Indenture and Security Agreement between the Corporation and Wells Fargo Bank, N.A. as Master Trustee, dated as of December 15, 2005 (the Master Indenture), or in other documents delivered in connection with the Series 2005A Bonds, the Series 2005 Taxable Bonds or the Series 2006A Bonds.

Pursuant to Section 5.10(b)(i) of the 2005 Loan Agreement, Section 3.07(b)(i) of the 2005 Taxable Indenture, and Section 5.10(b)(i) of the 2006 Loan Agreement, attached are audited financial statements for the Most Recent Fiscal Year ended September 30, 2011 (the Audited Financial Statements).

Pursuant to Section 5.10(b)(ii) of the 2005 Loan Agreement, Section 3.07(b)(ii) of the 2005 Taxable Indenture, and Section 5.10(b)(ii) of the 2006 Loan Agreement, attached are updates of certain financial and statistical data which were contained in Appendix A to the Private Placement Memorandum dated December 20, 2005, relating to the Series 2005A Bonds for the Most Recent Fiscal Year ended September 30, 2011.

MUNICIPAL SECONDARY MARKET DISCLOSURE
Hills and Dales General Hospital Obligated Group
Officer's Certificate relating to the Fiscal Year Ended September 30, 2011
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Pursuant to Section 5.10(b)(iii) of the 2005 Loan Agreement, Section 3.07(b)(iii) of the 2005 Taxable Indenture, and Section 5.10(b)(iii) of the 2006 Loan Agreement, the undersigned certifies that:

1. I am the Chief Executive Officer of the Corporation and duly authorized to deliver this Officer's Certificate;
2. The Obligated Group has complied with the Debt Service Coverage Ratio financial covenant, as required by Section 501(b)(ii) of the Master Indenture, with respect to the Fiscal Year ended September 30, 2011, the calculation for which follows:

<i>Debt Service Coverage Ratio Calculation</i> <i>Fiscal Year Ended September 30, 2011</i> <i>Per Section 501(b)(ii) of the Master Indenture</i>		
	Excess (Deficiency) of Revenue over Expenses	86,897
	Plus: Depreciation and Amortization Expense	1,202,632
	Plus: Interest Expense	961,327
NIADS	Net Income Available for Debt Service	2,250,856
MADS	Maximum Annual Debt Service Requirements	1,190,820
NIADS ÷ MADS	Debt Service Coverage Ratio	1.89
	Required Level	1.20

3. The Obligated Group has complied with the Days Cash on Hand financial covenant specified in Section 501(e) of the Master Indenture, scheduled to be measured as of the September 30, 2011 Test Date with respect to Daily Operating Expenses for the twelve-month period then ended, the calculation for which follows:

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Hills and Dales General Hospital Obligated Group
Officer's Certificate relating to the Fiscal Year Ended September 30, 2011
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<i>Days Cash on Hand Calculation at the September 30, 2011 Test Date Per Section 501(e) of the Master Indenture</i>		
	Non-restricted Cash	453,395
	Plus: Funded Depreciation and Unrestricted Investments	2,748,876
	Minus: Short-Term Indebtedness	0
FA	Financial Assets	3,202,271
	Operating Expenses	19,481,411
	Minus Depreciation	(1,202,632)
DOE	Daily Operating Expenses	50,079
FA ÷ DOE	Days Cash on Hand	64
	Required Level on the Test Date	45

4. The Obligated Group has complied with the trade accounts payable financial covenant, as required by Section 501(d) of the Master Indenture, the calculation for which follows:

<i>Average Age of Trade Accounts Payable, FY2011 Master Indenture §501(d)</i>		
Trade Accounts Payable at FYE2011	AP	818,398
Average Daily Trade Accounts Payable during FY2011	ADAP	25,028
Average Age of Trade Accounts Payable (days)	AP / ADAP	32.7
Required Level (less than)		90.0

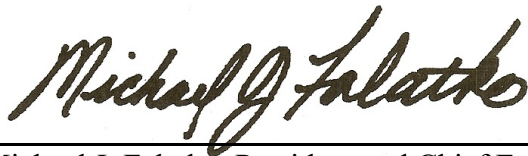
5. No Events of Default under the Master Indenture, the 2005 Loan Agreement, the 2005 Taxable Indenture, the 2006 Loan Agreement or any other document relating to the Series 2005A Bonds, the Series 2005 Taxable Bonds or the Series 2006A Bonds have occurred or are continuing.

The triennial report of an Insurance Consultant, as required by Section 503(a)(vi) of the Master Indenture, was included in last year's FY2010 annual disclosure report. The next such report will be delivered in connection with the FY2013 annual disclosure report.

In addition, pursuant to Section 5.10(b)(iv) of the 2005 Loan Agreement, Section 3.07(b)(iv) of the 2005 Taxable Indenture, and Section 5.10(b)(iv) of the 2006 Loan Agreement,

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management offered comments on the Obligated Group's financial condition and other matters via the quarterly continuing disclosure report relating to FY2011Q4. The next such comments will be included with the quarterly continuing disclosure report relating to FY2012Q1.

A handwritten signature in black ink, reading "Michael J. Falatko". The signature is written in a cursive style with a horizontal line underneath it.

Michael J. Falatko, President and Chief Executive Officer

HILLS & DALES GENERAL HOSPITAL
UPDATES OF FINANCIAL AND STATISTICAL DATA
MOST RECENT FISCAL YEAR ENDED SEPTEMBER 30, 2011

IN COMPLIANCE WITH
SECTION 5.10(B)(II) OF THE 2005 LOAN AGREEMENT
SECTION 3.07(B)(II) OF THE 2005 TAXABLE INDENTURE
SECTION 5.10(B)(II) OF THE 2006 LOAN AGREEMENT

<i>Historical Acute Care Utilization</i>					
	<i>Fiscal Years Ended September 30</i>				
	<i>2011</i>	<i>2010</i>	<i>2009</i>	<i>2008</i>	<i>2007</i>
Days in Period	365	365	365	366	365
Licensed Beds	25	25	25	25	25
Staffed Beds	25	25	25	25	25
Admissions	503	429	515	646	687
Patient Days	1,502	1,212	1,431	1,952	1,906
Average Daily Census	4.1	3.3	3.9	5.3	5.2
Average Length of Stay	3.0	2.8	2.8	3.0	2.8
Occupancy Rate ¹ (%)	16.5	13.3	15.7	21.3	20.9
¹ Based on Staffed Beds					

<i>Historical Outpatient Services Volumes</i>					
	<i>Fiscal Years Ended September 30</i>				
	<i>2011</i>	<i>2010</i>	<i>2009</i>	<i>2008</i>	<i>2007</i>
Emergency room visits	4,587	4,625	4,529	4,820	4,933
Home Care visits ¹			7,119	12,472	12,440
Employed physician practice visits ²	19,499	17,396	16,364	16,475	16,927
Specialty Clinic visits	653	676			
¹ Service discontinued on August 1, 2009					
² FY2009 figures changed to eliminate volumes attributable to discontinued practices					

MUNICIPAL SECONDARY MARKET DISCLOSURE
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<i>Historical Ancillary Services Volumes Provided to Inpatients</i>					
	<i>Fiscal Years Ended September 30</i>				
	<i>2011</i>	<i>2010</i>	<i>2009</i>	<i>2008</i>	<i>2007</i>
Laboratory procedures ¹	7,120	6,019	7,483	10,245	39,023
Radiology procedures	443	418	468	593	577
CT scan procedures	89	118	131	198	148
Ultrasound procedures	250	210	191	347	240
Nuclear medicine procedures	16	17	19	22	18
Respiratory procedures	10,440	9,772	9,366	12,745	13,517
Electrocardiograms	667	581	654	972	1,103

¹ The method of counting laboratory procedures was changed during FY2008, with conforming changes made to prior periods.

<i>Historical Ancillary Services Volumes Provided to Outpatients</i>					
	<i>Fiscal Years Ended September 30</i>				
	<i>2011</i>	<i>2010</i>	<i>2009</i>	<i>2008</i>	<i>2007</i>
Laboratory procedures ¹	56,206	58,894	60,522	66,205	174,417
Radiology procedures	5,518	5,636	6,500	7,458	7,313
CT scan procedures	2,085	2,161	2,568	2,736	2,307
Ultrasound procedures	1,893	2,009	1,939	2,041	2,006
Nuclear medicine procedures	427	417	466	519	599
Bone Density examinations	113	166	190	202	183
Respiratory procedures	11,049	12,328	10,935	11,404	12,605
Electrocardiograms	1,099	1,035	965	1,099	1,220
Electroencephalograms	104	141	135	112	139

¹ The method of counting laboratory procedures was changed during FY2008, with conforming changes made to prior periods.

MUNICIPAL SECONDARY MARKET DISCLOSURE
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<i>Historical Outpatient Therapy Volumes</i>					
	<i>Fiscal Years Ended September 30</i>				
	<i>2011</i>	<i>2010</i>	<i>2009</i>	<i>2008</i>	<i>2007</i>
Physical Therapy procedures:					
Cass City	2,838	3,192	3,717	3,879	3,578
Caro	4,359	5,058	5,538	5,901	6,831
Ubyly	341	169	0	0	0
Total Physical Therapy	7,538	8,419	9,255	9,780	10,409
Occupational Therapy procedures:					
Cass City	287	319	249	527	403
Caro	273	372	286	315	250
Total Occupational Therapy	560	691	535	842	653
Speech Therapy procedures:					
Cass City	57	47	54	22	27
Caro	9	49	6	57	58
Total Speech Therapy	66	96	60	79	85

<i>Historical Surgery Volumes</i>					
	<i>Fiscal Years Ended September 30</i>				
	<i>2011</i>	<i>2010</i>	<i>2009</i>	<i>2008</i>	<i>2007</i>
Inpatient procedures	142	101	132	174	156
Outpatient procedures	907	888	823	1,044	1,164
Total procedures	1,049	989	955	1,218	1,320
Percentage Outpatient	86.5%	89.8%	86.2%	85.7%	88.2%

MUNICIPAL SECONDARY MARKET DISCLOSURE
Hills & Dales General Hospital Obligated Group
Financial and Statistical Report relating to the Fiscal Year Ended September 30, 2011
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<i>Payor Mix by Gross Revenue</i>					
	<i>Fiscal Years Ended September 30</i>				
	<i>2011</i>	<i>2010</i>	<i>2009</i>	<i>2008</i>	<i>2007</i>
Medicare	43.4%	41.6%	42.9%	41.0%	44.8%
Medicaid	14.5%	14.7%	14.1%	12.8%	11.8%
Blue Cross	24.8%	26.1%	26.6%	27.7%	27.8%
PPOM ¹	2.6%	3.1%	2.4%	2.4%	4.9%
Commercial	8.3%	7.3%	6.3%	6.6%	5.5%
Self-Pay	1.7%	0.9%	0.5%	0.2%	0.2%
Other	4.7%	6.3%	7.2%	9.4%	5.0%
Totals	100.0%	100.0%	100.0%	100.0%	100.0%

¹ PPOM is a for-profit PPO product offered by Aetna Inc. ("Aetna"). Aetna acquired PPOM, along with other managed care products, from HMS Healthcare on July 18, 2005.

The tables entitled "Balance Sheet Summary" and Summary of Statement of Operations" are included in the audited financial statements.

Hills & Dales General Hospital Obligated Group

**Combined Financial Report
with Additional Information
September 30, 2011**

Hills & Dales General Hospital Obligated Group

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Plante & Moran, PLLC
Suite 100
1111 Michigan Ave.
East Lansing, MI 48823
Tel: 517.332.6200
Fax: 517.332.8502
plantemoran.com

Independent Auditor's Report

To the Board of Directors
Hills & Dales General Hospital Obligated Group

We have audited the accompanying special purpose combined balance sheet of Hills & Dales General Hospital Obligated Group (as defined in the master indenture dated December 15, 2005 between Hills & Dales General Hospital Obligated Group and Wells Fargo Bank, N.A., as trustee) as of September 30, 2011 and 2010 and the related special purpose combined statements of operations, changes in net assets, and cash flows for the years then ended. These combined financial statements are the responsibility of Hills & Dales General Hospital Obligated Group's management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

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

As described in Note I, the special purpose combined financial statements were prepared in accordance with the accounting requirements set forth in Section 501 of the master indenture and are not intended to be a presentation in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the special purpose combined financial statements of Hills & Dales General Hospital Obligated Group as of and for the years ended September 30, 2011 and 2010 are fairly presented, in all material respects, on the basis of accounting described in Note I.

This report is intended solely for the information and use of the board of directors, the management of Hills & Dales General Hospital Obligated Group, the trustee under the master indenture, and the bondholders and is not intended to be and should not be used by anyone other than these specified parties.

Plante & Moran, PLLC

December 13, 2011

Hills & Dales General Hospital Obligated Group

Combined Balance Sheet

	September 30, 2011	September 30, 2010
Assets		
Current Assets		
Cash and cash equivalents	\$ 453,395	\$ 340,242
Accounts receivable (Note 2)	2,003,985	890,161
Estimated third-party payor settlements receivable (Note 3)	303,144	505,079
Current portion of assets limited as to use (Note 4)	794,813	794,813
Prepaid expenses and other	117,264	149,391
Inventory	153,513	157,919
Total current assets	3,826,114	2,837,605
Assets Limited as to Use - Net of current portion (Note 4)	1,561,510	1,542,987
Investments in Marketable Securities	2,748,876	2,740,155
Property and Equipment - Net (Note 6)	12,043,518	12,718,905
Other Assets	393,833	413,969
Total assets	\$ 20,573,851	\$ 20,253,621
Liabilities and Net Assets		
Current Liabilities		
Current portion of long-term debt (Note 8)	\$ 285,731	\$ 248,630
Accounts payable	818,398	360,368
Estimated third-party payor settlements payable (Note 3)	79,721	54,646
Accrued liabilities (Note 10)	1,270,952	1,457,373
Total current liabilities	2,454,802	2,121,017
Long-term Debt - Net of current portion (Note 8)	13,808,075	13,869,663
Total liabilities	16,262,877	15,990,680
Net Assets - Unrestricted	4,310,974	4,262,941
Total liabilities and net assets	\$ 20,573,851	\$ 20,253,621

Hills & Dales General Hospital Obligated Group

Combined Statement of Operations

	Years Ended	
	September 30, 2011	September 30, 2010
Unrestricted Revenue, Gains, and Other Support		
Net patient service revenue	\$ 18,425,119	\$ 17,018,562
Other	293,188	928,735
Total unrestricted revenue, gains, and other support	18,718,307	17,947,297
Expenses		
Salaries and wages	8,268,497	7,827,833
Employee benefits and payroll taxes	2,097,116	2,300,158
Operating supplies and expenses	4,196,420	4,091,173
Purchased services	1,592,222	1,397,052
Insurance	242,742	187,934
Legal expenses	42,723	142,885
Depreciation and amortization	1,202,632	1,216,157
Provision for bad debts	877,732	937,396
Interest expense	961,327	955,861
Total expenses (Note 15)	19,481,411	19,056,449
Operating Loss	(763,104)	(1,109,152)
Other Income - Net (Note 14)	850,001	470,099
Excess of Revenue Over (Under) Expenses	86,897	(639,053)
Change in Unrealized (Losses) Gains on Investments	(38,864)	43,893
Increase (Decrease) in Unrestricted Net Assets	\$ 48,033	\$ (595,160)

Hills & Dales General Hospital Obligated Group

Combined Statement of Changes in Net Assets

	Years Ended	
	September 30, 2011	September 30, 2010
Excess of Revenue Over (Under) Expenses	\$ 86,897	\$ (639,053)
Change in Unrealized (Losses) Gains on Investments	(38,864)	43,893
Increase (Decrease) in Net Assets	48,033	(595,160)
Net Assets - Beginning of year	4,262,941	4,858,101
Net Assets - End of year	\$ 4,310,974	\$ 4,262,941

Hills & Dales General Hospital Obligated Group

Combined Statement of Cash Flows

	Years Ended	
	September 30, 2011	September 30, 2010
Cash Flows from Operating Activities		
Increase (decrease) in net assets	\$ 48,033	\$ (595,160)
Adjustments to reconcile increase (decrease) in net assets to net cash from operating activities:		
Depreciation and amortization	1,202,632	1,216,157
Change in unrealized net gains and losses on investments	38,864	(43,893)
Realized gains on investments	-	(215,126)
Gain on disposal of equipment	(3,440)	(8,588)
Provision for bad debts	877,732	937,396
Changes in assets and liabilities that (used) provided cash:		
Accounts receivable	(1,991,556)	(993,884)
Prepaid expenses and other	32,127	(45,659)
Inventory	4,406	148,013
Other assets	24,822	16,745
Accounts payable	458,030	(560,246)
Accrued liabilities	(186,421)	148,630
Estimated third-party payor settlements receivable and payable - Net	227,010	(1,295,228)
Net cash provided by (used in) operating activities	732,239	(1,290,843)
Cash Flows from Investing Activities		
Purchase of property and equipment	(527,245)	(211,590)
Proceeds from sale of property and equipment	3,440	8,588
Purchase of investments	(1,519,820)	(2,138,794)
Proceeds from sale of investments	1,241,639	15,496
Net change in assets limited as to use	212,073	160,454
Net cash used in investing activities	(589,913)	(2,165,846)
Cash Flows from Financing Activities		
Proceeds from debt obligations	230,103	-
Principal payment on debt obligations	(259,276)	(222,251)
Net cash used in financing activities	(29,173)	(222,251)
Net Increase (Decrease) in Cash and Cash Equivalents	113,153	(3,678,940)
Cash and Cash Equivalents - Beginning of year	340,242	4,019,182
Cash and Cash Equivalents - End of year	\$ 453,395	\$ 340,242
Supplemental Cash Flow Information -		
Cash paid for interest	\$ 982,588	\$ 858,375

Hills & Dales General Hospital Obligated Group

Notes to Combined Financial Statements September 30, 2011 and 2010

Note 1 - Nature of Business and Significant Accounting Policies

Basis of Accounting - The accompanying combined financial statements have been prepared on a basis of accounting as required by Section 501 of the master indenture between Wells Fargo Bank, N.A., as trustee, and Hills & Dales General Hospital Obligated Group. The basis differs from accounting principles generally accepted in the United States of America in that it only includes the accounts of entities that comprise Hills & Dales General Hospital Obligated Group as defined below.

Reporting Entity and Corporate Structure - Hills & Dales General Hospital Obligated Group (the "Obligated Group"), as defined by the master indenture dated December 15, 2005, includes the accounts of Hills & Dales Healthcare Corporation (the "Corporation") and Hills & Dales General Hospital, Inc. (the "Hospital"). All material intercompany balances and transactions have been eliminated.

Hills & Dales General Hospital, Inc., located in Cass City, Michigan, is a not-for-profit critical access hospital. The Hospital is a subsidiary of Hills & Dales Healthcare Corporation, whose principal activity is to provide support for the Hospital and other related healthcare organizations. Each entity operates independently with its own board and management. The Hospital provides inpatient, outpatient, and emergency services to residents of the Thumb area of Michigan.

Cash and Cash Equivalents - The Obligated Group considers all liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Concentration of Credit Risk Arising from Deposit Accounts - Custodial credit risk is the risk that in the event of a bank failure, the Obligated Group's deposits may not be returned. The Obligated Group's policy related to custodial credit risk of bank deposits is to maintain all deposits in a high-quality institution. The Obligated Group maintains balances in its deposit accounts to adequately cover current operating payment expenses and, as a result, generally requires balances that exceed the FDIC insurance limits of \$250,000. Effective December 31, 2010, the FDIC adopted a final rule amending its deposit insurance regulations to adopt Section 343 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), providing for unlimited deposit insurance for "noninterest-bearing transaction accounts" through December 31, 2012. As of September 30, 2011, the uninsured cash balances total \$190,943.

Hills & Dales General Hospital Obligated Group

Notes to Combined Financial Statements September 30, 2011 and 2010

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

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

Inventory - Inventory is stated at the lower of cost (generally determined on the first-in, first-out method) or market.

Assets Limited as to Use - Assets limited as to use include assets held by a trustee under bond indenture for future capital improvements and debt service requirements.

Investments - Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the combined balance sheet. At September 30, 2011, there was \$774,842 in investments that is comprised of cash equivalents and certificates of deposit. Investment income or loss (including realized gains and losses on investments, interest, and dividends) is included in loss from operations unless the income or loss is restricted by donor or law. Unrealized gains or losses on investments are excluded from loss from operations.

Property and Equipment - Property and equipment acquisitions are recorded at cost. Donations of property and equipment are recorded at fair market value at the date 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.

Unamortized Bond Issue Costs - Unamortized bond issue costs totaling approximately \$260,100 are included in other assets and are being amortized over the term of the bonds.

Excess of Revenue Over (Under) Expenses - The combined statement of operations includes excess of revenue over (under) expenses. Changes in unrestricted net assets, which are excluded from excess of revenue over (under) expenses, consistent with industry practice, include net assets released from restrictions for the acquisition of long-lived assets, permanent transfers of assets to and from affiliates for other than goods and services, and changes in unrealized gains and losses on investments.

Hills & Dales General Hospital Obligated Group

Notes to Combined Financial Statements September 30, 2011 and 2010

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

Operating and Nonoperating Activities - The Obligated Group's primary mission is to meet the healthcare needs of its local market area through a broad range of general and specialized healthcare services including inpatient acute-care, outpatient, and other healthcare services. Activities directly associated with the furtherance of this purpose are considered to be operating activities. Other activities that result in gains or losses unrelated to the Obligated Group's primary mission are considered to be nonoperating and are reported in other income, consisting primarily of investment income and revenue for the implementation of electronic health records.

Net Patient Service Revenue - A significant portion of the Hospital's net patient service revenue is receivable under contractual agreements with Medicare, Medicaid, and Blue Cross/Blue Shield of Michigan. These agreements provide payments at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Management believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs.

Contributions - The Obligated Group reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the combined statement of changes in net assets as net assets released from restrictions.

The Obligated Group reports gifts of land, building, 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 Obligated Group reports the expiration of donor restrictions when the assets are placed in service.

Hills & Dales General Hospital Obligated Group

Notes to Combined Financial Statements September 30, 2011 and 2010

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

Professional Liability Insurance - The Hospital accrues the ultimate expense, including litigation and settlement expense, for reported incidents occurring during the year, as well as the estimated cost of those claims that have not been reported to the insurance carrier at year end.

Charity Care - The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Obligated Group does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

Tax Status - All entities comprising the Obligated Group are tax exempt under the Internal Revenue Code and, accordingly, no tax provision is reflected in the combined financial statements.

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 and disclosures in the financial statements. Actual results could differ from those estimates.

Fair Value of Financial Instruments - The fair value of financial instruments, including cash, accounts receivable, accounts payable, and debt, approximates carrying values. Investments are recorded at fair value under generally accepted accounting principles.

Subsequent Events - The combined financial statements and related disclosures include evaluation of events up through and including December 13, 2011, which is the date the combined financial statements were available to be issued.

New Accounting Pronouncements - 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 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 year ending September 30, 2012.

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 year ending September 30, 2012 and will be applied retrospectively to all prior periods presented.

Hills & Dales General Hospital Obligated Group

Notes to Combined Financial Statements September 30, 2011 and 2010

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

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*. Topic 954 establishes 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 generally accepted accounting principles for entities within the scope of this ASU. The provision for bad debts associated with patient service revenue 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 Hospital for the year ending September 30, 2013.

The Obligated Group is currently assessing the impact these new standards will have on its combined financial statements.

Note 2 - Accounts Receivable

The details of accounts receivable are set forth as follows:

	2011	2010
Patient accounts receivable	\$ 4,229,398	\$ 3,854,121
Less allowance for uncollectible accounts	(901,293)	(869,823)
Less allowance for contractual adjustments and interim payment advances	<u>(1,798,631)</u>	<u>(2,557,706)</u>
Total patient accounts receivable	1,529,474	426,592
Other receivables	<u>474,511</u>	<u>463,569</u>
Total accounts receivable	<u>\$ 2,003,985</u>	<u>\$ 890,161</u>

Hills & Dales General Hospital Obligated Group

Notes to Combined Financial Statements September 30, 2011 and 2010

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 patient accounts receivable from patients and third-party payors is as follows:

	Percentage	
	2011	2010
Medicare	27	22
Medicaid	12	15
Blue Cross/Blue Shield of Michigan	14	15
Commercial insurance	17	13
Patients	30	35
Total	100	100

Note 3 - Cost Report Settlements

The Hospital has agreements with various payors that provide for reimbursement to the Hospital at amounts different from its established rates. A summary of the basis of reimbursement with significant third-party payors is as follows:

- **Medicare** - The Hospital is designated as a critical access hospital under Medicare regulations. Critical access hospitals receive cost reimbursement for acute-care inpatient and substantially all outpatient services.
- **Medicaid** - Inpatient, acute-care services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. Inpatient capital costs relating to Medicaid patients are paid on a cost reimbursement method. Outpatient services are reimbursed on an established fee-for-service methodology or ambulatory payment classification system.
- **Blue Cross/Blue Shield of Michigan** - Services rendered to Blue Cross subscribers are reimbursed at 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, which is subject to audit by fiscal intermediaries. These audits may result in some changes to estimated cost report settlements and will be adjusted in future periods as final settlements are determined. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Final cost report settlements increased net patient service revenue by approximately \$1,225,000 and \$500,000 for the years ended September 30, 2011 and 2010, respectively, reflecting amounts received for prior years in excess of previously estimated amounts.

Hills & Dales General Hospital Obligated Group

Notes to Combined Financial Statements September 30, 2011 and 2010

Note 3 - Cost Report Settlements (Continued)

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 not been contacted by the RAC auditors.

Note 4 - Assets Limited as to Use

Assets limited as to use consist of the following:

	2011	2010
Funds held in trust under bond indentures related to Debt Service Reserve Fund, Project Fund, and Capitalized Interest Fund:		
Cash and cash equivalents	\$ 555,570	\$ 562,388
Short-term private debt obligations	1,177,216	1,151,875
Less amount for payment of current liabilities	<u>(794,813)</u>	<u>(794,813)</u>
Total funds held in trust under bond indentures	937,973	919,450
Funds held under affiliate guarantee arrangement - Certificates of deposit (Note 13)	500,000	500,000
Other	<u>123,537</u>	<u>123,537</u>
Total assets limited as to use	<u>\$ 1,561,510</u>	<u>\$ 1,542,987</u>

The funds held in trust for bond requirements are subject to the terms of the Obligated Group's bonds payable detailed in Note 8.

Note 5 - Fair Value Measurements

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

The following tables present information about the Obligated Group's assets measured at fair value on a recurring basis at September 30, 2011 and 2010 and the valuation techniques used by the Obligated Group to determine those fair values.

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

Hills & Dales General Hospital Obligated Group

Notes to Combined Financial Statements September 30, 2011 and 2010

Note 5 - Fair Value Measurements (Continued)

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 Obligated Group's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

During 2010, the Obligated Group adopted, on a prospective basis, new accounting standards which require disclosure of fair value by class of investments.

Assets Measured at Fair Value on a Recurring Basis at September 30, 2011

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at September 30, 2011
Mutual funds:				
Equity mutual funds	\$ 532,126	\$ -	\$ -	\$ 532,126
Bond mutual funds	301,300	-	-	301,300
Fixed-income securities:				
Federal agency securities	-	621,392	-	621,392
State and local government securities	-	105,215	-	105,215
Short-term private debt obligations	-	1,177,216	-	1,177,216
Corporate debt securities	-	414,001	-	414,001
Total	<u>\$ 833,426</u>	<u>\$ 2,317,824</u>	<u>\$ -</u>	<u>\$ 3,151,250</u>

Hills & Dales General Hospital Obligated Group

Notes to Combined Financial Statements September 30, 2011 and 2010

Note 5 - Fair Value Measurements (Continued)

Assets Measured at Fair Value on a Recurring Basis at September 30, 2010

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at September 30, 2010
Equity securities - U.S. common stocks	\$ 370,419	\$ -	\$ -	\$ 370,419
Fixed-income securities:				
U.S. Treasury securities	-	89,830	-	89,830
Corporate debt securities	-	238,909	-	238,909
Short-term private debt obligations	-	1,151,875	-	1,151,875
Total	\$ 370,419	\$ 1,480,614	\$ -	\$ 1,851,033

The fair value of fixed-income securities, including the short-term private debt obligations, at September 30, 2011 was determined primarily based on Level 2 inputs. The Obligated Group estimates the fair value of these investments using the carrying value, which approximates fair value.

Note 6 - Property and Equipment

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

	2011	2010	Depreciable Life - Years
Land	\$ 716,251	\$ 716,251	-
Land improvements	669,761	669,761	5-25
Buildings	15,624,845	15,624,845	5-50
Equipment	11,564,454	11,086,242	3-5
Total cost	28,575,311	28,097,099	
Accumulated depreciation	(16,531,793)	(15,378,194)	
Net property and equipment	\$ 12,043,518	\$ 12,718,905	

Depreciation and amortization expense was \$1,202,632 and \$1,216,157 for the years ended September 30, 2011 and 2010, respectively.

Hills & Dales General Hospital Obligated Group

Notes to Combined Financial Statements September 30, 2011 and 2010

Note 7 - Bank Line of Credit

The Hospital has an operating line of credit with a local bank in the amount of \$500,000 with an effective interest rate of 4.50 percent September 30, 2011 and 2010. There were no outstanding draws on the line at September 30, 2011 and 2010. The line of credit was secured by substantially all non-real estate assets of the Hospital and expires May 31, 2012.

Note 8 - Long-term Debt

A summary of long-term debt and capital lease obligations at September 30, 2011 and 2010 is as follows:

	2011	2010
Hospital revenue bonds, Series 2005A	\$ 11,775,000	\$ 11,775,000
Taxable hospital revenue refunding bonds, Series 2005	869,987	926,427
Hospital revenue refunding bonds, Series 2006A	1,279,558	1,370,718
Other	296,178	177,751
Total	14,220,723	14,249,896
Less original issue discount	126,917	131,603
Less current portion	285,731	248,630
Long-term portion	<u>\$ 13,808,075</u>	<u>\$ 13,869,663</u>

Hospital revenue bonds, Series 2005A, consist of hospital revenue bonds payable to the Michigan State Hospital Finance Authority. The bonds are issued to Hills & Dales General Hospital, Inc., as obligated group agent, on behalf of the Obligated Group. The bonds require interest-only payments at a fixed rate of 6.75 percent until 2022. Beginning in 2022, the bonds are payable annually in amounts ranging from \$355,000 to \$1,075,000 through 2039.

Taxable hospital revenue bonds, Series 2005, consist of taxable hospital revenue refunding bonds payable to a financial institution. The bonds are the joint and several obligations of the Obligated Group. The bonds carry interest rates ranging from 6.45 percent to 7.45 percent and are payable annually in amounts ranging from \$60,000 to \$115,000 through 2021.

Hospital obligated group bonds payable, Series 2006A, consist of hospital revenue refunding serial bonds payable to the County of Tuscola Hospital Finance Authority. The bonds are the joint and several obligations of the Obligated Group. The bonds carry interest rates ranging from 4.15 percent to 5.10 percent and are payable annually in amounts ranging from \$105,000 to \$155,000 through 2021.

Hills & Dales General Hospital Obligated Group

Notes to Combined Financial Statements September 30, 2011 and 2010

Note 8 - Long-term Debt (Continued)

All of the bonds are payable from the revenue of the Obligated Group and are collateralized by a mortgage on certain real property of the Hospital, a security interest in certain personal property of the Hospital, and a pledge of gross revenue of the Obligated Group.

Under the terms of the bond indentures, the Obligated Group is required to maintain certain deposits with a trustee. Such deposits are included with assets limited as to use. The note indentures also place limits on the incurrence of additional borrowings and require that the Obligated Group satisfy certain measures of financial performance as long as the notes are outstanding. The Obligated Group is in compliance with these covenants at September 30, 2011 and 2010.

Minimum principal payments on long-term debt are as follows:

<u>Years Ending September 30</u>	<u>Amount</u>
2012	\$ 285,731
2013	264,428
2014	251,224
2015	219,936
2016	207,000
Thereafter	<u>12,992,404</u>
Total minimum payments	<u>\$ 14,220,723</u>

Note 9 - Operating Leases

The Hospital has entered into various operating leases for equipment in the normal course of business through 2015.

Lease expense totaled \$364,903 and \$484,667 for the years ended September 30, 2011 and 2010, respectively.

Future minimum lease payments are as follows:

<u>Years Ending September 30</u>	<u>Amount</u>
2012	\$ 60,822
2013	60,822
2014	60,822
2015	<u>25,342</u>
Total	<u>\$ 207,808</u>

Hills & Dales General Hospital Obligated Group

Notes to Combined Financial Statements September 30, 2011 and 2010

Note 10 - Accrued Liabilities

The detail of accrued liabilities is as follows:

	2011	2010
Payroll and related items	\$ 447,317	\$ 631,351
Compensated absences	311,234	293,656
Accrued interest and other	362,401	382,366
Professional liability claims (Note 12)	150,000	150,000
Total accrued liabilities	<u>\$ 1,270,952</u>	<u>\$ 1,457,373</u>

Note 11 - Pension Plan

The Hospital maintains a defined contribution pension plan covering substantially all employees. From October 1, 2010 through December 31, 2010, the plan includes a 50 percent employer match of participant contributions up to 1 percent of compensation, with the potential for an additional discretionary contribution. In order to meet safe harbor requirements, the tax-deferred retirement savings plan changed as follows, effective January 1, 2011. The Hospital will contribute a matching contribution for each eligible employee equal to 100 percent of the first 3 percent of gross wages, plus an additional 50 percent of the next 2 percent of gross wages, with a maximum of 4 percent if the employee contributes 5 percent through his or her voluntary deferral. There is an optional additional discretionary profit-sharing plan still in existence at 0 percent. Participants are eligible for the employer match on the first day of service after reaching age 21. Pension expense for the defined contribution plan was \$168,178 and \$182,780 in 2011 and 2010, respectively.

Note 12 - Professional Liability Insurance

The Hospital is insured against potential professional liability claims under a claims-made policy, whereby only the claims reported to the insurance carrier during the policy period are covered regardless of when the incident giving rise to the claim occurred. Under the terms of the policy, the Hospital bears the risk of the ultimate costs of any individual and aggregate claims exceeding the policy limits for claims asserted in the policy year, certain deductibles under the policy, and any claims that have not been reported to the insurance carrier.

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.

Hills & Dales General Hospital Obligated Group

Notes to Combined Financial Statements September 30, 2011 and 2010

Note 13 - Related Party Transactions

The Obligated Group has guaranteed a certain bond to an affiliate. In the event of a default by the affiliate, the Hospital could be required to repay the full amount of the guarantee. As of September 30, 2011, the maximum potential future payments under this guarantee total \$500,000 and are payable through March 15, 2017. In the event the Hospital is required to make payments under this guarantee, the Hospital could seek to recover those amounts from the affiliate; however, the Hospital does not hold specific recourse or collateral rights in connection with the guarantee.

Note 14 - Other Income - Net

Details of other income for the years ended September 30, 2011 and 2010 are as follows:

	2011	2010
Contributions	\$ 9,766	\$ 9,583
Interest and dividend income	275,347	245,390
Net gains on sales of stock	-	215,126
Electronic health records funds	564,888	-
Total other income - Net	<u>\$ 850,001</u>	<u>\$ 470,099</u>

Note 15 - Functional Expenses

The Obligated Group provides general healthcare services to residents within its geographic location. Expenses related to providing these services are as follows:

	2011	2010
Healthcare services	\$ 12,977,539	\$ 12,360,182
General and administrative	6,503,872	6,696,267
Total	<u>\$ 19,481,411</u>	<u>\$ 19,056,449</u>

Additional Information



Plante & Moran, PLLC
Suite 100
1111 Michigan Ave.
East Lansing, MI 48823
Tel: 517.332.6200
Fax: 517.332.8502
plantemoran.com

Independent Auditor's Report on Additional Information

To the Board of Directors
Hills & Dales General Hospital Obligated Group

We have audited the special purpose combined financial statements of Hills & Dales General Hospital Obligated Group as of September 30, 2011 and 2010. Our audits were made for the purpose of forming an opinion on the combined financial statements taken as a whole. The combining information in the accompanying schedules is presented for the purpose of additional analysis of the combined financial statements rather than to present the financial position and results of operations of the individual entities and is not a required part of the basic combined financial statements. The combining information has been subjected to the procedures applied in the audits of the combined financial statements and, in our opinion, is fairly stated in all material respects in relation to the combined financial statements taken as a whole.

Plante & Moran, PLLC

December 13, 2011

Hills & Dales General Hospital Obligated Group

Combining Balance Sheet September 30, 2011

	Hills & Dales General Hospital, Inc.	Hills & Dales Healthcare Corporation	Total
Assets			
Current Assets			
Cash and cash equivalents	\$ 329,159	\$ 124,236	\$ 453,395
Accounts receivable	1,923,225	80,760	2,003,985
Estimated third-party payor settlements receivable	303,144	-	303,144
Current portion of assets limited as to use	555,570	239,243	794,813
Prepaid expenses and other	117,264	-	117,264
Inventory	153,513	-	153,513
Total current assets	3,381,875	444,239	3,826,114
Assets Limited as to Use - Net of current portion	-	1,561,510	1,561,510
Investments in Marketable Securities	-	2,748,876	2,748,876
Property and Equipment - Net	11,214,492	829,026	12,043,518
Other Assets	393,833	-	393,833
Total assets	<u>\$ 14,990,200</u>	<u>\$ 5,583,651</u>	<u>\$ 20,573,851</u>
Liabilities and Net Assets (Deficit)			
Current Liabilities			
Current portion of long-term debt	\$ 272,398	\$ 13,333	\$ 285,731
Accounts payable	818,398	-	818,398
Estimated third-party payor settlements payable	79,721	-	79,721
Accrued liabilities	1,270,952	-	1,270,952
Total current liabilities	2,441,469	13,333	2,454,802
Long-term Debt - Net of current portion	13,808,075	-	13,808,075
Total liabilities	16,249,544	13,333	16,262,877
Net Assets (Deficit) - Unrestricted	(1,259,344)	5,570,318	4,310,974
Total liabilities and net assets (deficit)	<u>\$ 14,990,200</u>	<u>\$ 5,583,651</u>	<u>\$ 20,573,851</u>

Hills & Dales General Hospital Obligated Group

Combining Balance Sheet September 30, 2010

	Hills & Dales General Hospital, Inc.	Hills & Dales Healthcare Corporation	Total
Assets			
Current Assets			
Cash and cash equivalents	\$ 292,751	\$ 47,491	\$ 340,242
Accounts receivable	827,608	62,553	890,161
Estimated third-party payor settlements receivable	505,079	-	505,079
Current portion of assets limited as to use	562,388	232,425	794,813
Prepaid expenses and other	149,391	-	149,391
Inventory	157,919	-	157,919
Total current assets	2,495,136	342,469	2,837,605
Assets Limited as to Use - Net of current portion	-	1,542,987	1,542,987
Investments in Marketable Securities	-	2,740,155	2,740,155
Property and Equipment - Net	11,883,260	835,645	12,718,905
Other Assets	413,969	-	413,969
Total assets	<u>\$ 14,792,365</u>	<u>\$ 5,461,256</u>	<u>\$ 20,253,621</u>
Liabilities and Net Assets (Deficit)			
Current Liabilities			
Current portion of long-term debt	\$ 235,297	\$ 13,333	\$ 248,630
Accounts payable	360,368	-	360,368
Estimated third-party payor settlements payable	54,646	-	54,646
Accrued liabilities	1,457,373	-	1,457,373
Total current liabilities	2,107,684	13,333	2,121,017
Long-term Debt - Net of current portion	13,856,329	13,334	13,869,663
Total liabilities	15,964,013	26,667	15,990,680
Net Assets (Deficit) - Unrestricted	(1,171,648)	5,434,589	4,262,941
Total liabilities and net assets (deficit)	<u>\$ 14,792,365</u>	<u>\$ 5,461,256</u>	<u>\$ 20,253,621</u>

Hills & Dales General Hospital Obligated Group

Combining Statement of Operations Year Ended September 30, 2011

	Hills & Dales General Hospital, Inc.	Hills & Dales Healthcare Corporation	Total
Unrestricted Revenue, Gains, and Other Support			
Net patient service revenue	\$ 18,425,119	\$ -	\$ 18,425,119
Other	275,686	17,502	293,188
Total unrestricted revenue, gains, and other support	18,700,805	17,502	18,718,307
Expenses			
Salaries and wages	8,268,497	-	8,268,497
Employee benefits and payroll taxes	2,097,116	-	2,097,116
Operating supplies and expenses	4,164,294	32,126	4,196,420
Purchased services	1,592,222	-	1,592,222
Insurance	242,742	-	242,742
Legal expenses	42,723	-	42,723
Depreciation and amortization	1,196,013	6,619	1,202,632
Provision for bad debts	877,732	-	877,732
Interest expense	960,130	1,197	961,327
Total expenses	19,441,469	39,942	19,481,411
Operating Loss	(740,664)	(22,440)	(763,104)
Other Income - Net	602,285	247,716	850,001
Excess of Revenue (Under) Over Expenses Before Transfer	(138,379)	225,276	86,897
Transfer from (to) Affiliate	50,683	(50,683)	-
Change in Unrealized Losses on Investments	-	(38,864)	(38,864)
(Decrease) Increase in Unrestricted Net Assets (Deficit)	\$ (87,696)	\$ 135,729	\$ 48,033

Hills & Dales General Hospital Obligated Group

Combining Statement of Operations Year Ended September 30, 2010

	Hills & Dales General Hospital, Inc.	Hills & Dales Healthcare Corporation	Total
Unrestricted Revenue, Gains, and Other Support			
Net patient service revenue	\$ 17,018,562	\$ -	\$ 17,018,562
Other	902,794	25,941	928,735
Total unrestricted revenue, gains, and other support	17,921,356	25,941	17,947,297
Expenses			
Salaries and wages	7,827,833	-	7,827,833
Employee benefits and payroll taxes	2,300,158	-	2,300,158
Operating supplies and expenses	4,039,980	51,193	4,091,173
Purchased services	1,397,052	-	1,397,052
Insurance	187,934	-	187,934
Legal expenses	142,885	-	142,885
Depreciation and amortization	1,209,538	6,619	1,216,157
Provision for bad debts	937,396	-	937,396
Interest expense	954,065	1,796	955,861
Total expenses	18,996,841	59,608	19,056,449
Operating Loss	(1,075,485)	(33,667)	(1,109,152)
Other Income	270,862	199,237	470,099
Excess of Revenue (Under) Over Expenses	(804,623)	165,570	(639,053)
Transfer (to) from Affiliate	(3,151,875)	3,151,875	-
Change in Unrealized Gains on Investments	-	43,893	43,893
(Decrease) Increase in Unrestricted Net Assets (Deficit)	\$ (3,956,498)	\$ 3,361,338	\$ (595,160)

Hills & Dales General Hospital Obligated Group

Combining Statement of Changes in Net Assets (Deficit) Year Ended September 30, 2011

	Hills & Dales General Hospital, Inc.	Hills & Dales Healthcare Corporation	Total
Unrestricted Net Assets (Deficit)			
Excess of revenue (under) over expenses	\$ (138,379)	\$ 225,276	\$ 86,897
Change in unrealized losses on investments	-	(38,864)	(38,864)
Transfer from (to) affiliate	50,683	(50,683)	-
(Decrease) Increase in Unrestricted Net Assets (Deficit)	(87,696)	135,729	48,033
Net Assets (Deficit) - Beginning of year	(1,171,648)	5,434,589	4,262,941
Net Assets (Deficit) - End of year	\$ 1,259,344	\$ 5,570,318	\$ 4,310,974

Hills & Dales General Hospital Obligated Group

Combining Statement of Changes in Net Assets (Deficit) Year Ended September 30, 2010

	Hills & Dales General Hospital, Inc.	Hills & Dales Healthcare Corporation	Total
Unrestricted Net Assets			
Excess of revenue (under) over expenses	\$ (804,623)	\$ 165,570	\$ (639,053)
Change in unrealized gains and losses on investments	-	43,893	43,893
Transfer (to) from affiliate	(3,151,875)	3,151,875	-
(Decrease) Increase in Unrestricted Net Assets	(3,956,498)	3,361,338	(595,160)
Net Assets - Beginning of year	2,784,850	2,073,251	4,858,101
Net Assets (Deficit) - End of year	<u>\$ (1,171,648)</u>	<u>\$ 5,434,589</u>	<u>\$ 4,262,941</u>