

# 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](http://www.sec.gov/info/municipal/nrmsir.htm) for list of current NRMSIRs and SIDs

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**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):

\_\_\_\_\_ \$28,465,000 \_\_\_\_\_

\_\_\_\_\_ Michigan State Hospital Finance Authority \_\_\_\_\_

\_\_\_\_\_ Hospital Revenue Bonds, Series 2005A \_\_\_\_\_

\_\_\_\_\_ Marquette General Hospital Obligated Group \_\_\_\_\_

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

\_\_\_\_\_ 59465HAU0 \_\_\_\_\_

\_\_\_\_\_ 59465HAV8 \_\_\_\_\_

\_\_\_\_\_ 59465HAW6 \_\_\_\_\_

\_\_\_\_\_ 59465HAX4 \_\_\_\_\_

\_\_\_\_\_ 59465HAY2 \_\_\_\_\_

\_\_\_\_\_ 59465HAZ9 \_\_\_\_\_

\_\_\_\_\_ 59465HBA3 \_\_\_\_\_

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**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.)

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**TYPE OF FILING:**

Electronic (number of pages attached) 45  Paper (number of pages attached) \_\_\_\_\_

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

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**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: July 2004 – June 2005 (FY2005)

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

Fiscal Period Covered: July 2004 – June 2005 (FY2005)

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 (734) 761-3614  
Email Address aronson@firstriver.com Relationship to Issuer Dissemination Agent

**Obligor Contact, if any:**

Name Michael I. Beckstrom, C.P.A. Title Chief Financial Officer  
Employer Marquette General Hospital  
Address 420 West Magnetic Street City Marquette State MI Zip Code 49855  
Telephone (906) 225-3450 Fax (906) 225-3800  
Email Address mbeckstrom@mgf.org Obligor Web Site Address www.mgf.org

**Investor Relations Contact, if any:**

Name \_\_\_\_\_ Title \_\_\_\_\_  
Telephone \_\_\_\_\_ Email Address \_\_\_\_\_

# MARQUETTE GENERAL HOSPITAL

## COMPLIANCE CERTIFICATE FOR THE TERM LOAN AGREEMENT

October 28, 2005

U.S. Bank National Association  
One US Bank Plaza, 7th Street & Washington Avenue  
St. Louis, Missouri 63101  
Attention: Healthcare/Non-Profit Division

Ladies and Gentlemen:

Reference is hereby made to the Term Loan Agreement dated as of December 15, 2004, by and between Marquette General Hospital, Inc. ("Borrower"), the Lenders from time to time party thereto, and U.S. Bank National Association, as Agent for the Lenders, as the same may from time to time be amended, modified, extended, renewed or restated (the "Term Loan Agreement"; all capitalized terms used and not otherwise defined herein [including all capitalized terms used in Schedule 1 attached hereto] shall have the respective meanings ascribed to them in the Loan Agreement).

Borrower, on its behalf, and on behalf of the Obligated Group, hereby certifies to Agent and Lenders that as of the date hereof:

- (a) all of the representations and warranties made by Borrower and/or any other Obligor in the Loan Agreement and/or in any other Transaction Document are true and correct in all material respects on and as of the date of this Certificate as if made on and as of the date of this Certificate;
- (b) no Default or Event of Default has occurred and is continuing; and
- (c) the audited financial statements of the Obligated Group delivered to you with this letter are true, correct and complete in all material respects and have been prepared in accordance with GAAP.

Very truly yours,

MARQUETTE GENERAL HOSPITAL, INC. for itself and as Obligated Group Agent on behalf of the Obligated Group



By: Michael J. Beckstrom, Chief Financial Officer

# MARQUETTE GENERAL HOSPITAL

## COMPLIANCE CERTIFICATE FOR THE REIMBURSEMENT AGREEMENT

October 28, 2005

U.S. Bank National Association  
One US Bank Plaza, 7th Street & Washington Avenue  
St. Louis, Missouri 63101  
Attention: Healthcare/Non-Profit Division

Ladies and Gentlemen:

Reference is hereby made to that certain Reimbursement Agreement dated as of December 1, 2004 (the "Reimbursement Agreement"), by and between Marquette General Hospital, Inc., on its own behalf and as Obligated Group Agent on behalf of the Obligated Group (as such terms are defined in the Reimbursement Agreement) (the "Obligor") and U.S. Bank National Association (the "Bank"), as the same may from time to time be amended, modified, extended, renewed or restated. All capitalized terms used and not otherwise defined herein shall have the respective meanings ascribed to them in the Reimbursement Agreement.

Obligor hereby certifies to the Bank that as of the date hereof:

- (a) a review of the activities of the Obligor has been made under my supervision with a view to determining whether the Obligor has fulfilled all of its obligations under the Reimbursement Agreement and the other Credit Documents;
- (b) the Obligor has fulfilled its obligations under the Credit Documents and all representations made therein continue to be true and correct in all material respects;
- (c) no Event of Default under or within the meaning of the Reimbursement Agreement has occurred and continuing;
- (d) the audited financial statements of Obligor delivered to you with this Certificate are true, correct and complete in all material respects and have been prepared in accordance with generally accepted accounting principles;
- (e) Schedule I to this Certificate contains computations evidencing the Obligor's compliance with the financial covenants set forth in Section 4.23 of the Reimbursement Agreement as of and for the fiscal year ended June 30, 2005, in each case calculated in accordance with the requirements of the Reimbursement Agreement and the Master Indenture; and

(f) any other financial or other details, information and material as you have requested to evidence such compliance delivered herewith are true and correct.

Very truly yours,

MARQUETTE GENERAL HOSPITAL, INC. for itself and as Obligated Group Agent on behalf of the Obligated Group

A handwritten signature in black ink, appearing to read "Michael J. Beckstrom", written in a cursive style. The signature is positioned above a solid horizontal line.

By: Michael J. Beckstrom, Chief Financial Officer

# MARQUETTE GENERAL HOSPITAL

## SCHEDULE I

### TO THE COMPLIANCE CERTIFICATE FOR THE REIMBURSEMENT AGREEMENT

<i>Debt Service Coverage Ratio, FY2005</i>		
<i>Master Indenture §501(b)(ii) and Reimbursement Agreement §4.23(a)</i>		
Excess of Revenue over Expenses		1,552,803
Depreciation Expense		12,658,589
Interest Expense		1,740,983
Loss on Extinguishment of Debt		2,215,247
Net Income Available for Debt Service	NIADS	18,167,622
Maximum Annual Debt Service Requirements	MADS	7,035,345
Debt Service Coverage Ratio	NIADS / MADS	2.58

<i>Liquidity Ratio, FY2005</i>		
<i>Master Indenture §501(e) and Reimbursement Agreement §4.23(b)</i>		
Cash and Cash Equivalents		21,895,159
Board-Designated Assets for Capital Improvements		45,188,990
Less: Outstanding Principal Balance of Short-Term Indebtedness		0
Liquid Assets	LA	67,084,149
Operating Expenses		256,623,271
Less: Depreciation and Amortization		(12,658,589)
Daily Operating Expenses <sup>1</sup>	DOE	668,396
Days' Cash on Hand	LA / DOE	100.4
<sup>1</sup> Calculated without deducting interest expense, as permitted by the Master Indenture. The definition in the Master Indenture differs from the conventional definition, including that used in the Official Statement relating to the Series 2005 Bonds.		

<b><i>Debt-to-Capitalization Ratio, FY2005 Reimbursement Agreement §4.23(c)</i></b>		
Current Portion of Long-Term Debt		1,845,158
Long-Term Debt		67,151,358
Total Indebtedness	D	68,996,516
Unrestricted Net Assets	NA	116,639,153
Debt-to-Capitalization Ratio	$D / (D + NA)$	0.37

<b><i>Average Age of Trade Accounts Payable, FY2005 Master Indenture §501(d)</i></b>		
Trade Accounts Payable at FYE	AP	7,916,933
Average Daily Trade Accounts Payable	ADAP	427,937
Average Age of Trade Accounts Payable (days)	$AP / ADAP$	18.5

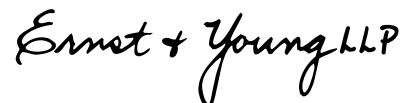
## Report of Independent Auditors on Compliance

Board of Trustees  
Marquette General Health System

We have audited in accordance with auditing standards generally accepted in the United States, the consolidated balance sheet of Marquette General Hospital, Inc. (d/b/a Marquette General Health System (the System) as of June 30, 2005, and the related consolidated statements of operations and changes in net assets and cash flows for the year then ended, and have issued our report thereon dated August 26, 2005.

In connection with our audit, nothing came to our attention that caused us to believe that the System failed to comply with the terms, covenants, provisions, or conditions of Section 501 (b), (d), and (e) of the Master Indenture Security Agreement between Wells Fargo Bank, N.A., and the System dated December 1, 2004 insofar as they relate to accounting matters. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance.

This report is intended solely for the information and use of the Board of Trustees and management of Marquette General Health System and Wells Fargo Bank, N.A., U.S. Bank National Association, JP Morgan Chase Bank, N.A., and National City Bank of the Midwest, and is not intended to be and should not be used by anyone other than the specified parties.



August 26, 2005

Marquette General Health System

Calculation of Financial Covenants

Year Ended June 30, 2005  
(Dollars in Thousands)

The following sets forth certain financial covenants required for the year ended June 30, 2005 in accordance with the Master Indenture Agreement between Wells Fargo Bank N.A., and Marquette General Hospital, Inc. (dollars in thousands):

**Calculation of Debt Service Coverage Ratio**

Excess of revenue over expenses	\$	1,553
Add:		
Loss on extinguishment of debt		2,215
Depreciation and amortization		12,659
Interest expense and amortization of debt issuance costs		1,741
Total net revenue available for debt service	\$	<u>18,168</u>
Maximum total principal and interest requirements for fiscal 2005 or any subsequent fiscal year		<u>7,035</u>
Coverage calculated		<u>258%</u>
Coverage requirement		<u>120%</u>

**Average Age of Trade Accounts Payable**

Trade accounts payable	\$	7,917
Average daily accounts payable		428
Average age of trade accounts payable calculated		<u>19 days</u>
Maximum average age of trade accounts payable requirement		<u>90 days</u>

Marquette General Health System

Calculation of Financial Covenants (continued)

Year Ended June 30, 2005  
*(Dollars in Thousands)*

**Days Cash on Hand**

Cash, cash equivalents and investments	\$	67,084
Operating expenses		256,623
Less:		
Depreciation and amortization		(12,659)
Interest and amortization of debt issuance costs		(1,741)
		<u>242,223</u>
Daily operating expenses		664
Days cash on hand calculated		101 days
Minimum days cash on hand requirement		45 days

# MARQUETTE GENERAL HOSPITAL

## ANNUAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2005 (FY2005)

Unless otherwise noted, all data apply to the Fiscal Year Ended June 30, 2005, or are accurate as of June 30, 2005, as appropriate. OS pages refer to the Official Statement relating to the Securities, dated April 21, 2005.

### SERVICE VOLUMES AND UTILIZATION

<i>Historical Adult Medical/Surgical and Pediatrics Utilization (excludes newborns) [OS Page A-51]</i>					
	<i>Fiscal Years Ended June 30</i>				
	<i>2005</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>	<i>2001</i>
Days in Period	365	366	365	365	365
Licensed Beds	274	274	274	274	274
Available Beds	191	191	191	191	191
Admissions	9,476	9,029	8,987	8,813	8,226
Change over Previous Period	5.0%	0.5%	2.0%	7.1%	3.6%
Patient Days	39,967	38,989	43,035	41,744	40,295
Average Daily Census	109.5	106.5	117.9	114.4	110.4
Average Length of Stay	4.2	4.3	4.8	4.7	4.9
Occupancy Rate <sup>1</sup> (%)	57.3	55.8	61.7	59.9	57.8
<sup>1</sup> Based on Available Beds					

**MUNICIPAL SECONDARY MARKET DISCLOSURE**  
**Michigan State Hospital Finance Authority / Marquette General Hospital**  
**Fiscal Year Ended June 30, 2005**

<i>Historical Obstetrics Utilization</i>					
<i>[OS Page A-52]</i>					
	<i>Fiscal Years Ended June 30</i>				
	<i>2005</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>	<i>2001</i>
Days in Period	365	366	365	365	365
Licensed Beds	0	0	0	0	0
Available Beds	12	12	12	12	12
Admissions	805	802	779	837	817
Change over Previous Period	0.4%	3.0%	(6.9)%	2.4%	5.1%
Patient Days	2,091	2,023	2,225	2,101	1,975
Births	644	669	640	692	675
Average Daily Census	5.7	5.5	6.1	5.8	5.4
Average Length of Stay	2.6	2.5	2.9	2.5	2.4
Occupancy Rate <sup>1</sup> (%)	47.7	46.1	50.8	48.0	45.1
<sup>1</sup> Based on Available Beds					

**MUNICIPAL SECONDARY MARKET DISCLOSURE**  
**Michigan State Hospital Finance Authority / Marquette General Hospital**  
**Fiscal Year Ended June 30, 2005**

<i>Historical Neonatal Intensive Care Utilization</i>					
<i>[OS Page A-53]</i>					
	<i>Fiscal Years Ended June 30</i>				
	<i>2005</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>	<i>2001</i>
Days in Period	365	366	365	365	365
Licensed Beds	10	10	10	10	10
Available Beds	10	10	10	10	10
Admissions	175	152	166	170	133
Change over Previous Period	15.1%	(8.4)%	(2.4)%	27.8%	(10.1)%
Patient Days	3,034	2,717	2,799	2,687	2,423
Average Daily Census	8.3	7.4	7.7	7.4	6.6
Average Length of Stay	17.3	17.9	16.9	15.8	18.2
Occupancy Rate <sup>1</sup> (%)	83.1	74.2	76.7	73.6	66.4
<sup>1</sup> Based on Available Beds					

**MUNICIPAL SECONDARY MARKET DISCLOSURE**  
**Michigan State Hospital Finance Authority / Marquette General Hospital**  
**Fiscal Year Ended June 30, 2005**

<i>Historical Rehabilitation Utilization</i>					
<i>[OS Page A-54]</i>					
	<i>Fiscal Years Ended June 30</i>				
	<i>2005</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>	<i>2001</i>
Days in Period	365	366	365	365	365
Licensed Beds	0	0	0	0	0
Available Beds	20	20	20	20	20
Admissions	308	410	413	387	403
Change over Previous Period	(24.9)%	(0.7)%	6.7%	(4.0)%	(0.2)%
Patient Days	2,869	3,663	3,405	3,683	3,554
Average Daily Census	7.9	10.0	9.3	10.1	9.7
Average Length of Stay	9.3	8.9	8.2	9.5	8.8
Occupancy Rate <sup>1</sup> (%)	39.3	50.0	46.6	50.5	48.7
<sup>1</sup> Based on Available Beds					

**MUNICIPAL SECONDARY MARKET DISCLOSURE**  
**Michigan State Hospital Finance Authority / Marquette General Hospital**  
**Fiscal Year Ended June 30, 2005**

<i>Historical Total Acute Care Utilization</i> <i>(Adult Medical/Surgical, Pediatrics, Obstetrics, NICU and Rehabilitation;</i> <i>excludes newborns)</i> <i>[OS Page A-55]</i>					
	<i>Fiscal Years Ended June 30</i>				
	<i>2005</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>	<i>2001</i>
Days in Period	365	366	365	365	365
Licensed Beds	284	284	284	284	284
Available Beds	233	233	233	233	233
Admissions	10,764	10,393	10,345	10,207	9,579
Change over Previous Period	3.6%	0.5%	1.4%	6.6%	3.4%
Patient Days	47,961	47,392	51,464	50,215	48,247
Average Daily Census	131.4	129.5	141.0	137.6	132.2
Average Length of Stay	4.5	4.6	5.0	4.9	5.0
Occupancy Rate <sup>1</sup> (%)	56.4	55.6	60.5	59.0	56.7
<sup>1</sup> Based on Available Beds					

**MUNICIPAL SECONDARY MARKET DISCLOSURE**  
**Michigan State Hospital Finance Authority / Marquette General Hospital**  
**Fiscal Year Ended June 30, 2005**

<i>Historical Behavioral Health Services Inpatient Utilization</i>					
<i>[OS Page A-56]</i>					
	<i>Fiscal Years Ended June 30</i>				
	<i>2005</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>	<i>2001</i>
Days in Period	365	366	365	365	365
Licensed Beds	56	56	56	56	56
Available Beds	56	56	56	56	56
Admissions	1,747	1,659	1,510	1,540	1,429
Change over Previous Period	5.3%	9.9%	(1.9)%	7.8%	6.6%
Patient Days	11,884	12,558	11,217	10,963	10,894
Average Daily Census	32.6	34.3	30.7	30.0	29.8
Average Length of Stay	6.8	7.6	7.4	7.1	7.6
Occupancy Rate <sup>1</sup> (%)	58.1	61.3	54.9	53.6	53.3
<sup>1</sup> Based on Available Beds					

**MUNICIPAL SECONDARY MARKET DISCLOSURE**  
**Michigan State Hospital Finance Authority / Marquette General Hospital**  
**Fiscal Year Ended June 30, 2005**

<i>Historical Total Inpatient Utilization</i> <i>(Acute Care plus BHS; excludes newborns)</i> <i>[OS Page A-57]</i>					
	<i>Fiscal Years Ended June 30</i>				
	<i>2005</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>	<i>2001</i>
Days in Period	365	366	365	365	365
Licensed Beds	340	340	340	340	340
Available Beds	289	289	289	289	289
Admissions	12,511	12,052	11,855	11,747	11,008
Change over Previous Period	3.8%	1.7%	0.9%	6.7%	3.8%
Patient Days	59,845	59,950	62,681	61,178	59,141
Average Daily Census	164.0	163.8	171.7	167.6	162.0
Average Length of Stay	4.8	5.0	5.3	5.2	5.4
Occupancy Rate <sup>1</sup> (%)	56.7	56.7	59.4	58.0	56.1
<sup>1</sup> Based on Available Beds					

<i>Certain Outpatient Volume Indicators</i> <i>[OS Page A-58]</i>					
	<i>Fiscal Years Ended June 30</i>				
	<i>2005</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>	<i>2001</i>
ED Visits	20,874	19,531	18,996	18,738	17,922
Change over Previous Period	6.9%	2.8%	1.4%	4.6%	2.4%
Ambulance Runs	3,222	3,160	2,973	2,754	2,654
Change over Previous Period	2.0%	6.3%	8.0%	3.8%	3.1%

**MUNICIPAL SECONDARY MARKET DISCLOSURE**  
**Michigan State Hospital Finance Authority / Marquette General Hospital**  
**Fiscal Year Ended June 30, 2005**

<i>Surgical and Other Procedures</i>					
<i>[OS Page A-58]</i>					
	<i>Fiscal Years Ended June 30</i>				
	<i>2005</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>	<i>2001</i>
Inpatient Surgeries	4,821	4,923	5,165	4,706	4,339
Outpatient Surgeries	5,015	4,998	4,852	4,890	5,049
Total	9,836	9,921	10,017	9,596	9,388
Change over Previous Period	(0.9)%	(1.0)%	4.4%	2.2%	(1.4)%
Percent Outpatient	51.0%	50.4%	48.4%	51.0%	53.8%

**MUNICIPAL SECONDARY MARKET DISCLOSURE**  
**Michigan State Hospital Finance Authority / Marquette General Hospital**  
**Fiscal Year Ended June 30, 2005**

<i>Ancillary Services</i>						
<i>(Volumes of Services Denoted by Italics are Delivered Exclusively to Outpatients)</i>						
<i>[OS Page A-59]</i>						
		<i>Fiscal Years Ended June 30</i>				
		<i>2005</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>	<i>2001</i>
<b>Laboratory</b>	Main Laboratory <sup>1</sup>	886,630	837,055	834,752	781,669	678,887
	<i>PMC Laboratory<sup>1</sup></i>	32,362	28,247	26,308	31,886	44,734
	<i>Blood Bank<sup>2</sup></i>	12,631	13,074	11,670	11,151	10,178
<b>Imaging</b>	Radiology <sup>1</sup>	47,522	45,753	49,842	44,337	40,716
	Ultrasound <sup>1</sup>	29,412	28,003	27,094	24,757	25,612
	CT Scanning <sup>1</sup>	16,219	14,358	13,023	11,080	9,437
	Nuclear Medicine <sup>1</sup>	11,420	11,264	11,787	13,763	14,162
	MRI <sup>1</sup>	10,556	11,270	10,721	9,265	7,149
	Special Procedures <sup>1</sup>	4,583	4,197	4,003	3,508	1,158
	<i>PMC Imaging Center<sup>1</sup></i>	10,550	7,481	0	0	0
<b>Rehabilitation Services</b>	Physical Therapy <sup>3</sup>	17,178	17,781	18,393	18,018	19,001
	Occupational Therapy <sup>3</sup>	19,277	20,059	17,850	9,134	9,181
	Return to Work Therapy <sup>3</sup>	2,478	2,575	2,888	2,332	2,973
	Communications Rehab <sup>3</sup>	2,564	2,655	2,877	3,106	3,033
	<i>Audiology<sup>1</sup></i>	1,208	1,291	2,287	2,303	2,566
	<i>Escanaba Rehabilitation<sup>3</sup></i>	4,662	5,270	4,087	3,699	3,742
	<i>Sawyer Rehabilitation<sup>3</sup></i>	1,773	1,777	2,082	1,325	0
<b>Cardiac Services</b>	Cardiac Imaging <sup>4</sup>	3,466	3,169	3,025	2,938	2,856
	Cardiac Rehabilitation <sup>1</sup>	14,613	14,495	16,009	17,095	16,077
	Cardiographic Services <sup>1</sup>	46,793	45,234	47,345	45,360	42,943
	<i>Outpatient Cardiac<sup>5</sup></i>	2,952	2,739	1,959	1,858	1,657

**MUNICIPAL SECONDARY MARKET DISCLOSURE**  
**Michigan State Hospital Finance Authority / Marquette General Hospital**  
**Fiscal Year Ended June 30, 2005**

<i>Ancillary Services</i>						
<i>(Volumes of Services Denoted by Italics are Delivered Exclusively to Outpatients)</i>						
<i>[OS Page A-59]</i>						
		<i>Fiscal Years Ended June 30</i>				
		<i>2005</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>	<i>2001</i>
<b>Dialysis</b>	<i>Marquette Center<sup>6</sup></i>	7,806	8,591	8,880	7,815	8,398
	<i>Eastern UP Center<sup>6</sup></i>	1,787	1,961	1,408	88	0
	<i>Western UP Center<sup>6</sup></i>	4,465	3,719	3,045	2,224	1,303
<b>Other</b>	Endoscopy <sup>1</sup>	4,940	4,749	5,849	5,929	5,526
	Neurophysiology <sup>1</sup>	6,622	5,581	5,618	5,370	6,642
	<i>Perfusion<sup>1</sup></i>	300	328	487	424	458
	Pulmonary Function <sup>1</sup>	3,543	3,658	3,668	3,585	4,028
	Respiratory Care <sup>7</sup>	92,327	90,816	115,783	113,824	123,944
	Radiology Oncology <sup>1</sup>	15,898	18,080	19,443	21,548	19,637
1 Procedures 2 Donors 3 Hours 4 Patients 5 Visits 6 Runs 7 Hours						

**MUNICIPAL SECONDARY MARKET DISCLOSURE**  
**Michigan State Hospital Finance Authority / Marquette General Hospital**  
**Fiscal Year Ended June 30, 2005**

<i>Certain Ancillary Services Provided Exclusively to Outpatients</i> <i>[OS Page A-61]</i>					
	<i>Fiscal Years Ended June 30</i>				
	<i>2005</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>	<i>2001</i>
Main Laboratory <sup>1</sup>	531,138	507,776	482,451	455,074	421,059
PMC Laboratory <sup>1</sup>	31,208	27,139	25,320	30,610	43,174
Radiology <sup>1</sup>	18,189	18,114	19,466	17,562	17,709
Ultrasound <sup>1</sup>	15,767	15,962	14,953	13,859	14,326
CT Scanning <sup>1</sup>	11,192	10,104	8,778	7,670	6,452
Nuclear Medicine <sup>1</sup>	9,325	9,373	9,508	10,636	11,734
MRI <sup>1</sup>	8,842	9,724	8,928	7,653	5,906
Special Procedures (Interventional Radiology) <sup>1</sup>	2,111	1,977	1,627	1,284	474
Physical Therapy <sup>2</sup>	9,033	9,005	9,329	9,006	9,468
Cardiac Imaging <sup>3</sup>	1,411	1,275	1,281	1,247	1,130
Endoscopy <sup>1</sup>	3,755	3,598	4,498	4,624	4,226
Neurophysiology <sup>1</sup>	4,527	3,814	3,952	3,755	5,219
Radiology Oncology <sup>1</sup>	14,622	16,412	17,437	19,351	17,944
1 Procedures					
2 Hours					
3 Patients					

<i>MGHH&amp;H Volumes</i> <i>[OS Page A-61]</i>					
	<i>Fiscal Years Ended June 30</i>				
	<i>2005</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>	<i>2001</i>
Home Care Visits	51,850	50,321	57,437	65,779	77,857
Private Duty Hours	47,708	43,642	47,396	61,533	59,912

**MUNICIPAL SECONDARY MARKET DISCLOSURE**  
**Michigan State Hospital Finance Authority / Marquette General Hospital**  
**Fiscal Year Ended June 30, 2005**

<i>Physician Practice Volumes</i> <i>(in Relative Value Units (“RVUs”) or Visits, as Indicated)</i> <i>[OS Page A-62]</i>					
	<i>Fiscal Years Ended June 30</i>				
	<i>2005</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>	<i>2001</i>
	<i>RVUs</i>	<i>RVUs</i>	<i>RVUs</i>	<i>RVUs</i>	<i>Visits</i>
Family Care Doctors	42,140	41,213	37,953	38,968	29,739
Iron River Clinic	7,361	8,872	8,940	7,450	7,578
Kingsford Clinic	17,011	16,108	16,135	16,422	16,525
Doctor’s Park Family Physicians	31,101	36,701	37,471	28,637	24,129
Gladstone Clinic	9,796	4,750	0	0	0
Lakewood Clinic	3,256	3,441	3,374	2,820	3,169
Negaunee Clinic	2,349	2,314	2,271	1,679	2,525
Trenary Clinic	1,613	1,595	1,665	1,647	1,935
Grand Marais Clinic	323	320	334	330	395
Stephenson Clinic <sup>1</sup>	0	2,095	2,281	1,873	1,945
North Country Medical Associates	0	0	0	1,553	3,935
Neurology Associates	23,720	22,644	23,609	22,026	5,741
Pediatric Specialists	11,806	10,983	10,630	12,715	9,602
Chippewa Medical Associates	7,957	10,614	8,920	7,962	4,830
Respiratory Medicine	14,439	13,215	13,462	13,000	1,968
UP Hematology/Oncology	29,550	28,087	28,618	13,045	11,196
UP Internal Medicine	26,646	27,486	21,804	19,762	8,727
North Shore Internal Medicine	4,751	4,599	4,182	4,531	3,303
Infectious Diseases	13,788	13,201	11,250	11,529	2,812
Behavioral Health <sup>2</sup>	64,009	68,365	62,912	40,958	29,447
Occupational Medicine	3,858	3,101	2,846	3,325	2,811
Total RVUs or Visits	315,474	319,704	298,657	250,232	172,312
<sup>1</sup> The Stephenson Clinic was closed shortly before the end of FY2004 <sup>2</sup> Therapy Hours in FY2001 – FY2002					

**MUNICIPAL SECONDARY MARKET DISCLOSURE**  
**Michigan State Hospital Finance Authority / Marquette General Hospital**  
**Fiscal Year Ended June 30, 2005**

**FINANCIAL INFORMATION**

<i>Payor Mix by Gross Revenue</i> <i>[OS Page A-67]</i>					
	<i>Fiscal Years Ended June 30</i>				
	<i>2005</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>	<i>2001</i>
Medicare	47.7%	47.5%	46.9%	46.5%	46.8%
Medicaid	9.8%	9.9%	9.3%	9.6%	8.8%
Blue Cross	23.7%	24.0%	25.5%	25.6%	25.3%
Self-Pay	1.3%	1.3%	1.0%	0.9%	0.9%
Commercial and Other	17.5%	17.3%	17.3%	17.4%	18.2%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

**MUNICIPAL SECONDARY MARKET DISCLOSURE**  
**Michigan State Hospital Finance Authority / Marquette General Hospital**  
**Fiscal Year Ended June 30, 2005**

<i>Summary of Statements of Operations</i> ( <i>\$000s omitted</i> ) ( <i>[OS Page A-69]</i> )					
	<i>Fiscal Years Ended June 30</i>				
	<i>2005</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>	<i>2001</i>
Net Patient Service Revenue	249,059	229,689	217,393	199,233	182,988
Other Operating Revenue	<u>10,298</u>	<u>9,851</u>	<u>8,452</u>	<u>7,192</u>	<u>5,334</u>
Total Operating Revenue	259,357	239,540	225,845	206,425	188,323
Depreciation and Amortization	12,659	12,959	12,795	11,930	10,802
Interest	1,741	2,158	2,179	2,149	2,219
Provision for Bad Debts	5,429	4,981	4,293	3,874	3,961
Other Operating Expenses	<u>236,795</u>	<u>218,585</u>	<u>206,342</u>	<u>185,098</u>	<u>170,106</u>
Total Operating Expenses	256,623	238,683	225,610	203,051	187,088
Income from Operations	2,733	857	235	3,375	1,234
Net Nonoperating Revenue	<u>(1,181)</u>	<u>3,060</u>	<u>(1,615)</u>	<u>(140)</u>	<u>(223)</u>
Revenue over (under) Expenses	1,553	3,917	(1,381)	3,235	1,012
Net Income Available for Debt Service	18,168	19,034	13,594	17,314	14,033
Note:	Some figures might not add precisely due to rounding.				
Note:	FY2005 Net Nonoperating Revenue includes a loss on extinguishment of debt of \$2,215,000. This amount was added back to the Net Income Available for Debt Service in accordance with Section (i)(E) of its definition in the Master Indenture.				

**MUNICIPAL SECONDARY MARKET DISCLOSURE**  
**Michigan State Hospital Finance Authority / Marquette General Hospital**  
**Fiscal Year Ended June 30, 2005**

<i>Balance Sheet Summary</i> <i>(\$000s omitted)</i> <i>[OS Page A-73]</i>					
	<i>Fiscal Years Ended June 30</i>				
	<i>2005</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>	<i>2001</i>
Cash and Cash Equivalents <sup>1</sup>	21,895	14,269	8,663	9,814	6,934
Net Patient Accounts Receivable	33,026	32,743	35,491	32,906	31,952
Other Current Assets	<u>9,660</u>	<u>11,664</u>	<u>11,383</u>	<u>11,046</u>	<u>9,293</u>
Total Current Assets	64,581	58,676	55,538	53,767	48,179
Board-Designated Investments <sup>1</sup>	45,189	33,352	26,405	25,581	24,697
Net Property and Equipment	116,043	109,277	110,255	108,376	106,673
Other Non-Current Assets	<u>46,609</u>	<u>31,285</u>	<u>30,603</u>	<u>30,870</u>	<u>25,998</u>
Total	272,423	232,590	222,802	218,594	205,547
Current Liabilities	46,394	42,904	36,965	34,293	25,713
Long Term Debt, net of Current Portion	67,151	34,310	33,190	32,745	33,105
Other Non-Current Liabilities	<u>42,238</u>	<u>20,264</u>	<u>22,665</u>	<u>10,210</u>	<u>6,263</u>
Unrestricted Net Assets	<u>116,639</u>	<u>135,112</u>	<u>129,982</u>	<u>141,347</u>	<u>140,466</u>
Total	272,423	232,590	222,802	218,594	205,547
<sup>1</sup> Used in "Days' Cash on Hand" and "Cushion Ratio" calculations Note: Some figures might not add precisely due to rounding. Note: Certain FY2004 figures have been changed to reflect the presentation in the FY2005 audited financial statements.					

**MUNICIPAL SECONDARY MARKET DISCLOSURE**  
**Michigan State Hospital Finance Authority / Marquette General Hospital**  
**Fiscal Year Ended June 30, 2005**

<i>Liquid Assets and Capital Expenditures</i>					
<i>(\$000s omitted)</i>					
<i>[OS Page A-74]</i>					
	<i>Fiscal Years Ended June 30</i>				
	<i>2005</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>	<i>2001</i>
Cash and Cash Equivalents	21,895	14,269	8,663	9,814	6,934
Board-Designated Investments	45,189	<u>33,352</u>	<u>26,405</u>	<u>25,581</u>	<u>24,697</u>
Liquid Assets	67,084	<u>47,621</u>	<u>35,068</u>	<u>35,396</u>	<u>31,631</u>
Capital Expenditures	19,507	12,059	14,754	11,876	12,837
Note: Some figures might not add precisely due to rounding.					

CONSOLIDATED FINANCIAL STATEMENTS

Marquette General Health System  
Years Ended June 30, 2005 and 2004

Marquette General Health System

Consolidated Financial Statements

Years Ended June 30, 2005 and 2004

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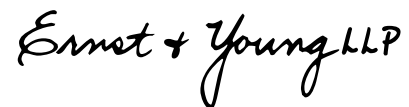
## Report of Independent Auditors

Board of Trustees  
Marquette General Health System

We have audited the accompanying consolidated balance sheets of Marquette General Hospital, Inc. (d/b/a Marquette General Health System) (the System) as of June 30, 2005 and 2004, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the System'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. We were not engaged to perform an audit of the System's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Marquette General Health System at June 30, 2005 and 2004, and the consolidated results of its operations and changes in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.



August 26, 2005

# Marquette General Health System

## Consolidated Balance Sheets

	<b>June 30</b>	
	<b>2005</b>	<b>2004</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 21,895,159	\$ 14,269,067
Assets limited as to use – required for current liabilities	251,704	2,366,454
Accounts receivable, net of allowances for uncollectible accounts of \$5,262,000 and \$5,033,000 in 2005 and 2004, respectively	33,025,799	32,743,170
Inventories	7,297,392	7,427,253
Prepaid expenses	2,111,094	1,870,105
Total current assets	64,581,148	58,676,049
Assets limited as to use, net of current portion:		
Board-designated for capital improvements	45,188,990	33,351,859
Under the following agreements:		
Bond agreements	17,642,463	2,240,314
Self insurance for professional liability and workers' compensation	16,466,741	16,661,854
	79,298,194	52,254,027
Property and equipment:		
Land and land improvements	9,944,944	9,560,310
Buildings	131,990,099	131,018,302
Equipment	122,909,339	114,186,449
Construction in progress	14,087,299	5,007,731
	278,931,681	259,772,792
Less accumulated depreciation	162,888,587	150,495,316
	116,043,094	109,277,476
Other assets:		
Deferred financing costs, net of amortization	599,171	551,302
Intangible pension asset	3,469,755	4,326,955
Other	8,431,318	7,504,117
	12,500,244	12,382,374
Total assets	\$ 272,422,680	\$ 232,589,926

	<b>June 30</b>	
	<b>2005</b>	<b>2004</b>
<b>Liabilities and net assets</b>		
Current liabilities:		
Accounts payable and other liabilities	\$ 9,845,453	\$ 8,192,666
Current portion of employee compensation and benefits	15,718,549	14,233,192
Current portion of accrued pension liability	10,469,643	10,593,000
Third-party settlement liabilities	8,154,363	5,497,662
Accrued interest payable	360,958	436,454
Current portion of long-term debt	1,845,158	3,951,449
Total current liabilities	<u>46,394,124</u>	42,904,423
Professional liability and workers' compensation reserves	4,564,261	4,766,217
Accrued employee compensation and benefits, net of current portion	2,670,439	2,954,000
Accrued pension liability, net of current portion	33,363,971	12,543,557
Interest rate lock agreement	1,639,374	-
Long-term debt, net of current portion	67,151,358	34,309,989
Total long-term liabilities	<u>109,389,403</u>	54,573,763
Unrestricted net assets	116,639,153	135,111,740

Total liabilities and net assets	<u><u>\$ 272,422,680</u></u>	<u><u>\$ 232,589,926</u></u>
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*See accompanying notes.*

## Marquette General Health System

### Consolidated Statements of Operations and Changes in Net Assets

	<b>Years Ended June 30</b>	
	<b>2005</b>	<b>2004</b>
Unrestricted revenues and other support:		
Net patient service revenue	<b>\$249,058,858</b>	\$229,689,478
Other operating revenue	<b>10,297,847</b>	9,850,799
Total revenue	<b>259,356,705</b>	239,540,277
Expenses:		
Salaries and wages	<b>106,439,939</b>	100,436,986
Supplies and other services	<b>94,221,964</b>	84,473,397
Employee health and welfare benefits	<b>36,132,901</b>	33,674,620
Depreciation and amortization	<b>12,658,589</b>	12,959,156
Provision for uncollectible accounts	<b>5,428,895</b>	4,981,131
Interest and amortization of debt issuance costs	<b>1,740,983</b>	2,158,040
Total expenses	<b>256,623,271</b>	238,683,330
Operating income	<b>2,733,434</b>	856,947
Nonoperating income (expense):		
Loss on extinguishment of debt	<b>(2,215,247)</b>	-
Net realized investment gains	<b>1,116,937</b>	3,137,306
Loss on disposal of assets	<b>(82,321)</b>	(77,346)
	<b>(1,180,631)</b>	3,059,960
Excess of revenue over expenses	<b>1,552,803</b>	3,916,907
Net unrealized gains on investments	<b>1,301,530</b>	163,414
Loss on interest rate lock agreement	<b>(1,639,374)</b>	-
Contribution received for property	<b>24,000</b>	48,000
Change in minimum pension liability	<b>(19,711,546)</b>	1,001,453
Increase (decrease) in unrestricted net assets	<b>(18,472,587)</b>	5,129,774
Unrestricted net assets at beginning of year	<b>135,111,740</b>	129,981,966
Unrestricted net assets at end of year	<b>\$116,639,153</b>	\$135,111,740

*See accompanying notes.*

# Marquette General Health System

## Consolidated Statements of Cash Flows

	<b>Years Ended June 30</b>	
	<b>2005</b>	<b>2004</b>
<b>Operating activities</b>		
Increase (decrease) in unrestricted net assets	\$(18,472,587)	\$ 5,129,774
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization, including amortization of debt issue costs	12,712,334	12,995,912
Net unrealized gains on investments	(1,301,530)	(163,414)
Loss on extinguishment of debt	2,215,247	
Loss on interest rate lock agreement	1,639,374	
Loss on disposal of assets	82,321	77,346
Net periodic pension cost	9,997,244	9,455,349
Pension contributions	(8,154,533)	(8,804,130)
Change in minimum pension liability	19,711,546	(1,001,453)
Changes in operating assets and liabilities:		
Accounts receivable – net	(282,629)	3,722,168
Inventories, prepaid expenses, and other assets	(1,139,943)	(1,268,866)
Accounts payable and other liabilities	1,652,787	(1,528,594)
Third-party settlement liabilities	2,656,701	793,799
Employee compensation and related liabilities	1,201,796	1,865,988
Accrued interest payable	(75,496)	(23,857)
Professional liability and workers' compensation reserves	(201,956)	1,462,191
Net cash provided by operating activities	22,240,676	22,712,213
<b>Investing activities</b>		
Capital expenditures – net	(19,506,528)	(12,058,576)
Increase in assets limited as to use	(23,627,887)	(7,063,518)
Net cash used in investing activities	(43,134,415)	(19,122,094)
<b>Financing activities</b>		
Proceeds from long-term debt	68,385,875	5,392,291
Principal payments of long-term debt	(39,488,846)	(2,999,972)
Principal payments of capital leases	(377,198)	(376,557)
Net cash provided by financing activities	28,519,831	2,015,762
Net increase in cash and cash equivalents	7,626,092	5,605,881
Cash and cash equivalents at beginning of year	14,269,067	8,663,186
Cash and cash equivalents at end of year	\$ 21,895,159	\$ 14,269,067

( ) Denotes use of cash and cash equivalents.

See accompanying notes.

# Marquette General Health System

## Notes to Consolidated Financial Statements

June 30, 2005

### **1. Significant Accounting Policies**

#### **Organization and Nature of Operations**

Marquette General Hospital, Inc. (d/b/a Marquette General Health System) (the System) is a Michigan nonstock corporation designed to provide health care services in Michigan's Upper Peninsula.

The System owns all of the outstanding shares of common stock of Rampart EMS, Inc. and subsidiaries (Rampart). Rampart provides ambulance services for portions of the southern Upper Peninsula of Michigan. All intercompany accounts and transactions are eliminated in preparation of the consolidated financial statements.

The System owns all of the outstanding shares of common stock of Klinitek, Inc. (Klinitek). Klinitek is in the business of developing computer software for health care applications. All intercompany accounts and transactions are eliminated in preparation of the consolidated financial statements.

#### **Use of Estimates**

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

#### **Cash Equivalents**

Cash equivalents consist of highly liquid financial instruments with an original maturity of three months or less when purchased.

#### **Allowance for Uncollectible Accounts**

The System provides for accounts receivable that could become uncollectible in the future by establishing an allowance to reduce the carrying value of such receivables to their estimated realizable value. This allowance is estimated based on the aging of accounts receivable and historical collection experience by payor.

# Marquette General Health System

## Notes to Consolidated Financial Statements (continued)

### **1. Significant Accounting Policies (continued)**

#### **Inventories**

Inventories consist of medical supplies, durable medical equipment, and pharmaceutical items valued at the lower of cost (average cost) or market.

#### **Income Taxes**

The System is a nonprofit, tax-exempt organization as described under Section 501(c)(3) of the Internal Revenue Code (IRC). Rampart is a nonprofit, tax-exempt organization as described under Section 501(c)(3) of the IRC. Klinitek is a taxable organization and records a provision for income taxes to the extent required based on its separate earnings and IRC regulations.

#### **Financial Instruments**

The System's financial instruments include cash and cash equivalents, accounts receivable, investments, accounts payable, and long-term debt. Management's estimate of the fair value of these financial instruments approximates the carrying amounts at June 30, 2005, except for certain long-term debt arrangements, which use discounted cash flow analyses based on the System's estimated borrowing rate for similar financing arrangements.

#### **Net Patient Service Revenue**

Net patient service revenue is reported at estimated net realizable amounts from patients, third-party payors, and others for services rendered and includes estimated retroactive revenue adjustments due to future audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations. Adjustments to recorded estimates are likely in the future and could be material. The System's net patient service revenue was decreased by \$936,000 in 2005 and increased by \$260,000 in 2004, to reflect changes in the estimated settlements for certain prior years.

# Marquette General Health System

## Notes to Consolidated Financial Statements (continued)

### 1. Significant Accounting Policies (continued)

The System provides care to patients under payment arrangements with Medicare, Medicaid, and Blue Cross. Net patient service revenue subject to the provisions of these third-party contracts is approximately 45%, 6%, and 23%, respectively. Services provided under these arrangements are paid at predetermined rates and/or reimbursable costs as defined. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. The System believes it is in compliance with all applicable laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action.

### Charity and Other Uncompensated Care

In furtherance of the System's mission, quality medical services are provided regardless of race, creed, sex, national origin, handicap, or ability to pay. In addition to providing services to the financially disadvantaged at no cost or at a discounted charge, the System participates in state programs designed for the indigent whereby the System is reimbursed less than its costs for services. The following is management's estimate of charity and other uncompensated care services provided for the years ended June 30:

	<u>2005</u>	<u>2004</u>
Charity care costs	\$ 509,000	\$ 523,000
Costs in excess of reimbursement from state programs for services to the financially disadvantaged	9,350,000	8,534,000
Cost of services associated with uncollectible accounts	3,261,000	3,313,000
Total charity and other uncompensated care	<u>\$ 13,120,000</u>	<u>\$ 12,370,000</u>

### Excess of Revenue Over Expenses

Included in the excess of revenue over expenses in the accompanying consolidated statements of operations and changes in net assets are all changes in unrestricted net assets, other than contributions received for property, unrealized gains or losses on investments, and minimum pension liability.

# Marquette General Health System

## Notes to Consolidated Financial Statements (continued)

### **1. Significant Accounting Policies (continued)**

#### **Property and Equipment**

Property and equipment are stated at cost. Depreciation, including amortization of amounts recorded under capital leases, is computed using the straight-line method over the estimated useful lives of the related assets, which range from three to forty years. Costs of maintenance and repairs are charged to expense when incurred.

#### **Deferred Financing Costs**

Financing costs incurred in connection with outstanding debt are being amortized over the life of the related debt using the straight-line method, which approximates the effective interest rate method.

#### **Assets Limited as to Use**

Assets limited as to use by the Board of Trustees are primarily designated for capital improvements. The funds are invested primarily in U.S. Treasury bills and notes and equity and fixed income securities and are stated at fair value.

Assets limited as to use under bond agreements are stated at fair value and are held by a trustee pursuant to the provisions of the Michigan State Hospital Finance Authority loan agreements.

Assets limited as to use relating to self-insurance for professional liability, workers' compensation, and general liability claims are held by a trustee. These funds are used to pay professional liability, workers' compensation, and general liability claims. Such funds are primarily invested in equity and fixed income securities and are stated at fair value.

Unrealized appreciation or depreciation in the aggregate fair value of investments represents the change during the year in the difference between the current quoted market price and the original cost of investments. Realized gain or loss on investments is the difference between proceeds received and the specific cost of investments sold.

# Marquette General Health System

## Notes to Consolidated Financial Statements (continued)

### **1. Significant Accounting Policies (continued)**

#### **Contributions**

Unconditional promises to give cash and other assets to the System are reported at fair value at the date the promise is received. Such unconditional gifts are recorded as other operating revenue unless provided for property acquisition in which case it is recorded as an other increase in net assets. Conditional promises to give and indications of intentions are reported at fair value at the date the gift is received. 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 on the statements of operations as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying statements of operations. Earnings from the investments of contributions and bequests are reflected in unrestricted net assets when earned unless otherwise restricted by the donor. The System received no unconditional promises of contributions in 2005 or 2004.

#### **Reclassifications**

Certain amounts reported in 2004 have been reclassified to conform to the 2005 presentation.

Marquette General Health System

Notes to Consolidated Financial Statements (continued)

**2. Assets Limited as to Use**

Assets limited as to use are stated at fair value. The composition of assets limited as to use was as follows at June 30:

	<u>2005</u>	<u>2004</u>
<b>Board designated for capital improvements</b>		
Cash and cash equivalents	\$ 1,059,406	\$ 1,627,013
Government fixed income securities	22,424,558	17,018,905
Equity securities	21,705,026	14,705,941
	<u>45,188,990</u>	<u>33,351,859</u>
<b>Under bond agreements</b>		
Cash and cash equivalents	419,096	4,606,768
Government fixed income securities	17,475,071	-
	<u>17,894,167</u>	<u>4,606,768</u>
<b>Self-insurance for professional liability and workers' compensation</b>		
Cash and cash equivalents	72,880	12,290
Government fixed income securities	8,584,037	8,933,534
Equity securities	7,809,824	7,716,030
	<u>16,466,741</u>	<u>16,661,854</u>
	<u>\$ 79,549,898</u>	<u>\$ 54,620,481</u>

The following schedule ages assets limited as to use that are in an unrealized loss position as of June 30, 2005.

	<u>Unrealized Loss</u>	<u>Carrying Amount</u>
Less than 12 months	\$ 839,590	\$ 28,154,089
Greater than 12 months	222,161	7,026,424
	<u>\$ 1,061,751</u>	<u>\$ 35,180,513</u>

The system periodically reviews investments for other-than-temporary decline in value. At June 30, 2005 and 2004, no investments were judged to have experienced an other-than-temporary decline in value based on market conditions at the consolidated balance sheet date.

## Marquette General Health System

### Notes to Consolidated Financial Statements (continued)

#### 3. Pension Plan

The System maintains a defined-benefit pension plan (the Plan), which covers substantially all employees. The System's funding policy is to contribute amounts to the Plan sufficient to meet the minimum funding requirements set forth in the Employee Retirement Income Security Act of 1974, plus such additional amounts as the System may determine to be appropriate from time to time.

The following table summarizes the funded status and other information related to the Plan as of June 30:

	<u>2005</u>	<u>2004</u>
<b>Change in projected benefit obligation</b>		
Benefit obligation at beginning of year	\$ 140,543,381	\$ 124,979,015
Service cost	7,661,237	7,074,076
Interest cost	9,068,882	8,077,341
Plan amendments	(306,702)	—
Actuarial loss	24,243,080	2,457,194
Benefits paid	(2,390,306)	(2,044,245)
Benefit obligation at end of year	<u>\$ 178,819,572</u>	<u>\$ 140,543,381</u>
 <b>Change in plan assets</b>		
Fair value of plan assets at beginning of year	\$ 84,527,662	\$ 70,727,450
Actual return on assets	4,357,289	7,040,327
Employer contributions received	8,154,533	8,804,130
Benefits paid	(2,390,306)	(2,044,245)
Fair value of plan assets at end of year	<u>\$ 94,649,178</u>	<u>\$ 84,527,662</u>
 <b>Reconciliation of funded status</b>		
Funded status	\$ (84,170,394)	\$ (56,015,719)
Unrecognized prior service cost	3,469,755	4,326,955
Unrecognized loss	71,672,649	44,503,485
Net accrued pension liability	<u>\$ (9,027,990)</u>	<u>\$ (7,185,279)</u>
 <b>Amounts recognized in the consolidated balance sheets</b>		
Accrued pension liability included in the consolidated balance sheets	\$ (43,833,614)	\$ (23,136,557)
Intangible pension asset	3,469,755	4,326,955
Additional minimum pension liability recorded as an adjustment to unrestricted net assets	<u>31,335,869</u>	<u>11,624,323</u>
Net accrued pension liability	<u>\$ (9,027,990)</u>	<u>\$ (7,185,279)</u>

## Marquette General Health System

### Notes to Consolidated Financial Statements (continued)

#### 3. Pension Plan (continued)

Components of net periodic pension cost for the year ended June 30 are as follows:

	<b>2005</b>	<b>2004</b>
Service cost	<b>\$ 7,661,237</b>	\$ 7,074,076
Interest cost	<b>9,068,882</b>	8,077,341
Expected return on plan assets	<b>(9,006,648)</b>	(7,651,999)
Amortization of unrecognized prior service cost	<b>550,498</b>	550,498
Amortization of net loss	<b>1,723,275</b>	1,405,433
Net periodic pension cost	<b>\$ 9,997,244</b>	\$ 9,455,349

The actuarial assumptions used in determining the funded status information and net periodic cost shown above were as follows:

	<b>2005</b>	<b>2004</b>
Weighted-average discount rate	<b>5.75%</b>	6.5%
Expected return on plan assets	<b>9.0</b>	9.0
Rate of compensation increase	<b>4.0</b>	4.0

At June 30, 2005 and 2004, the accumulated benefit obligation of the System's defined-benefit pension plan exceeded the fair value of the related pension assets. Under Statement of Financial Accounting Standards (SFAS) No. 87, *Employers' Accounting for Pensions*, the System is required to record an additional minimum pension liability for the unfunded accumulated benefit obligation, an intangible asset for unrecognized prior service cost, and an adjustment to unrestricted net assets to the extent the additional minimum pension liability exceeds the recorded intangible asset.

The System's estimate of total contributions to the pension plan for the next fiscal year is \$10,469,643.

Marquette General Health System

Notes to Consolidated Financial Statements (continued)

**3. Pension Plan (continued)**

The benefits expected to be paid in each of the next five fiscal years, and in aggregate for the following five years are as follows:

2006	\$ 2,820,370
2007	3,257,463
2008	3,768,411
2009	4,401,612
2010	5,207,033
2011 to 2015	\$41,919,402

The investment policy, as established by the Board of Trustees, is to assist the Marquette General Hospital Plan Finance Committee with supervising and monitoring the investment of the Marquette General Hospital Retirement Fund's assets. The investment policy objectives include: meeting and funding the liabilities of the Defined-Benefit Retirement Plan; providing long-term growth of principal without undue risk, through capital appreciation, income, and System contributions; with a focus on consistent long-term capital appreciation and income.

The target allocation and actual allocation of plan assets by type of asset at the end of each year is as follows:

	<u>Target</u>	<u>2005</u>	<u>2004</u>
Equity	55-65%	0%	54%
Bonds and notes	35-45	13%	32
Cash equivalents	0	87%	14

At June 30, 2005, plan assets were invested primarily in cash equivalents in preparation for the transition to other investment managers at July 1, 2005.

## Marquette General Health System

### Notes to Consolidated Financial Statements (continued)

#### **4. Professional Liability, Workers' Compensation, and General Liability Reserves**

The System is self-insured up to certain levels of risk for professional liability, workers' compensation, and general liability claims. Effective June 1, 1997, the System purchased excess professional liability insurance. The current level of excess insurance covers losses over the retention of \$2,000,000 per occurrence and \$6,000,000 annual aggregate for its professional liability claims. Prior to June 1, 1997, the System was completely self-insured for its professional liability claims. Insurance coverage has been obtained for workers' compensation claims in excess of \$500,000 per occurrence. Effective March 29, 2005, the System became self-insured up to certain levels of risk for its general liability claims. Also on that date, the System purchased excess general liability insurance. The current level of excess insurance covers losses over the retention of \$2,000,000 per occurrence and \$6,000,000 annual aggregate for its general liability claims. Prior to March 29, 2005, the System was covered by a commercial insurance policy for general liability claims. The System is insured under an umbrella policy for professional liability, workers' compensation, and general liability claims up to \$8,000,000 per occurrence and \$8,000,000 annual aggregate.

The System, with the assistance of an independent actuary, estimates a range of loss for these claims based on its past experience along with relevant industry data. This estimate includes provisions for known claims and unreported incidents. The System has accrued the present value of what it believes to be the most likely amount of loss in the range, discounted at 5% per annum. Trusts have been established to which contributions are made based upon these estimates. The trust agreements restrict trust assets to the payment of claims and the cost of trust administration.

It is management's belief that adequate provision has been made at June 30, 2005 and 2004, for all professional liability, workers' compensation, and general liability claims incurred to date. Management further believes that the ultimate disposition of these claims, after consideration of recorded reserves, will not have a material adverse effect on the consolidated financial position of the System.

Marquette General Health System

Notes to Consolidated Financial Statements (continued)

**5. Long-Term Debt**

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

	2005	2004
Michigan State Hospital Finance Authority Hospital Revenue Bonds, Series 2005A	\$29,085,875	\$ —
City of Marquette Hospital Finance Authority Variable Rate Demand Hospital Revenue Bonds, Series 2004A	12,000,000	—
Term Loan	27,300,000	—
City of Marquette Finance Authority Hospital Revenue Refunding Bonds, 1996 Series D	—	29,530,000
Michigan State Hospital Finance Authority Healthcare Equipment Loan Program Bonds, Series B and C	—	7,743,599
Obligations under capital leases	610,641	987,839
	68,996,516	38,261,438
Less current portion	1,845,158	3,951,449
	\$67,151,358	\$34,309,989

In December 2004, the City of Marquette Hospital Finance Authority issued Variable Rate Demand Hospital Revenue Bonds, Series 2004A, totaling \$12,000,000. The 2004 Bonds bear interest as determined by a remarketing agent (2.32% at June 30, 2005) and are to be repaid in annual amounts ranging from \$1,355,000 in July, 2005 to \$2,790,000 in July, 2009. The Bonds are secured by a five-year letter of credit, and contain an option to convert to a fixed interest rate. Proceeds were used to refund amounts outstanding on the Michigan State Hospital Finance Authority Healthcare Equipment Loan Program Bonds and for various capital purchases.

In May 2005, the Michigan State Hospital Finance Authority issued Hospital Revenue Bonds, Series 2005A, totaling \$28,465,000 (unamortized premium of \$620,875 at June 30, 2005). Proceeds were used to finance construction projects and certain capital equipment.

Series 2005A Bonds totaling \$12,015,000 that mature through May 15, 2014, are not subject to redemption, bear interest at 5.0%, and are due in annual amounts ranging from \$2,175,000 in 2010 to \$2,645,000 in 2014. Bonds maturing thereafter (Term Bonds), totaling \$16,450,000, are redeemable at a price of par plus accrued interest. Term Bonds are subject to mandatory annual redemption at par commencing May 15, 2020 through May 15, 2034. The Term Bonds bear interest at fixed rates of 5.0% and are to be repaid in annual amounts ranging from \$760,000 in 2020 to \$1,510,000 in 2034.

## Marquette General Health System

### Notes to Consolidated Financial Statements (continued)

#### 5. Long-Term Debt (continued)

In May 1996, the City of Marquette Finance Authority issued Hospital Revenue Refunding Bonds, Series 1996 D, totaling \$42,120,000. Bonds that mature through April 2006 are not subject to redemption and bear interest at rates ranging from 5.05% to 5.40%. Bonds maturing thereafter are redeemable at a price of par plus accrued interest and are subject to mandatory maturity at April 2011 and April 2019 with interest payable annually at rates ranging from 5.875% to 6.10%. Proceeds from the 2005 debt issue were used to refund the previously issued bonds.

In 2002 and 2003, the Michigan State Hospital Finance Authority issued Healthcare Equipment Loan Program Bonds, Series B and C, totaling \$10,137,000. The Bonds bear interest at a variable rate (1.4% at June 30, 2004) and are payable in monthly installments of principal and interest through October 2010. Proceeds were used to finance certain capital equipment. The Bonds required payments of letter of credit fees equal to 0.75% to 1.1% of the outstanding principal balance.

In December 2004, the System secured a Term Loan totaling \$27,300,000. The Term Loan is payable in annual amounts of 1/13th of the principal balance due, commencing on December 2006 and annually thereafter through December 2009. The Term Loans bear interest at a fixed rate of 3.8% through March 2006 and thereafter at a variable rate, as defined. Proceeds were used to refund amounts outstanding on the Series 1996 D Bonds. This transaction resulted in a loss on extinguishment of debt of \$2,215,247, which has been reflected as a nonoperating loss in the 2005 consolidated statement of operations and changes in net assets.

Concurrent with securing the Term Loan, the System deposited obligations of the U.S. government in an escrow fund. Simultaneous with these deposits, previously issued indebtedness was defeased and the related indebtedness was discharged. Accordingly, assets and related obligations totaling \$27,600,000 are excluded from the June 30, 2005 consolidated balance sheet.

During fiscal 2005, the System entered into a rate lock agreement, in anticipation of refinancing the Term Loan, which has been deemed effective as a cash flow hedge for accounting purposes as defined in SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*. The rate lock agreement is based on a notional amount of \$31,000,000, and allows the System to mitigate interest rate fluctuations from the date of the transaction through the expected issuance of tax-exempt refunding bonds in 2006.

## Marquette General Health System

### Notes to Consolidated Financial Statements (continued)

#### **5. Long-Term Debt (continued)**

The City Authority and the System entered into an amended lease agreement dated April 15, 1996, providing for the lease of the System property to the City Authority. The lease would terminate on the first date there are no outstanding bonds whatsoever. On the same date, the two parties entered into a lease-back agreement and supplemental agreements whereby the System leased back the property from the City Authority, the rent being payable semiannually in amounts sufficient to pay the principal, redemption premiums, if any, and interest on the 1996 Series D Bonds. In connection with the transaction described above regarding the defeasance of the 1996 Series D bonds, at June 30, 2005, this liability no longer exists.

To secure rental payments, the System pledged to Bank One Corporation (the trustee) the gross revenues of the System. The System entered into an agreement guaranteeing the payment of the principal, redemption premiums, if any, and interest on the Bonds. To secure its obligations under the guarantee, the System granted the trustee a first mortgage lien on the existing hospital facilities. As additional security, the System granted a security interest in personal property, accounts receivable, and other intangible property of the System. This security was released in connection with the defeasance of the 1996 Series D Bonds, but such security was granted to Wells Fargo Bank, N.A., as Master Trustee, in connection with the issuance of the Term Loan and the debt instruments issued thereafter.

Future maturities of long-term debt during the four years subsequent to fiscal 2006 are as follows: 2007 – \$4,950,667; 2008 – \$4,817,592; 2009 – \$4,897,592; 2010 – \$26,062,592; and thereafter – \$26,422,915.

The System made interest payments of approximately \$2,006,000 and \$2,012,000 for the years ended June 30, 2005 and 2004, respectively. The carrying value of all fixed rate debt at June 30, 2005, as determined using discounted cash flow analysis based on the System's estimated borrowing rate for similar financing arrangements, approximates fair value.

# Marquette General Health System

## Notes to Consolidated Financial Statements (continued)

### 6. Commitments

The System has several operating lease commitments, principally for office and storage space. The following is a schedule of future minimum rental payments required under these operating leases which have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2005:

Years ending June 30:	
2006	\$ 1,638,740
2007	620,987
2008	166,746
2009	84,576
2010	77,544
Thereafter	107,195
	<u>\$ 2,695,788</u>

Lease expense for all operating leases amounted to approximately \$2,273,000 and \$2,366,000 in 2005 and 2004, respectively.

The System has entered into certain purchase commitments with vendors for the construction of building additions and acquisition of equipment totaling \$4,138,000 and \$2,907,000 as of June 30, 2005 and 2004, respectively.

### 7. Related-Party Transactions

The System provides healthcare services to enrollees of U.P. Health Plan, an affiliated organization. Net patient service revenue for services rendered to plan participants totaled \$6,256,000 and \$6,042,000 for the years ended June 30, 2005 and 2004, respectively.

### 8. Guaranteed Debt

In December 2004, the System guaranteed the payment of hospital revenue bonds totaling \$2,540,000 issued by the City of Iron River Hospital Finance Authority for Iron County Community Hospitals, Inc. Management believes that it is unlikely that the System will have to fulfill this guarantee, and therefore, no liability is recorded with respect to this guarantee at June 30, 2005.