

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):

\$23,150,000

City of Iron River Hospital Finance Authority (Michigan)

Hospital Revenue and Refunding Bonds, Series 2008

Iron County Community Hospitals, Inc. (now known as NORTHSTAR Health System)

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

463003AA1

463003AL7

463003AT0

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) 52 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: January – December 2010 (FY2010)

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

Fiscal Period Covered: January – December 2010 (FY2010)

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 Glenn E. Dobson Title Chief Financial Officer
Employer NORTHSTAR Health System (f/k/a Iron County Community Hospitals, Inc.)
Address 1400 West Ice Lake Road City Iron River State MI Zip Code 49935
Telephone (906) 265-0436 Fax (906) 265-3098
Email Address Glenn.Dobson@northstarhs.org Obligor Web Site Address www.northstarhs.org

Investor Relations Contact, if any:

Name _____ Title _____
Telephone _____ Email Address _____

NORTHSTAR HEALTH SYSTEM
(F/K/A IRON COUNTY COMMUNITY HOSPITALS, INC.)
1400 WEST ICE LAKE ROAD
IRON RIVER, MI 49935

OFFICER'S CERTIFICATE

DATED: JANUARY 11, 2012

This Officer's Certificate is delivered pursuant to Section 5.10(b)(iii) of the Loan Agreement between Iron County Community Hospitals, Inc. (the Corporation) and the City of Iron River Hospital Finance Authority (the Issuer), dated as of June 1, 2008. All capitalized terms used herein are as defined in the Loan Agreement, in the Trust Indenture between the Issuer and Wells Fargo Bank, N.A., as Bond Trustee, dated as of June 1, 2008, or in the Master Indenture and Security Agreement between the Corporation and Wells Fargo Bank, N.A., as Master Trustee, dated as of June 1, 2008.

As required by Section 5.10(a) of the Loan Agreement, attached is the Annual Report referenced therein. The Annual Report contains audited financial statements for the Fiscal Year (FY) ended December 31, 2010, as required by Section 5.10(b)(i) of the Loan Agreement, updates of certain financial and statistical data contained in the Official Statement relating to the Series 2008 Bonds dated May 30, 2008, as required by Section 5.10(b)(ii) of the Loan Agreement, and management's comments on financial condition and other matters as required by Section 5.10(b)(iv) of the Loan Agreement.

The biennial report of an Insurance Consultant, as required by Section 503(a)(vi) of the Master Indenture, was filed after the close of FY2009, so it need not be included in this FY's Annual Report.

As required by Section 5.10(b)(iii) of the Loan Agreement, the undersigned certifies that:

1. I am the Chief Financial Officer of the Corporation and duly authorized to deliver this Officer's Certificate;

2. the Obligated Group has failed to comply with the Debt Service Coverage Ratio covenant specified in Section 5.1(b)(ii) of the Master Indenture, as demonstrated by the calculations below:

<i>Debt Service Coverage Ratio Calculation for FY2010 Based on Maximum Annual Debt Service Requirements Per Section 501(b)(ii) of the Master Indenture</i>		
Excess (Deficiency) of Revenues over Expenses		(2,415,096)
Plus:	Interest	1,468,594
Plus:	Depreciation and Amortization	1,854,715
Plus:	Loss on extinguishment of Indebtedness	0
Plus:	Loss on disposal of Capital Assets	0
Net Income Available for Debt Service		908,213
Maximum Annual Debt Service Requirements		1,739,321
Debt Service Coverage Ratio		0.52
Requirement		1.20

having caused an Event of Default pursuant to Section 601(a)(viii) of the Master Indenture, which Event of Default is expected to be addressed in a Forbearance Agreement to be dated during January 2012 between the Corporation, for itself and as Obligated Group Agent on behalf of the Obligated Group, and UMB Bank N.A., as successor Master Trustee (the Forbearance Agreement);

NORTHSTAR Health System (f/k/a Iron County Community Hospitals, Inc.)

Officer's Certificate

Fiscal Year Ended December 31, 2010

Page 3

3. the Obligated Group has failed to comply with the Liquidity Covenant specified in Section 501(c) of the Master Indenture, as demonstrated by the calculations below:

<i>Liquidity Covenant Calculation at December 31, 2010 Per Section 501(c) of the Master Indenture</i>		
	Cash and Cash Equivalents	121,572
	Plus: Investments	3,711,385
	Minus: Short-Term Indebtedness	300,000
FA	Financial Assets	3,532,957
	Operating Expenses	36,271,076
	Minus Depreciation	1,854,715
DOE	Daily Operating Expenses	94,291
FA ÷ DOE	Days Cash on Hand	37.5
	Requirement	60.0

which failure to comply is also expected to be addressed in the Forbearance Agreement;

4. the Obligated Group has complied with the Trade Payables Covenant specified in Section 501(e) of the Master Indenture, as demonstrated by the calculations below:

<i>Average Age of Trade Accounts Payable, FY2010 Master Indenture §501(e)</i>		
Trade Accounts Payable at FYE	AP	\$1,577,246
Average Daily Trade Accounts Payable	ADAP	\$89,811
Average Age of Trade Accounts Payable (days)	AP / ADAP	17.6
Requirement		90.0

and

5. other than the following Events of Default and an event that, with the passage of time would become an Event of Default, all of which are expected to be addressed in the Forbearance Agreement, no Event of Default has occurred and/or is continuing:

- a. failure to deliver this Annual Report and the attached audited financial statements for FY2010 prior to the deadlines, including applicable grace periods, specified in Sections 5.10(a), 5.10(b) and Section 7.1(b) of the Loan Agreement, an Event of Default pursuant to Section 601(a)(ii) of the Master Indenture;
- b. failure to comply with the Liquidity Covenant specified in Section 501(c) of the Master Indenture as of June 30, 2011; and
- c. the expected failure to comply with the Liquidity Covenant specified in Section 501(c) of the Master Indenture as of December 31, 2011.

Due to the delay in releasing this Annual Report, including management's comments on the Obligated Group's financial condition and other matters, as required by Section 5.10(b)(iv) of the Loan Agreement, would be impractical. The most recent set of management's comments were delivered in connection with the Obligated Group's Quarterly Report for FY2011Q3 dated October 31, 2011. There were also comments made by management during a conference call with Continuing Disclosure Recipients on November 3, 2011. The next set of management's comments will be delivered in connection with the Obligated Group's Quarterly Report for FY2011Q4.

NORTHSTAR Health System
(f/k/a Iron County Community Hospitals, Inc.)
for itself and as Obligated Group Agent on behalf of the Obligated Group



By: Glenn E. Dobson, Vice President and Chief Financial Officer

NORTHSTAR HEALTH SYSTEM
(F/K/A IRON COUNTY COMMUNITY HOSPITALS, INC.)

ANNUAL REPORT FOR THE FISCAL YEAR ENDED DECEMBER 31, 2010
(FY2010)

Unless otherwise noted, all data apply to the Fiscal Year Ended December 31, 2010, or are accurate as of December 31, 2010, as appropriate. OS pages refer to the Official Statement relating to the Securities, dated May 30, 2008. The source of all data is the Corporation's records.

SERVICE VOLUMES AND UTILIZATION

<i>Historical Inpatient Utilization</i>					
	<i>Fiscal Years Ended December 31</i>				
	<i>2010</i>	<i>2009</i>	<i>2008</i>	<i>2007</i>	<i>2006</i>
Days in Period	365	365	366	365	365
Licensed Beds	25	25	25	25	25
Admissions	836	932	977	1,075	1,084
Patient Days	3,304	3,443	3,507	3,763	3,768
Average Daily Census	9.1	9.4	9.6	10.3	10.3
Average Length of Stay	4.0	3.7	3.6	3.5	3.5
Occupancy Rate (%)	36.2	37.7	38.3	41.2	41.3
Observation Bed Admissions	527	395	282	221	168
Observation Bed Patient Days	846	603	404	316	226
Swing Bed Admissions	84	73	69	68	70
Swing Bed Patient Days	466	394	580	386	420
Respite Care Admissions	22	18	22	19	31
Respite Care Patient Days	40	38	65	30	66

MUNICIPAL SECONDARY MARKET DISCLOSURE

City of Iron River Hospital Finance Authority

NORTHSTAR Health System (f/k/a Iron County Community Hospitals, Inc.)

Fiscal Year Ended December 31, 2010

Page 2

<i>Historical Outpatient Services Volumes</i>					
	<i>Fiscal Years Ended December 31</i>				
	<i>2010</i>	<i>2009</i>	<i>2008</i>	<i>2007</i>	<i>2006</i>
Emergency Department procedures	9,239	9,395	8,696	8,728	8,690
Outpatient visits	64,204	44,179	43,913	44,743	42,755
Outpatient Department procedures	4,518	3,896	5,650	7,248	5,911
Hemodialysis treatments	2,920	2,302	2,107	2,464	2,578
Diabetic education procedures	1,537	1,150	851	1,009	739
Home Care visits	5,752	5,988	6,594	6,283	5,257
EMS runs	1,444	1,437	1,332	1,144	936
Employed practitioner charges ¹	25,211	18,068	18,079	19,022	17,025

¹ FY2009 figure revised

MUNICIPAL SECONDARY MARKET DISCLOSURE

City of Iron River Hospital Finance Authority

NORTHSTAR Health System (f/k/a Iron County Community Hospitals, Inc.)

Fiscal Year Ended December 31, 2010

Page 3

<i>Historical Ancillary Services Volumes (measured in Procedures)</i>						
	<i>Fiscal Years Ended December 31</i>					
	<i>2010</i>	<i>2009</i>	<i>2008</i>	<i>2007</i>	<i>2006</i>	<i>2005</i>
Surgeries ¹	1,002	817	734	924	969	814
Laboratory – IR	104,748	92,229	82,622	83,845	81,846	79,579
Laboratory – CF	25,219	35,623	42,666	42,926	37,765	34,692
Radiology – IR	10,263	10,126	9,798	10,037	10,445	9,795
Radiology – CF	1,726	1,749	1,770	2,019	1,807	1,700
MRI ¹	601	632	555	565	509	537
CT scanning	2,743	2,672	3,154	2,944	3,450	3,028
Ultrasound	1,734	1,671	1,776	1,411	1,517	1,157
Nuclear medicine ¹	294	660	634	625	841	723
Electrocardiograms – IR	5,281	5,036	4,334	4,050	4,295	3,686
Electrocardiograms – CF	510	503	418	400	417	376
Echocardiograms	542	1,127	1,130	1,025	1,343	778
Electroencephalograms and Electromyelograms ²	11	32	32	272	306	226
Rehabilitation Services – IR	12,969	12,182	12,485	10,366	12,238	14,239
Rehabilitation Services – CF	5,851	7,037	6,986	6,374	6,978	6,752
Occupational therapy	2,470	1,336	1,214	1,110	1,270	1,342
Respiratory therapy	67,502	61,618	62,070	64,687	62,604	71,071
Cardiac rehabilitation ³	726	856	527	210	262	236

IR = at the Hospital Facility in Iron River, CF = at the CFFHC in Crystal Falls
¹ FY2008 figures are corrected from those previously reported
² Electroencephalograms have been curtailed and Electromyelograms have discontinued
³ FY2010, FY2009 and FY2008 figures reflect a change in counting methodology

MUNICIPAL SECONDARY MARKET DISCLOSURE

City of Iron River Hospital Finance Authority

NORTHSTAR Health System (f/k/a Iron County Community Hospitals, Inc.)

Fiscal Year Ended December 31, 2010

Page 4

FINANCIAL INFORMATION

<i>Payor Mix by Gross Revenue</i>					
	<i>Fiscal Years Ended December 31</i>				
	<i>2010</i>	<i>2009</i>	<i>2008</i>	<i>2007</i>	<i>2006</i>
Medicare	62.3%	60.2%	59.9%	58.0%	58.6%
Medicaid, including UPHP	8.1%	8.6%	7.4%	8.6%	9.4%
BCBSM	16.8%	18.4%	18.6%	20.5%	16.6%
Self-Pay	3.9%	4.4%	4.5%	3.8%	4.6%
MCPs, commercial insurers and other	8.9%	8.4%	9.6%	9.1%	10.8%
Totals	100.0%	100.0%	100.0%	100.0%	100.0%

MUNICIPAL SECONDARY MARKET DISCLOSURE

City of Iron River Hospital Finance Authority

NORTHSTAR Health System (f/k/a Iron County Community Hospitals, Inc.)

Fiscal Year Ended December 31, 2010

Page 5

<i>Summaries of Statements of Operations</i> (<i>\$000s omitted</i>)					
	<i>Fiscal Years Ended December 31</i>				
	<i>2010</i>	<i>2009</i>	<i>2008</i>	<i>2007</i>	<i>2006</i>
Net Patient Service Revenue ¹	\$32,688	\$31,360	\$27,348	\$27,764	\$26,480
Other Revenue ¹	<u>856</u>	<u>317</u>	<u>222</u>	<u>207</u>	<u>226</u>
Total Revenue	33,544	31,677	27,570	27,971	26,706
Depreciation Expense	1,855	1,547	1,120	1,052	952
Interest Expense	1,469	710	398	319	337
Bad Debt Expense	1,636	1,229	1,579	1,428	1,305
Other Operating Expenses	<u>31,312</u>	<u>29,302</u>	<u>25,371</u>	<u>24,271</u>	<u>23,135</u>
Total Operating Expenses	\$36,271	\$32,789	\$28,468	\$27,070	\$25,729
Income (Loss) from Operations	(\$2,727)	(\$1,112)	(\$898)	\$901	\$977
Net Nonoperating Revenue	<u>312</u>	<u>326</u>	<u>150</u>	<u>499</u>	<u>380</u>
Excess (Deficit) of Revenue / Expenses	<u>(\$2,415)</u>	<u>(\$786)</u>	<u>(\$748)</u>	<u>\$1,400</u>	<u>\$1,358</u>
Net Income Available for Debt Service (EBIDA) ²	\$908	\$1,471	\$770	\$2,771	\$2,647
¹ FY2008 figures reflect certain reclassifications reflected on the FY2009 audited financial statements, the net effect of which did not change the Total Revenue figure ² Equal to Excess of Revenue over Expenses + Depreciation Expense + Interest Expense, which may differ from the calculation of Net Income Available for Debt Service due to certain adjustments permitted by the Master Indenture					

MUNICIPAL SECONDARY MARKET DISCLOSURE

City of Iron River Hospital Finance Authority

NORTHSTAR Health System (f/k/a Iron County Community Hospitals, Inc.)

Fiscal Year Ended December 31, 2010

Page 6

<i>Statement of Operations Ratios¹</i>					
	<i>Fiscal Years Ended December 31</i>				
	<i>2010</i>	<i>2009</i>	<i>2008</i>	<i>2007</i>	<i>2006</i>
EBIDA Margin	2.7%	4.6%	2.8%	9.7%	9.8%
Operating Cash Flow Margin	1.8%	3.6%	2.2%	8.1%	8.5%
Operating Margin	(8.1)%	(3.5)%	(3.3)%	3.2%	3.7%
Excess Margin	(7.1)%	(2.5)%	(2.7)%	4.9%	5.0%
Bad Debt Expense / Total Operating Revenue	5.0%	3.9%	5.8%	5.1%	4.9%

¹ Calculated from the Obligated Group's audited financial statements, using definitions cited in *U.S. Not-For-Profit 2007 Small Hospital Median Ratios Show Modest Improvements* dated October 5, 2007, published by Standard & Poor's Ratings Services

MUNICIPAL SECONDARY MARKET DISCLOSURE

City of Iron River Hospital Finance Authority

NORTHSTAR Health System (f/k/a Iron County Community Hospitals, Inc.)

Fiscal Year Ended December 31, 2010

Page 7

Balance Sheet Summaries					
(\$000s omitted)					
	Fiscal Years Ended December 31				
	2010	2009	2008	2007	2006
Cash and Cash Equivalents ¹	\$122	\$646	\$1,824	\$1,998	\$1,436
Net Patient Accounts Receivable	5,429	3,975	3,389	3,730	3,459
Other Current Assets ^{2,3}	<u>1,715</u>	<u>4,407</u>	<u>3,699</u>	<u>709</u>	<u>1,231</u>
Total Current Assets	7,266	9,028	8,912	6,437	6,126
Investments ^{1,3}	3,711	4,434	3,510	4,631	4,492
Net Property and Equipment	22,834	23,392	16,155	9,867	9,824
Other Non-Current Assets ^{2,3}	<u>2,294</u>	<u>2,302</u>	<u>11,963</u>	<u>1,384</u>	<u>208</u>
Total Assets	\$36,105	\$39,156	\$40,540	\$22,319	\$20,651
Current Liabilities ^{2,3}	\$4,671	\$5,424	\$5,675	\$2,781	\$3,288
Long-Term Debt, net of Current Portion ²	22,074	22,289	22,627	5,525	5,739
Other Non-Current Liabilities	236	462	0	0	0
Unrestricted Net Assets ³	<u>9,124</u>	<u>10,982</u>	<u>12,238</u>	<u>14,012</u>	<u>11,623</u>
Total Liabilities and Net Assets	\$36,105	\$39,156	\$40,540	\$22,319	\$20,651
¹ Used in "Days' Cash on Hand," "Pro Forma Cushion Ratio" and "Unrestricted Cash / Pro Forma Debt" calculations ² FY2008 figures reflect certain reclassifications reflected on the FY2009 audited financial statements which had an immaterial net effect; unless footnoted to the contrary, certain ratios may have been affected to an immaterial degree ³ FY2009 figures reflect certain reclassifications reflected on the FY2010 audited financial statements which had an immaterial net effect; unless footnoted to the contrary, certain ratios may have been affected to an immaterial degree Note: some figures might not add precisely due to rounding					

MUNICIPAL SECONDARY MARKET DISCLOSURE

City of Iron River Hospital Finance Authority

NORTHSTAR Health System (f/k/a Iron County Community Hospitals, Inc.)

Fiscal Year Ended December 31, 2010

Page 8

Balance Sheet Ratios¹					
	Fiscal Years Ended December 31				
	2010	2009	2008	2007	2006
Days' Cash on Hand ^{2,3}	37.5	55.8	71.4	93.0	87.3
Days in Accounts Receivable	60.6	46.3	45.3	49.0	47.7
Average Payment Period (days) ⁴	49.5	63.4	76.0	39.0	48.4
Cash Flow / Total Liabilities ⁵	(2.1)	2.7	1.3	29.5	25.6
Average Age of Plant (years)	9.2	9.8	12.1	12.0	12.2

¹ Calculated from the Obligated Group's audited financial statements, using definitions cited in *U.S. Not-For-Profit 2007 Small Hospital Median Ratios Show Modest Improvements* dated October 5, 2007, published by Standard & Poor's Ratings Services

² FY2009 figure takes into account \$300,000 outstanding line of credit balance, and represents an increase over the figure originally disclosed due to a reclassification of the Investments figure reflected on the FY2010 audited financial statements

³ FY2010 figure takes into account \$300,000 outstanding line of credit balance

⁴ FY2008 figure affected by \$2,547,000 in construction-related payables

⁵ FY2009 and FY2008 figures affected by issuance of the Series 2008 Bonds

NorthStar Health System and Affiliate

Iron River, Michigan

Combined Financial Statements and Additional Information

Years Ended December 31, 2010 and 2009

NorthStar Health System and Affiliate

Combined Financial Statements and Additional Information

Years Ended December 31, 2010 and 2009

Table of Contents

Independent Auditor’s Report 1

Combined Financial Statements

- Combined Balance Sheets 2
- Combined Statements of Operations 3
- Combined Statements of Changes in Net Assets 4
- Combined Statements of Cash Flows 5
- Notes to Combined Financial Statements 7

Independent Auditor’s Report on Additional Information 31

Additional Information

- Combining Balance Sheet 32
- Combining Statement of Operations 34
- Combining Statement of Changes in Net Assets 35



Independent Auditor's Report

Board of Trustees
NorthStar Health System
Iron River, Michigan

We have audited the accompanying combined balance sheets of NorthStar Health System and Affiliate (the "Corporation") as of December 31, 2010 and 2009, and the related combined statements of operations, changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of NorthStar Health System and Affiliate as of December 31, 2010 and 2009, and the results of their operations, changes in their net assets, and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

Wipfli LLP

Wipfli LLP

January 7, 2012
Green Bay, Wisconsin

NorthStar Health System and Affiliate

Combined Balance Sheets

December 31, 2010 and 2009

Assets	2010	2009
Current assets:		
Cash and cash equivalents	\$ 121,572	\$ 645,913
Assets limited as to use required for current liabilities	186,054	1,681,739
Accounts receivable - Net	5,429,342	3,974,740
Other receivables	378,642	11,706
Inventories	457,968	479,626
Prepaid expenses and other current assets	203,794	144,083
Amounts due from third-party reimbursement programs	488,434	2,090,000
Total current assets	7,265,806	9,027,807
Assets limited as to use, less current portion	2,034,926	2,024,465
Investments	3,711,385	4,433,974
Property and equipment - Net	22,834,146	23,392,036
Other assets:		
Unamortized debt issue costs	234,623	242,587
Other	24,415	34,746
Total other assets	259,038	277,333
TOTAL ASSETS	\$ 36,105,301	\$ 39,155,615

Liabilities and Net Assets	2010	2009
Current liabilities:		
Note payable - Line of credit	\$ 300,000	\$ 300,000
Current maturities of long-term debt	279,000	263,174
Current portion of obligations under capital leases	59,763	80,752
Accounts payable:		
Trade	1,577,246	1,554,044
Construction	624,270	1,503,226
Accrued and other liabilities	1,831,169	1,722,334
Total current liabilities	4,671,448	5,423,530
Long-term liabilities:		
Long-term debt, less current maturities	22,015,786	22,288,783
Obligations under capital leases, less current portion	58,228	0
Pension liability	235,831	461,799
Total long-term liabilities	22,309,845	22,750,582
Total liabilities	26,981,293	28,174,112
Net assets:		
Unrestricted	9,109,008	10,981,503
Temporarily restricted	15,000	0
Total net assets	9,124,008	10,981,503
TOTAL LIABILITIES AND NET ASSETS	\$ 36,105,301	\$ 39,155,615

NorthStar Health System and Affiliate

Combined Statements of Operations

Years Ended December 31, 2010 and 2009

	2010	2009
Revenue:		
Net patient service revenue	\$ 32,687,788	\$ 31,360,222
Other revenue	856,151	316,588
Total revenue	33,543,939	31,676,810
Expenses:		
Salaries and wages	14,038,743	13,009,698
Employee benefits	4,347,384	4,168,852
Supplies and other	12,926,115	12,123,894
Provision for bad debts	1,635,525	1,229,345
Depreciation and amortization	1,854,715	1,547,476
Interest	1,468,594	709,528
Total expenses	36,271,076	32,788,793
Loss from operations	(2,727,137)	(1,111,983)
Other income (expense):		
Investment income	190,857	249,629
Contributions	121,184	79,477
Loss on disposal of property and equipment	0	(3,195)
Total other income	312,041	325,911
Deficiency of revenue over expenses	\$ (2,415,096)	\$ (786,072)

NorthStar Health System and Affiliate

Combined Statements of Changes in Net Assets

Years Ended December 31, 2010 and 2009

	2010	2009
Unrestricted net assets:		
Deficiency of revenue over expenses	\$ (2,415,096)	\$ (786,072)
Change in net unrealized gains and losses on investments other than trading securities	316,633	859,081
Change in pension obligation other than pension expense	225,968	(1,329,046)
Decrease in unrestricted net assets	(1,872,495)	(1,256,037)
Increase in temporarily restricted net assets - Contributions	15,000	0
Decrease in net assets	(1,857,495)	(1,256,037)
Net assets at beginning	10,981,503	12,237,540
Net assets at end	\$ 9,124,008	\$ 10,981,503

NorthStar Health System and Affiliate

Combined Statements of Cash Flows

Years Ended December 31, 2010 and 2009

	2010	2009
Increase (decrease) in cash and cash equivalents:		
Cash flows from operating activities:		
Cash received from patients and third-party payors	\$ 31,688,442	\$ 28,265,809
Cash paid to employees and suppliers	(31,201,924)	(28,562,893)
Interest and dividends received	190,857	249,629
Interest paid - Net of amount capitalized	(1,468,594)	(709,528)
Other cash received	136,184	76,282
Net cash used in operating activities	(655,035)	(680,701)
Cash flows from investing activities:		
Capital expenditures	(2,000,567)	(9,857,097)
Purchases of assets limited as to use	(622,951)	(9,984,211)
Sales of assets limited as to use	2,108,175	19,316,836
Purchases of investments	(233,050)	(102,701)
Sales of investments	1,272,272	383,027
Proceeds from property and equipment disposals	0	33,500
Net cash provided by (used in) investing activities	523,879	(210,646)
Cash flows from financing activities:		
Principal payments on long-term debt	(263,174)	(247,533)
Proceeds from issuance of note payable	0	300,000
Principal payments on obligations under capital leases	(130,011)	(339,341)
Net cash used in financing activities	(393,185)	(286,874)
Net decrease in cash and cash equivalents	(524,341)	(1,178,221)
Cash and cash equivalents at beginning	645,913	1,824,134
Cash and cash equivalents at end	\$ 121,572	\$ 645,913

NorthStar Health System and Affiliate

Combined Statements of Cash Flows (Continued)

Years Ended December 31, 2010 and 2009

	2010	2009
Reconciliation of decrease in net assets to net cash used in operating activities:		
Decrease in net assets	\$ (1,857,495)	\$ (1,256,037)
Adjustments to reconcile decrease in net assets to net cash used in operating activities:		
Depreciation and amortization	1,854,715	1,547,476
Provision for bad debts	1,635,525	1,229,345
Loss on disposal of property and equipment	0	3,195
Change in net unrealized gains and losses on investments other than trading securities	(316,633)	(859,081)
Change in pension obligation other than pension expense	(225,968)	1,329,046
Changes in operating assets and liabilities:		
Accounts receivable	(3,457,063)	(1,711,610)
Inventories	21,658	39,847
Prepaid expenses and other current assets	(43,377)	11,217
Amounts due from third-party reimbursement programs	1,601,566	(1,699,391)
Accounts payable	23,202	392,805
Accrued and other liabilities	108,835	292,487
Total adjustments	1,202,460	575,336
Net cash used in operating activities	\$ (655,035)	\$ (680,701)
Noncash investing and financing activities:		
Accounts payable related to capital expenditures	\$ 624,270	\$ 1,503,226
Acquisition of equipment under capital lease obligations	167,250	0

NorthStar Health System and Affiliate

Notes to Combined Financial Statements

Note 1 **Summary of Significant Accounting Policies**

The Entity

NorthStar Health System (the "Health System") is a nonprofit, nonstock corporation that is licensed as a 25-bed acute care facility. The Health System provides comprehensive inpatient, outpatient, emergency, and medical services. In addition, the Health System employs physicians and operates clinics in Crystal Falls, Iron River, and Marenisco, Michigan. All services are provided to the residents of Iron County, Michigan, and the surrounding areas.

The affiliate of the Health System is NorthStar Health System Foundation (f/k/a Iron County Community Health Foundation) (the "Foundation"), a separate not-for-profit corporation that was incorporated for the purpose of raising funds for the Health System. The Health System is the sole corporate member of the Foundation.

Principles of Combination

The combined financial statements include the accounts of the Health System and the Foundation (collectively the "Corporation"). All significant intercompany accounts and transactions have been eliminated in combination.

Financial Statement Presentation

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

Use of Estimates in Preparation of Financial Statements

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

NorthStar Health System and Affiliate

Notes to Combined Financial Statements

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

Cash Equivalents

The Corporation considers highly liquid debt instruments with an original maturity of three months or less to be cash equivalents, excluding amounts whose use is limited or held as short-term investments in the Corporation's investment portfolio.

Accounts Receivable and Credit Policy

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

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

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

NorthStar Health System and Affiliate

Notes to Combined Financial Statements

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

Inventories

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

Assets Limited as to Use

Assets limited as to use include assets held by a financial institution, which are limited as to use under a bond indenture, and assets held in trust under deferred compensation arrangements.

Investments

Investments include cash and cash equivalents, corporate bonds, U.S. government and agency bonds, certificates of deposit, and marketable equity securities. Investments are valued at fair value. Investment income or loss (including realized gains and losses on investments, interest, and dividends) is included in the deficiency of revenue over expenses unless the income is restricted by donor or law. Unrealized gains and losses on investments are excluded from the deficiency of revenue over expenses unless the investments are trading securities.

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

NorthStar Health System and Affiliate

Notes to Combined Financial Statements

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

Fair Value Measurements

ASC Topic 820, Fair Value Measurements and Disclosures, establishes a framework for measuring fair value. That framework provides a fair value hierarchy which prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of fair value hierarchy are described below:

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

Level 2 Inputs to the valuation methodology include:

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

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

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

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

NorthStar Health System and Affiliate

Notes to Combined Financial Statements

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

Property, Equipment, and Depreciation

Property and equipment acquisitions are recorded at cost or, if donated, at fair value at date of donation. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Property and equipment under capital leases are amortized on the straight-line method over the shorter period of the lease term or the estimated economic life. Such amortization expense is included with depreciation expense. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets, net of interest earnings on those borrowed funds. Estimated useful lives range from 5 to 20 years for land improvements, 5 to 40 years for buildings and improvements, and 3 to 15 years for equipment.

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

Impairment

The Corporation reviews its property, equipment, and intangible assets periodically to determine potential impairment. If an impairment exists, an impairment loss is recognized. Management has determined no assets were impaired at December 31, 2010 and 2009.

NorthStar Health System and Affiliate

Notes to Combined Financial Statements

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

Asset Retirement Obligations

ASC Topic 410-20, Asset Retirement Obligations, clarifies when an entity is required to recognize a liability for a conditional asset retirement obligation. The Corporation has considered the requirement to recognize a liability for conditional asset retirement obligations, such as asbestos removal, on its existing properties. The Corporation believes there is an indeterminate settlement date for the asset retirement obligations because the range of time over which the Corporation may settle the obligations is unknown and cannot be estimated. As a result, the Corporation cannot reasonably estimate the liability related to these asset retirement activities as of December 31, 2010 and 2009.

Unamortized Debt Issue Costs and Bond Discounts

Debt issue costs and original bond discounts related to issuance of long-term debt are amortized over the life of the related debt using the straight-line method.

Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and are adjusted in future periods as final settlements are determined.

Deficiency of Revenue Over Expenses

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

NorthStar Health System and Affiliate

Notes to Combined Financial Statements

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

Charity Care

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

Donor-Restricted Gifts

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

Temporarily Restricted Net Assets

Temporarily restricted net assets are those whose use by the Health System and the Foundation has been limited by donors to a specific time period or purpose.

Advertising Costs

The Corporation expenses advertising costs as incurred.

NorthStar Health System and Affiliate

Notes to Combined Financial Statements

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

Unemployment Compensation

The Corporation is self-insured for unemployment compensation benefits. The Corporation has obtained a letter of credit, which expires December 31, 2011, to meet state funding requirements.

Income Taxes

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

In order to account for any uncertain tax positions, ASC Topic 740, Income Taxes, requires an organization to assess whether it is more likely than not that a tax position will be sustained upon examination of the technical merits of the position, assuming the taxing authority has full knowledge of all information. If the tax position does not meet the more-likely-than-not recognition threshold, the benefit of that position is not recognized in the combined financial statements.

The Health System and the Foundation recorded no assets or liabilities related to uncertain tax positions or unrecognized tax benefits in 2010 or 2009. Federal income tax returns for the years ended December 31, 2007, and beyond remain subject to examination by the applicable taxing authorities.

Subsequent Events

Subsequent events have been evaluated through January 7, 2012, which is the date the combined financial statements were issued.

NorthStar Health System and Affiliate

Notes to Combined Financial Statements

Note 2 Reimbursement Arrangements With Third-Party Payors

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

- Medicare - The Health System is certified as a critical access hospital with reimbursement based on cost for inpatient and outpatient services. Professional services provided by physicians and other clinicians continue to be reimbursed based on prospectively determined fee schedules.
- Medicaid - Inpatient services rendered to Medicaid program beneficiaries are reimbursed at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Professional services provided by physicians and other clinicians are reimbursed based on one of the following methods: a prospectively determined resource-based relative value system, fee schedule, or a cost-reimbursement methodology depending on the type of professional services provided. Outpatient services are paid based on a prospectively determined fee schedule for each type of service.
- Blue Cross Blue Shield of Michigan ("Blue Cross") - Inpatient and outpatient services rendered to Blue Cross subscribers are reimbursed on a controlled-charge basis.
- Other - The Health System also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Health System under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

NorthStar Health System and Affiliate

Notes to Combined Financial Statements

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

- Accounting for Contractual Arrangements - The Health System is reimbursed for cost reimbursable items at an interim rate, and final settlements are determined after an audit of the Health System's related annual cost reports by the respective Medicare, Medicaid, and Blue Cross fiscal intermediaries. Estimated provisions to approximate the full expected settlements after review by the intermediaries are included in the accompanying combined financial statements. The Health System's cost reports have been audited by the Medicare, Medicaid, and Blue Cross fiscal intermediaries through December 31, 2008, December 31, 2005, and December 31, 2009, respectively.

Compliance

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations, particularly those relating to the Medicare and Medicaid programs, can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Recently, federal government activity has increased with respect to investigations and allegations concerning possible violations by health care providers or regulations, which could result in the imposition of significant fines and penalties, as well as significant repayments of previously billed and collected revenue from patients' services. Management believes the Health System is in substantial compliance with current laws and regulations.

The Centers for Medicare & Medicaid Services (CMS) has implemented a new project using recovery audit contractors (RACs) as part of its further efforts to ensure accurate payments under the Medicare program. RACs search for potentially inaccurate Medicare payments that may have been made to health care providers and that were not detected through existing CMS program integrity efforts. Once a RAC identifies a claim it believes is inaccurate, the RAC makes a deduction from or addition to the provider's Medicare reimbursement in an amount estimated to equal the overpayment or underpayment. The provider will then have the opportunity to appeal the adjustment before final settlement of the claim is made. As of December 31, 2010, the Health System had not been notified by the RAC of any potential significant reimbursement adjustments.

NorthStar Health System and Affiliate

Notes to Combined Financial Statements

Note 3 Accounts Receivable

Accounts receivable consisted of the following at December 31:

	2010	2009
Accounts receivable	\$ 9,699,620	\$ 7,839,031
Less:		
Contractual adjustments	2,470,168	2,384,926
Allowance for doubtful accounts	1,800,110	1,479,365
Accounts receivable - Net	<u>\$ 5,429,342</u>	<u>\$ 3,974,740</u>

Note 4 Net Patient Service Revenue

Net patient service revenue consisted of the following:

	2010	2009
Gross patient service revenue:		
Inpatient	\$ 11,560,763	\$ 10,387,783
Outpatient	41,363,638	35,261,648
Totals	52,924,401	45,649,431
Less - Contractual adjustments and other	20,236,613	14,289,209
Net patient service revenue	<u>\$ 32,687,788</u>	<u>\$ 31,360,222</u>

Medicare, Medicaid, and Blue Cross revenue as a percent of gross patient service revenue approximated 88.4% and 88.7% in 2010 and 2009, respectively.

NorthStar Health System and Affiliate

Notes to Combined Financial Statements

Note 5 Charity Care

The Corporation maintains records to identify and monitor the level of charity care it provides to Health System patients. The amount of charges foregone for services and supplies furnished under the Corporation's charity care policy approximated \$257,000 and \$223,000 in 2010 and 2009, respectively.

Note 6 Assets Limited as to Use and Investments

Assets Limited as to Use

Assets limited as to use, stated at fair value, consisted of the following at December 31:

	2010	2009
Held by trustees under bond indenture agreements:		
Cash equivalents	\$ 409,890	\$ 1,884,514
Certificates of deposit	1,756,735	1,757,566
Total held by trustees under bond indenture agreements	2,166,625	3,642,080
Held by trustees under deferred compensation agreements:		
Cash	0	32,000
Mutual funds	54,355	32,124
Total held by trustees under deferred compensation agreements	54,355	64,124
Total assets limited as to use	2,220,980	3,706,204
Less - Assets limited as to use required for current liabilities	186,054	1,681,739
Assets limited as to use, less current portion	\$ 2,034,926	\$ 2,024,465

NorthStar Health System and Affiliate

Notes to Combined Financial Statements

Note 6 Assets Limited as to Use and Investments (Continued)

Investments

The Corporation's investments, stated at fair value, consisted of the following at December 31:

	2010	2009
Cash and cash equivalents	\$ 82,496	\$ 82,225
Certificates of deposit	78,234	52,810
Stock	532,653	471,997
Mutual funds	2,846,256	2,508,967
Corporate and U.S. government agency bonds	171,746	1,317,975
Total investments	\$ 3,711,385	\$ 4,433,974

Investment income consisted of the following:

	2010	2009
Interest and dividend income	\$ 142,618	\$ 271,188
Net realized gain (loss) on sales of securities	48,239	(21,559)
Total investment income	\$ 190,857	\$ 249,629

Other changes in unrestricted net assets - Change in net unrealized gains and losses on investments other than trading securities

	\$ 316,633	\$ 859,081
--	------------	------------

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

NorthStar Health System and Affiliate

Notes to Combined Financial Statements

Note 6 Assets Limited as to Use and Investments (Continued)

The following tables show unrealized losses and fair values of investments, aggregated by investment category and length of time that individual investment securities have been in a continuous unrealized loss position at December 31, 2010 and 2009:

Description of Securities	2010					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mutual funds	\$ 0	\$ 0	\$ 1,427,238	\$ (243,657)	\$ 1,427,238	\$ (243,657)
Corporate and U.S. government agency bonds	0	0	171,746	(8,254)	171,746	(8,254)
Total	\$ 0	\$ 0	\$ 1,598,984	\$ (251,911)	\$ 1,598,984	\$ (251,911)

Description of Securities	2009					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Mutual funds	\$ 0	\$ 0	\$ 2,352,955	\$ (465,756)	\$ 2,352,955	\$ (465,756)
Corporate and U.S. government agency bonds	0	0	164,965	(15,035)	164,965	(15,035)
Total	\$ 0	\$ 0	\$ 2,517,920	\$ (480,791)	\$ 2,517,920	\$ (480,791)

Management assesses individual investment securities as to whether declines in market value are other than temporary and result in impairment. For equity securities, the Corporation considers whether it has the ability and intent to hold the investment until a market price recovery. Evidence considered in this includes the reasons for the impairment, the severity and duration of the impairment, changes in value subsequent to year-end, the issuer's financial condition, and the general market condition in the geographic area or industry the investee operates in. For debt securities, if the Corporation has made a decision to sell the security, or if it is more likely than not the Corporation will sell the security before the recovery of the security's cost basis, an other-than-temporary impairment is considered to have occurred. If the Corporation has not made a decision or does not have an intent to sell the debt security, but the debt security is not expected to recover its value due to a credit loss, an other-than-temporary impairment is considered to have occurred.

NorthStar Health System and Affiliate

Notes to Combined Financial Statements

Note 6 **Assets Limited as to Use and Investments** (Continued)

Because the Corporation has the intent and the ability to hold investment securities until a market price recovery or maturity, investment securities at December 31, 2010 and 2009, are not temporarily impaired. No impairment losses were recognized by the Corporation during 2010 and 2009.

At December 31, 2010 and 2009, net unrealized gains (losses) totaled \$295,728 and (\$20,905), respectively.

Note 7 **Property and Equipment**

Property and equipment consisted of the following at December 31:

	2010	2009
Land and land improvements	\$ 813,265	\$ 746,915
Buildings and improvements	26,202,564	25,012,420
Equipment	12,796,597	12,291,521
Total property and equipment	39,812,426	38,050,856
Less - Accumulated depreciation and amortization	16,978,280	15,131,531
Net depreciated value	22,834,146	22,919,325
Construction in progress	0	472,711
Property and equipment - Net	\$ 22,834,146	\$ 23,392,036

The Health System capitalizes interest on the financing of major fixed asset additions in accordance with ASC Topic 835. Total interest cost capitalized as property and equipment was \$0 and \$844,201 for the years ended December 31, 2010 and 2009, respectively. Interest earnings from the unexpended proceeds of tax-exempt borrowings directly related to the capital project of \$0 and \$63,703 for the years ended December 31, 2010 and 2009, respectively, was offset against the capitalized interest cost.

NorthStar Health System and Affiliate

Notes to Combined Financial Statements

Note 8 Note Payable - Line of Credit

The Health System has a line of credit secured by investments of which \$300,000 was outstanding for the years ended December 31, 2010 and 2009. Borrowings bear interest at the prime interest rate plus 1.5% (4.75% at December 31, 2010). The amount available for borrowing is dependent upon the underlying investment types and balances in the investment portfolio. The line-of-credit agreement does not expire as long as the value of the investments securing the line of credit meet the minimum requirements.

Note 9 Long-Term Debt

Long-term debt consisted of the following at December 31:

	2010	2009
5% land contract dated August 2003, due in monthly payments of \$1,310 including interest, secured by real estate, due August 2013	\$ 43,706	\$ 56,880
Series 2008 City of Iron River Hospital Finance Authority Hospital Revenue and Refunding Bonds, Iron County Community Hospital, Inc. project, dated June 2008; principal payments due in monthly sinking fund deposits in varying amounts through 2040; with rates of interest varying from 6.0% to 6.5% and payable monthly	22,665,000	22,915,000
Totals	22,708,706	22,971,880
Less:		
Current maturities	279,000	263,174
Unamortized bond discount	413,920	419,923
Long-term portion	\$ 22,015,786	\$ 22,288,783

NorthStar Health System and Affiliate

Notes to Combined Financial Statements

Note 9 Long-Term Debt (Continued)

The Health System and the Foundation together form the "Obligated Group" for the Series 2008 Revenue and Refunding Bonds. The Series 2008 Revenue and Refunding Bonds are secured by a security interest in the gross revenue of the Obligated Group and a mortgage secured by the Corporation's real property.

The bond indenture requires the establishment of certain funds to be held by the trustee, which are unavailable for general corporate purposes. Required funds have been established and are classified as assets limited as to use in the accompanying combined financial statements. The bond indenture also provides for covenants relating to debt service coverage, days cash on hand, and average age of trade accounts payable. As of December 31, 2010, the Obligated Group was not in compliance with its debt service coverage and days cash on hand covenants. As a result of the noncompliance with these covenants, the Corporation is working with the trustee and bondholders to finalize a forbearance agreement to avoid having the bonds called by the bondholders. As of January 7, 2012, management has not finalized the forbearance agreement but has agreed to certain terms and conditions with the bondholders to avoid having the bonds called. Since the date of the audit report is beyond one year from the year ended December 31, 2010, the portion of the debt payable after December 31, 2011, has remained to be classified as long-term debt in the accompanying combined balance sheets. Management believes the forbearance agreement with the bondholders will be finalized prior to January 31, 2012.

Required payments of principal on long-term debt at December 31, 2010, including current maturities, are summarized as follows:

2011	\$	279,000
2012		294,557
2013		315,149
2014		315,000
2015		335,000
Thereafter		21,170,000
<hr/>		
Total	\$	22,708,706
<hr/>		

NorthStar Health System and Affiliate

Notes to Combined Financial Statements

Note 10 Leases

The Corporation has entered into various operating lease agreements for certain medical equipment with unrelated organizations under both short-term arrangements and noncancelable operating leases. The Corporation also leases certain equipment under lease agreements classified as capital leases.

Minimum future rental payments under these lease agreements with initial or remaining terms in excess of one year consisted of the following:

	Capital Leases	Operating Leases
2011	\$ 64,313	\$ 411,697
2012	31,668	335,690
2013	15,799	189,365
2014	9,628	50,009
2015	5,470	5,859
Total minimum lease payments	126,878	<u>\$ 992,620</u>
Amounts representing interest	8,887	
Present value of net minimum lease payments	117,991	
Less - Current portion	59,763	
Long-term obligations under capital leases	<u>\$ 58,228</u>	

Cost of equipment under capital lease obligations, which is included in equipment, was \$167,250 and \$471,113 at December 31, 2010 and 2009, respectively. Accumulated amortization for equipment under capital lease obligations was \$22,016 and \$200,065 at December 31, 2010 and 2009, respectively.

Rental expense totaled \$531,161 and \$408,033 in 2010 and 2009, respectively.

NorthStar Health System and Affiliate

Notes to Combined Financial Statements

Note 11 **Temporarily Restricted Net Assets**

Temporarily restricted net assets of \$15,000 were available for women's health initiatives as of December 31, 2010.

Note 12 **Malpractice Insurance**

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

Under a claims-made policy, the risk for claims and incidents not asserted within the policy period remains with the Corporation. Although there exists the possibility of claims arising from services provided to patients through December 31, 2010, which have not yet been asserted, the Corporation is unable to determine the ultimate cost, if any, of such possible claims and, accordingly, no provision have been made for them.

Note 13 **Fair Value Measurements**

The following methods and assumptions were used by the Corporation in estimating fair value of its financial instruments:

- Assets limited as to use - These assets consist of primarily cash and cash equivalents, corporate bonds, certificates of deposit, and marketable equity securities. Assets limited as to use consisting of marketable debt and equity securities are valued at fair value based on quoted market prices determined at the balance sheet date. Assets limited as to use consisting of certificates of deposit are valued at cost plus accrued interest which approximates fair value.

NorthStar Health System and Affiliate

Notes to Combined Financial Statements

Note 13 Fair Value Measurements (Continued)

- Investments - These assets consist of cash and cash equivalents, corporate and U.S. government agency bonds, certificates of deposit, stock, and marketable equity securities. Investments in cash and cash equivalents approximate fair value. Investments in marketable debt and equity securities are valued at fair value based on quoted market prices determined at the balance sheet date. Investments in certificates of deposit are valued at cost plus accrued interest which approximates fair value. Stock has been valued using the most recent financial statements of the Corporation whose stock was issued, which approximates fair value.

The following tables set forth by level, within the fair value hierarchy, the Corporation's assets at fair value as of December 31:

	2010			Total Assets at Fair Value
	Fair Value Measurements Using			
	Level 1	Level 2	Level 3	
Stock	\$ 0	\$ 532,653	\$ 0	\$ 532,653
Mutual funds:				
Large cap	145,401	0	0	145,401
Small cap	422,135	0	0	422,135
Blended	2,333,075	0	0	2,333,075
Corporate and U.S. government agency bonds	0	171,746	0	171,746
Total	\$ 2,900,611	\$ 704,399	\$ 0	\$ 3,605,010

	2009			Total Assets at Fair Value
	Fair Value Measurements Using			
	Level 1	Level 2	Level 3	
Stock	\$ 0	\$ 471,997	\$ 0	\$ 471,997
Mutual funds:				
Large cap	128,626	0	0	128,626
Small cap	333,336	0	0	333,336
Blended	2,079,129	0	0	2,079,129
Corporate and U.S. government agency bonds	0	1,317,975	0	1,317,975
Total	\$ 2,541,091	\$ 1,789,972	\$ 0	\$ 4,331,063

NorthStar Health System and Affiliate

Notes to Combined Financial Statements

Note 13 Fair Value Measurements (Continued)

- Long-term debt - The fair value of the Corporation's Series 2008 City of Iron River Hospital Finance Authority Hospital Revenue and Refunding Bonds is based on quoted market prices and secondary market trades of comparable securities. The fair value of the Corporation's other long-term debt is estimated using a discounted cash flow analysis based on the Corporation's current incremental borrowing rate for similar types of borrowing arrangements.

The carrying amounts and fair values of the Corporation's long-term debt at December 31 are as follows:

	2010		2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Long-term debt	\$ 22,708,706	\$ 19,841,241	\$ 22,971,880	\$ 20,727,875

Note 14 Retirement Plans

The Corporation has a 401(k) profit sharing plan covering substantially all employees meeting minimum service and age requirements. The participants may elect to contribute up to 15% of their salary into the plan. The Corporation's contributions to the plan are based on a percentage of employee earnings during the year, ranging from 3% to 4% depending on participation in the plan. Pension expense for the years ended December 31, 2010 and 2009, was \$573,028 and \$484,789, respectively.

The Corporation's qualified employees of the former Crystal Falls Hospital were covered before the merger with the Health System under the Michigan Municipal Employees Retirement System (MERS) Plan. Subsequent to the merger, the employees of the Corporation, a private nonprofit corporation, were no longer eligible to participate in the MERS public employee governmental plan but were allowed to become participants in the Corporation's 401(k) profit sharing plan. Therefore, as of the merger date, the accrued liabilities for retirement benefits and the related assets for that unit were frozen.

NorthStar Health System and Affiliate

Notes to Combined Financial Statements

Note 14 Retirement Plans (Continued)

Under the terms of the Withdrawal Agreement dated December 8, 1998, the liability for future retirement benefits through that date rests with the MERS Plan along with the retention of the corresponding asset base pursuant to its reserve requirements. The excess assets over this retention base shall be distributed back to the Corporation, and the shortfall of assets over this retention base shall be contributed by the Corporation to the MERS Plan. The Corporation was required to contribute \$104,229 and \$84,229 to the MERS Plan for the years ended December 31, 2010 and 2009, respectively.

The following table summarizes the benefit obligation, the fair value of plan assets, and the funded status of the plan as of December 31, the last plan measurement dates available:

	2010	2009
Projected benefit obligation	\$ (3,474,288)	\$ (3,369,163)
Fair value of plan assets as of December 31	3,238,457	2,907,364
Funded status at December 31	\$ (235,831)	\$ (461,799)

The assumptions used in the measurement of the Corporation's benefit obligation are shown in the following table:

	2010	2009
Expected return on plan assets	8%	8%
Rate of compensation increase	4.5% to 12.9%	4.5% to 12.9%
Cost of living adjustments	3% to 4%	3% to 4%

MERS has indicated that it will annually review the funded status of the plan to determine if a refund or additional contributions are necessary. Should the market value of assets fall below 120% of actuarial accrued liability, then the funding deficient provision as required by MERS policy will be operative.

NorthStar Health System and Affiliate

Notes to Combined Financial Statements

Note 15 Self-Funded Health Insurance

The Corporation sponsors a self-funded health care plan covering substantially all of its employees and their dependents. The health insurance expense is based upon actual claims paid, administration fees, and provisions for unpaid and unreported claims at year-end. Health insurance expense was \$2,525,045 and \$2,558,151 for the years ended December 31, 2010 and 2009, respectively. A liability of \$177,245 and \$229,999 for claims outstanding at December 31, 2010 and 2009, respectively, has been recorded in the accompanying combined balance sheets. Management believes this liability is sufficient to cover estimated claims including claims incurred but not yet reported.

Note 16 Functional Expenses

The Corporation provides general health care services to residents within its geographic location. Expenses related to providing these services consisted of the following:

	2010	2009
Health care services	\$ 32,945,396	\$ 29,554,801
General and administrative	3,282,220	3,223,996
Fund-raising	43,460	9,996
Total expenses	\$ 36,271,076	\$ 32,788,793

NorthStar Health System and Affiliate

Notes to Combined Financial Statements

Note 17 Concentration of Credit Risk

Financial instruments that potentially subject the Corporation to credit risk consist principally of accounts receivable and cash deposits in excess of insured limits in financial institutions.

Accounts receivable consist of amounts due from patients, their insurers, or governmental agencies (primarily Medicare and Medicaid) for health care provided to the patients.

The mix of receivables from patients and third-party payors consisted of the following at December 31:

	2010	2009
Medicare	43%	44%
Medicaid	9%	9%
Blue Cross	13%	12%
Other third-party payors	9%	9%
Patients	26%	26%
Totals	100%	100%

The Corporation maintains depository relationships with area financial institutions insured by the Federal Deposit Insurance Corporation (FDIC). On November 9, 2010, the FDIC issued a final rule implementing Section 343 of the Dodd-Frank Wall Street Reform and Consumer Protection Act that provides for unlimited insurance coverage of non-interest-bearing transaction accounts through December 31, 2012. In addition, the Corporation maintains cash in interest-bearing accounts at these institutions that are insured by the FDIC up to \$250,000. At December 31, 2010, the Corporation did not exceed FDIC-insured limits.

Note 18 Reclassifications

Certain reclassifications have been made to the 2009 combined financial statements to conform to the 2010 classifications.

Additional Information



**Independent Auditor's Report
on Additional Information**

Board of Trustees
NorthStar Health System
Iron River, Michigan

Our report on our audits of the combined financial statements of NorthStar Health System and Affiliate for the years ended December 31, 2010 and 2009, appears on page 1. Those audits were conducted for the purpose of forming an opinion on the combined financial statements taken as a whole. The additional information appearing on pages 32 through 35 is presented for purposes of additional analysis and is not a required part of the combined financial statements. Such information has been subjected to the auditing procedures applied in the audits of the combined financial statements and, in our opinion, is fairly presented in all material respects in relation to the combined financial statements taken as a whole.

Wipfli LLP

Wipfli LLP

January 7, 2012
Green Bay, Wisconsin

NorthStar Health System and Affiliate

Combining Balance Sheet

December 31, 2010 With Comparative Totals for 2009

<i>Assets</i>	NorthStar		Combined Totals	
	Health System	Foundation	2010	2009
Current assets:				
Cash and cash equivalents	\$ 44,058	\$ 77,514	\$ 121,572	\$ 645,913
Assets limited as to use required for current liabilities	186,054	0	186,054	1,681,739
Accounts receivable - Net	5,429,342	0	5,429,342	3,974,740
Other receivables	378,642	0	378,642	11,706
Inventories	457,968	0	457,968	479,626
Prepaid expenses and other current assets	203,794	0	203,794	144,083
Amounts due from third-party reimbursement programs	488,434	0	488,434	2,090,000
Total current assets	7,188,292	77,514	7,265,806	9,027,807
Assets limited as to use, less current portion	2,034,926	0	2,034,926	2,024,465
Investments	3,711,385	0	3,711,385	4,433,974
Property and equipment - Net	22,782,984	51,162	22,834,146	23,392,036
Other assets:				
Unamortized debt issue costs	234,623	0	234,623	242,587
Other	24,415	0	24,415	34,746
Total other assets	259,038	0	259,038	277,333
TOTAL ASSETS	\$ 35,976,625	\$ 128,676	\$ 36,105,301	\$ 39,155,615

NorthStar Health System and Affiliate

Combining Balance Sheet (Continued)

December 31, 2010 With Comparative Totals for 2009

<i>Liabilities and Net Assets</i>	NorthStar	NorthStar	Combined Totals	
	Health System	Health System Foundation	2010	2009
Current liabilities:				
Note payable - Line of credit	\$ 300,000	\$ 0	\$ 300,000	\$ 300,000
Current maturities of long-term debt	279,000	0	279,000	263,174
Current portion of obligations under capital leases	59,763	0	59,763	80,752
Accounts payable:				
Trade	1,577,246	0	1,577,246	1,554,044
Construction	624,270	0	624,270	1,503,226
Accrued and other liabilities	1,831,169	0	1,831,169	1,722,334
Total current liabilities	4,671,448	0	4,671,448	5,423,530
Long-term liabilities:				
Long-term debt, less current maturities	22,015,786	0	22,015,786	22,288,783
Obligations under capital leases, less current portion	58,228	0	58,228	0
Pension liability	235,831	0	235,831	461,799
Total long-term liabilities	22,309,845	0	22,309,845	22,750,582
Total liabilities	26,981,293	0	26,981,293	28,174,112
Net assets:				
Unrestricted	8,995,332	113,676	9,109,008	10,981,503
Temporarily restricted	0	15,000	15,000	0
Total net assets	8,995,332	128,676	9,124,008	10,981,503
TOTAL LIABILITIES AND NET ASSETS	\$ 35,976,625	\$ 128,676	\$ 36,105,301	\$ 39,155,615

See Independent Auditor's Report on Additional Information.

NorthStar Health System and Affiliate

Combining Statement of Operations

Year Ended December 31, 2010 With Comparative Totals for 2009

	NorthStar Health System	NorthStar Health System Foundation	Combined Totals	
			2010	2009
Revenue:				
Net patient service revenue	\$ 32,687,788	\$ 0	\$ 32,687,788	\$ 31,360,222
Other revenue	856,151	0	856,151	316,588
Total revenue	33,543,939	0	33,543,939	31,676,810
Expenses:				
Salaries and wages	14,016,163	22,580	14,038,743	13,009,698
Employee benefits	4,347,384	0	4,347,384	4,168,852
Supplies and other	12,909,886	16,229	12,926,115	12,123,894
Provision for bad debts	1,635,525	0	1,635,525	1,229,345
Depreciation and amortization	1,850,064	4,651	1,854,715	1,547,476
Interest	1,468,594	0	1,468,594	709,528
Total expenses	36,227,616	43,460	36,271,076	32,788,793
Loss from operations	(2,683,677)	(43,460)	(2,727,137)	(1,111,983)
Other income (expense):				
Investment income	190,800	57	190,857	249,629
Contributions	85,125	36,059	121,184	79,477
Loss on disposal of property and equipment	0	0	0	(3,195)
Total other income	275,925	36,116	312,041	325,911
Deficiency of revenue over expenses	\$ (2,407,752)	\$ (7,344)	\$ (2,415,096)	\$ (786,072)

See Independent Auditor's Report on Additional Information.

NorthStar Health System and Affiliate

Combining Statement of Changes in Net Assets

Year Ended December 31, 2010 With Comparative Totals for 2009

	NorthStar		Combined Totals	
	Health System	Health System Foundation	2010	2009
Unrestricted net assets:				
Deficiency of revenue over expenses	\$ (2,407,752)	\$ (7,344)	\$ (2,415,096)	\$ (786,072)
Change in net unrealized gains and losses on investments other than trading securities	316,633	0	316,633	859,081
Transfer of net assets	(39,572)	39,572	0	0
Change in pension obligation other than pension expense	225,968	0	225,968	(1,329,046)
Increase (decrease) in unrestricted net assets	(1,904,723)	32,228	(1,872,495)	(1,256,037)
Increase in temporarily restricted net assets - Contributions	0	15,000	15,000	0
Increase (decrease) in net assets	(1,904,723)	47,228	(1,857,495)	(1,256,037)
Net assets at beginning	10,900,055	81,448	10,981,503	12,237,540
Net assets at end	\$ 8,995,332	\$ 128,676	\$ 9,124,008	\$ 10,981,503

See Independent Auditor's Report on Additional Information.

