

# 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

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) 39  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 2005 – June 2006 (FY2006)

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

Fiscal Period Covered: July 2005 – June 2006 (FY2006)

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 J. 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 30, 2006

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 30, 2006

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, 2006, 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 over a 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, FY2006</i>		
<i>Master Indenture §501(b)(ii) and Reimbursement Agreement §4.23(a)</i>		
Excess of Revenue over Expenses		(2,247,273)
Depreciation Expense		13,733,725
Interest Expense		3,411,950
Loss on Extinguishment of Debt		0
Net Income Available for Debt Service	NIADS	14,898,402
Maximum Annual Debt Service Requirements	MADS	8,380,512
Debt Service Coverage Ratio	NIADS / MADS	1.78

<i>Liquidity Ratio, FY2006</i>		
<i>Master Indenture §501(e) and Reimbursement Agreement §4.23(b)</i>		
Cash and Cash Equivalents		26,037,449
Board-Designated Assets for Capital Improvements		56,041,089
Less: Outstanding Principal Balance of Short-Term Indebtedness		0
Liquid Assets	LA	82,078,538
Operating Expenses		278,194,870
Less: Depreciation and Amortization		(13,733,725)
Daily Operating Expenses <sup>1</sup>	DOE	724,551
Days' Cash on Hand	LA / DOE	113.3
<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, FY2006</i></b> <b><i>Reimbursement Agreement §4.23(c)</i></b>		
Current Portion of Long-Term Debt		5,560,435
Long-Term Debt		69,585,306
Total Indebtedness	D	75,145,741
Unrestricted Net Assets	NA	136,614,498
Debt-to-Capitalization Ratio	$D / (D + NA)$	0.35

<b><i>Average Age of Trade Accounts Payable, FY2006</i></b> <b><i>Master Indenture §501(d)</i></b>		
Trade Accounts Payable at FYE	AP	8,997,620
Average Daily Trade Accounts Payable	ADAP	402,170
Average Age of Trade Accounts Payable (days)	$AP / ADAP$	22.4

# MARQUETTE GENERAL HOSPITAL

## ANNUAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2006 (FY2006)

Unless otherwise noted, all data apply to the Fiscal Year Ended June 30, 2006, or are accurate as of June 30, 2006, 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)</i>					
	<i>Fiscal Years Ended June 30</i>				
	<i>2006</i>	<i>2005</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>
Days in Period	365	365	366	365	365
Licensed Beds <sup>1</sup>	279	279	279	279	279
Available Beds <sup>1</sup>	197	197	197	197	197
Admissions	9,419	9,476	9,029	8,987	8,813
Change over Previous Period	(0.6)%	5.0%	0.5%	2.0%	7.1%
Patient Days	38,676	39,967	38,989	43,035	41,744
Average Daily Census	106.0	109.5	106.5	117.9	114.4
Average Length of Stay	4.1	4.2	4.3	4.8	4.7
Occupancy Rate <sup>2</sup> (%)	53.8	55.6	54.1	59.9	58.1
<sup>1</sup> Corrects information previously reported by the Corporation					
<sup>2</sup> Based on Available Beds					

**MUNICIPAL SECONDARY MARKET DISCLOSURE**  
**Michigan State Hospital Finance Authority / Marquette General Hospital**  
**Fiscal Year Ended June 30, 2006**

<i>Historical Obstetrics Utilization</i>					
	<i>Fiscal Years Ended June 30</i>				
	<i>2006</i>	<i>2005</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>
Days in Period	365	365	366	365	365
Licensed Beds	0	0	0	0	0
Available Beds	12	12	12	12	12
Admissions	851	805	802	779	837
Change over Previous Period	5.7%	0.4%	3.0%	(6.9)%	2.4%
Patient Days	2,131	2,091	2,023	2,225	2,101
Births	715	644	669	640	692
Average Daily Census	5.8	5.7	5.5	6.1	5.8
Average Length of Stay	2.5	2.6	2.5	2.9	2.5
Occupancy Rate <sup>1</sup> (%)	48.7	47.7	46.1	50.8	48.0
<sup>1</sup> Based on Available Beds					

<i>Historical Neonatal Intensive Care Utilization</i>					
	<i>Fiscal Years Ended June 30</i>				
	<i>2006</i>	<i>2005</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>
Days in Period	365	365	366	365	365
Licensed Beds	10	10	10	10	10
Available Beds	10	10	10	10	10
Admissions	182	175	152	166	170
Change over Previous Period	4.0%	15.1%	(8.4)%	(2.4)%	27.8%
Patient Days	3,153	3,034	2,717	2,799	2,687
Average Daily Census	8.6	8.3	7.4	7.7	7.4
Average Length of Stay	17.3	17.3	17.9	16.9	15.8
Occupancy Rate <sup>1</sup> (%)	86.4	83.1	74.2	76.7	73.6
<sup>1</sup> Based on Available Beds					

**MUNICIPAL SECONDARY MARKET DISCLOSURE**  
**Michigan State Hospital Finance Authority / Marquette General Hospital**  
**Fiscal Year Ended June 30, 2006**

<b><i>Historical Rehabilitation (CIRU) Utilization</i></b>					
	<b><i>Fiscal Years Ended June 30</i></b>				
	<b><i>2006</i></b>	<b><i>2005</i></b>	<b><i>2004</i></b>	<b><i>2003</i></b>	<b><i>2002</i></b>
Days in Period	365	365	366	365	365
Licensed Beds	0	0	0	0	0
Available Beds	20	20	20	20	20
Admissions	274	308	410	413	387
Change over Previous Period	(11.0)%	(24.9)%	(0.7)%	6.7%	(4.0)%
Patient Days	2,579	2,869	3,663	3,405	3,683
Average Daily Census	7.1	7.9	10.0	9.3	10.1
Average Length of Stay	9.4	9.3	8.9	8.2	9.5
Occupancy Rate <sup>1</sup> (%)	35.3	39.3	50.0	46.6	50.5
<sup>1</sup> Based on Available Beds					

<b><i>Historical Total Acute Care Utilization</i></b> <b><i>(Adult Medical/Surgical, Pediatrics, Obstetrics, NICU and Rehabilitation;</i></b> <b><i>excludes newborns)</i></b>					
	<b><i>Fiscal Years Ended June 30</i></b>				
	<b><i>2006</i></b>	<b><i>2005</i></b>	<b><i>2004</i></b>	<b><i>2003</i></b>	<b><i>2002</i></b>
Days in Period	365	365	366	365	365
Licensed Beds <sup>1</sup>	289	289	289	289	289
Available Beds <sup>1</sup>	239	239	239	239	239
Admissions	10,726	10,764	10,393	10,345	10,207
Change over Previous Period	(0.4)%	3.6%	0.5%	1.4%	6.6%
Patient Days	46,539	47,961	47,392	51,464	50,215
Average Daily Census	127.5	131.4	129.5	141.0	137.6
Average Length of Stay	4.3	4.5	4.6	5.0	4.9
Occupancy Rate <sup>2</sup> (%)	53.3	55.0	54.2	59.0	57.6
<sup>1</sup> Corrects information previously reported by the Corporation					
<sup>2</sup> Based on Available Beds					

**MUNICIPAL SECONDARY MARKET DISCLOSURE**  
**Michigan State Hospital Finance Authority / Marquette General Hospital**  
**Fiscal Year Ended June 30, 2006**

<i>Historical Behavioral Health Services Inpatient Utilization</i>					
	<i>Fiscal Years Ended June 30</i>				
	<i>2006</i>	<i>2005</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>
Days in Period	365	365	366	365	365
Licensed Beds <sup>1</sup>	51	51	51	51	51
Available Beds <sup>1</sup>	51	51	51	51	51
Admissions	1,963	1,747	1,659	1,510	1,540
Change over Previous Period	12.4%	5.3%	9.9%	(1.9)%	7.8%
Patient Days	12,672	11,884	12,558	11,217	10,963
Average Daily Census	34.7	32.6	34.3	30.7	30.0
Average Length of Stay	6.5	6.8	7.6	7.4	7.1
Occupancy Rate <sup>2</sup> (%)	68.1	63.8	67.3	60.3	58.9
<sup>1</sup> Corrects information previously reported by the Corporation					
<sup>2</sup> Based on Available Beds					

<i>Historical Total Inpatient Utilization</i> <i>(Acute Care plus BHS; excludes newborns)</i>					
	<i>Fiscal Years Ended June 30</i>				
	<i>2006</i>	<i>2005</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>
Days in Period	365	365	366	365	365
Licensed Beds	340	340	340	340	340
Available Beds <sup>1</sup>	290	290	290	290	290
Admissions	12,689	12,511	12,052	11,855	11,747
Change over Previous Period	1.4%	3.8%	1.7%	0.9%	6.7%
Patient Days	59,211	59,845	59,950	62,681	61,178
Avg. Daily Census	162.2	164.0	163.8	171.7	167.6
Avg. Length of Stay	4.7	4.8	5.0	5.3	5.2
Occupancy Rate <sup>2</sup> (%)	55.9	56.5	56.5	59.2	57.8
<sup>1</sup> Corrects information previously reported by the Corporation					
<sup>2</sup> Based on Available Beds					

**MUNICIPAL SECONDARY MARKET DISCLOSURE**  
**Michigan State Hospital Finance Authority / Marquette General Hospital**  
**Fiscal Year Ended June 30, 2006**

<i>Certain Outpatient Volume Indicators</i> <i>[OS Page A-58]</i>					
	<i>Fiscal Years Ended June 30</i>				
	<i>2006</i>	<i>2005</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>
ED Visits	26,773	20,874	19,531	18,996	18,738
Change over Previous Period	28.3%	6.9%	2.8%	1.4%	4.6%
Ambulance Runs	2,570	3,222	3,160	2,973	2,754
Change over Previous Period	(20.2)%	2.0%	6.3%	8.0%	3.8%

<i>Surgical and Other Procedures</i> <i>[OS Page A-58]</i>					
	<i>Fiscal Years Ended June 30</i>				
	<i>2006</i>	<i>2005</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>
Inpatient Surgeries	4,468	4,821	4,923	5,165	4,706
Outpatient Surgeries	5,068	5,015	4,998	4,852	4,890
Total	9,536	9,836	9,921	10,017	9,596
Change over Previous Period	(3.1)%	(0.9)%	(1.0)%	4.4%	2.2%
Percent Outpatient	53.1%	51.0%	50.4%	48.4%	51.0%

**MUNICIPAL SECONDARY MARKET DISCLOSURE**  
**Michigan State Hospital Finance Authority / Marquette General Hospital**  
**Fiscal Year Ended June 30, 2006**

<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>2006</i>	<i>2005</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>
Laboratory	Main Laboratory <sup>1</sup>	944,440	886,630	837,055	834,752	781,669
	<i>PMC Laboratory<sup>1</sup></i>	36,607	32,362	28,247	26,308	31,886
	<i>Blood Bank<sup>2</sup></i>	13,042	12,631	13,074	11,670	11,151
Imaging	Radiology <sup>1,3</sup>	36,108	36,521	45,753	49,842	44,337
	Ultrasound <sup>1,3</sup>	18,554	19,046	28,003	27,094	24,757
	CT Scanning <sup>1,3</sup>	15,976	14,591	14,358	13,023	11,080
	Nuclear Medicine <sup>1,3</sup>	12,481	11,140	11,264	11,787	13,763
	MRI <sup>1,3</sup>	8,257	10,565	11,270	10,721	9,265
	Special Procedures <sup>1,3</sup>	8,569	8,594	6,174	5,630	4,792
	<i>PMC Imaging Center<sup>1,3</sup></i>	10,619	9,728	7,481	0	0
Rehabilitation Services	Physical Therapy <sup>4</sup>	17,399	17,178	17,781	18,393	18,018
	Occupational Therapy <sup>4</sup>	19,121	19,277	20,059	17,850	9,134
	Return to Work Therapy <sup>4</sup>	3,287	2,478	2,575	2,888	2,332
	Communications Rehab <sup>4</sup>	2,546	2,564	2,655	2,877	3,106
	<i>Audiology<sup>1</sup></i>	1,344	1,208	1,291	2,287	2,303
	<i>Escanaba Rehabilitation<sup>4</sup></i>	5,992	4,662	5,270	4,087	3,699
	<i>Sawyer Rehabilitation<sup>4</sup></i>	1,873	1,773	1,777	2,082	1,325
Cardiac Services	Cardiac Imaging <sup>5</sup>	2,950	3,466	3,169	3,025	2,938
	Cardiac Rehabilitation <sup>1,3</sup>	19,628	16,503	14,495	16,009	17,095
	Cardiographic Services <sup>1,3</sup>	17,133	17,995	45,234	47,345	45,360
	<i>Outpatient Cardiac<sup>6</sup></i>	2,567	2,952	2,739	1,959	1,858

**MUNICIPAL SECONDARY MARKET DISCLOSURE**  
**Michigan State Hospital Finance Authority / Marquette General Hospital**  
**Fiscal Year Ended June 30, 2006**

<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>2006</i>	<i>2005</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>
<i>Dialysis</i>	<i>Marquette Center<sup>7,8</sup></i>	9,710	8,001	8,591	8,880	7,815
	<i>Eastern UP Center<sup>7</sup></i>	1,183	1,787	1,961	1,408	88
	<i>Western UP Center<sup>7</sup></i>	5,375	4,465	3,719	3,045	2,224
<i>Other</i>	<i>Endoscopy<sup>1</sup></i>	5,445	4,940	4,749	5,849	5,929
	<i>Neurophysiology<sup>1</sup></i>	6,788	6,622	5,581	5,618	5,370
	<i>Perfusion<sup>5</sup></i>	256	300	328	487	424
	<i>Pulmonary Function<sup>1</sup></i>	3,028	3,543	3,658	3,668	3,585
	<i>Respiratory Care<sup>4</sup></i>	69,686	92,327	90,816	115,783	113,824
	<i>Radiology Oncology<sup>1,3</sup></i>	14,423	14,348	18,080	19,443	21,548
1 Procedures 2 Donors 3 Reflects change in counting methodology initiated during FY2006Q4; FY2005 figures have been adjusted so that they are consistent with FY2006 figures 4 Hours 5 Patients 6 Visits 7 Runs 8 Includes acute dialysis runs						

**MUNICIPAL SECONDARY MARKET DISCLOSURE**  
**Michigan State Hospital Finance Authority / Marquette General Hospital**  
**Fiscal Year Ended June 30, 2006**

<i>Certain Ancillary Services Provided Exclusively to Outpatients</i> <i>[OS Page A-61]</i>					
	<i>Fiscal Years Ended June 30</i>				
	<i>2006</i>	<i>2005</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>
Main Laboratory <sup>1</sup>	587,350	531,138	507,776	482,451	455,074
PMC Laboratory <sup>1</sup>	25,713	31,208	27,139	25,320	30,610
Radiology <sup>1,2</sup>	17,914	13,978	18,114	19,466	17,562
Ultrasound <sup>1,2</sup>	10,464	10,210	15,962	14,953	13,859
CT Scanning <sup>1,2</sup>	11,010	8,517	10,104	8,778	7,670
Nuclear Medicine <sup>1,2</sup>	10,460	9,096	9,373	9,508	10,636
MRI <sup>1,2</sup>	7,118	8,850	9,724	8,928	7,653
Special Procedures (Interventional Radiology) <sup>1,2</sup>	4,527	2,111	1,977	1,627	1,284
Physical Therapy <sup>3</sup>	9,775	9,033	9,005	9,329	9,006
Cardiac Imaging <sup>4</sup>	1,129	1,411	1,275	1,281	1,247
Endoscopy <sup>1</sup>	4,158	3,755	3,598	4,498	4,624
Neurophysiology <sup>1</sup>	4,881	4,527	3,814	3,952	3,755
Radiology Oncology <sup>1,2</sup>	13,474	13,196	16,412	17,437	19,351
1 Procedures					
2 Reflects change in counting methodology initiated during FY2006Q4; FY2005 figures have been adjusted so that they are consistent with FY2006 figures					
3 Hours					
4 Patients					

<i>MGHH&amp;H Volumes</i> <i>[OS Page A-61]</i>					
	<i>Fiscal Years Ended June 30</i>				
	<i>2006</i>	<i>2005</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>
Home Care Visits	48,601	51,850	50,321	57,437	65,779
Private Duty Hours	41,982	47,708	43,642	47,396	61,533

**MUNICIPAL SECONDARY MARKET DISCLOSURE**  
**Michigan State Hospital Finance Authority / Marquette General Hospital**  
**Fiscal Year Ended June 30, 2006**

<i>Physician Practice Volumes (in Relative Value Units) [OS Page A-62]</i>					
	<i>Fiscal Years Ended June 30</i>				
	<i>2006</i>	<i>2005</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>
Family Care Doctors	40,499	42,140	41,213	37,953	38,968
Iron River Clinic	7,135	7,361	8,872	8,940	7,450
Kingsford Clinic	16,482	17,011	16,108	16,135	16,422
Doctor's Park Family Physicians	30,848	31,101	36,701	37,471	28,637
Gladstone Clinic	10,353	9,796	4,750	0	0
Lakewood Clinic	3,243	3,256	3,441	3,374	2,820
Negaunee Clinic	2,259	2,349	2,314	2,271	1,679
Trenary Clinic	1,768	1,613	1,595	1,665	1,647
Grand Marais Clinic	355	323	320	334	330
Stephenson Clinic <sup>1</sup>	0	0	2,095	2,281	1,873
North Country Medical Associates	0	0	0	0	1,553
Neurology Associates	25,038	23,720	22,644	23,609	22,026
Pediatric Specialists	12,180	11,806	10,983	10,630	12,715
Chippewa Medical Associates	10,373	7,957	10,614	8,920	7,962
Respiratory Medicine	14,686	14,439	13,215	13,462	13,000
UP Hematology/Oncology	29,564	29,550	28,087	28,618	13,045
UP Internal Medicine	22,939	26,646	27,486	21,804	19,762
North Shore Internal Medicine	4,647	4,751	4,599	4,182	4,531
Infectious Diseases	13,666	13,788	13,201	11,250	11,529
Behavioral Health <sup>2</sup>	65,448	64,009	68,365	62,912	40,958
Occupational Medicine	4,151	3,858	3,101	2,846	3,325
Total RVUs or Visits	315,634	315,474	319,704	298,657	250,232
1 The Stephenson Clinic was closed shortly before the end of FY2004					
2 Therapy Hours in FY2002					

**MUNICIPAL SECONDARY MARKET DISCLOSURE**  
**Michigan State Hospital Finance Authority / Marquette General Hospital**  
**Fiscal Year Ended June 30, 2006**

**FINANCIAL INFORMATION**

<i>Payor Mix by Gross Revenue</i> <i>[OS Page A-67]</i>					
	<i>Fiscal Years Ended June 30</i>				
	<i>2006</i>	<i>2005</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>
Medicare	47.2%	47.7%	47.5%	46.9%	46.5%
Medicaid	9.9%	9.8%	9.9%	9.3%	9.6%
Blue Cross	25.2%	23.7%	24.0%	25.5%	25.6%
Self-Pay	1.5%	1.3%	1.3%	1.0%	0.9%
Commercial and Other	16.2%	17.5%	17.3%	17.3%	17.4%
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, 2006**

<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>2006</i>	<i>2005</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>
Net Patient Service Revenue	258,954	249,059	229,689	217,393	199,233
Other Operating Revenue	<u>12,867</u>	<u>10,298</u>	<u>9,851</u>	<u>8,452</u>	<u>7,192</u>
Total Operating Revenue	271,822	259,357	239,540	225,845	206,425
Depreciation and Amortization	13,734	12,659	12,959	12,795	11,930
Interest	3,412	1,741	2,158	2,179	2,149
Provision for Bad Debts	5,933	5,429	4,981	4,293	3,874
Other Operating Expenses	<u>255,117</u>	<u>236,795</u>	<u>218,585</u>	<u>206,342</u>	<u>185,098</u>
Total Operating Expenses	278,195	256,623	238,683	225,610	203,051
Income from Operations	(6,373)	2,733	857	235	3,375
Net Nonoperating Revenue	<u>4,126</u>	<u>(1,181)</u>	<u>3,060</u>	<u>(1,615)</u>	<u>(140)</u>
Revenue over (under) Expenses	(2,247)	1,553	3,917	(1,381)	3,235
Net Income Available for Debt Service	14,898	18,168	19,034	13,594	17,314
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, 2006**

<i>Balance Sheet Summary</i> <i>(\$000s omitted)</i> <i>[OS Page A-73]</i>					
	<i>Fiscal Years Ended June 30</i>				
	<i>2006</i>	<i>2005</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>
Cash and Cash Equivalents <sup>1</sup>	26,037	21,895	14,269	8,663	9,814
Net Patient Accounts Receivable	35,109	33,026	32,743	35,491	32,906
Other Current Assets	<u>10,133</u>	<u>9,660</u>	<u>11,664</u>	<u>11,383</u>	<u>11,046</u>
Total Current Assets	71,279	64,581	58,676	55,538	53,767
Board-Designated Investments <sup>1</sup>	56,041	45,189	33,352	26,405	25,581
Net Property and Equipment	120,466	116,043	109,277	110,255	108,376
Other Non-Current Assets	<u>33,130</u>	<u>46,609</u>	<u>31,285</u>	<u>30,603</u>	<u>30,870</u>
Total	280,916	272,423	232,590	222,802	218,594
Current Liabilities	54,362	46,394	42,904	36,965	34,293
Long Term Debt, net of Current Portion	69,585	67,151	34,310	33,190	32,745
Other Non-Current Liabilities	<u>20,354</u>	<u>42,238</u>	<u>20,264</u>	<u>22,665</u>	<u>10,210</u>
Unrestricted Net Assets	<u>136,614</u>	<u>116,639</u>	<u>135,112</u>	<u>129,982</u>	<u>141,347</u>
Total	280,916	272,423	232,590	222,802	218,594
<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, 2006**

<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>2006</i>	<i>2005</i>	<i>2004</i>	<i>2003</i>	<i>2002</i>
Cash and Cash Equivalents	26,037	21,895	14,269	8,663	9,814
Board-Designated Investments	<u>56,041</u>	<u>45,189</u>	<u>33,352</u>	<u>26,405</u>	<u>25,581</u>
Liquid Assets	<u>82,079</u>	<u>67,084</u>	<u>47,621</u>	<u>35,068</u>	<u>35,396</u>
Capital Expenditures	18,437	19,507	12,059	14,754	11,876
Note: Some figures might not add precisely due to rounding.					

CONSOLIDATED FINANCIAL STATEMENTS

Marquette General Health System  
Years Ended June 30, 2006 and 2005

Marquette General Health System

Consolidated Financial Statements

Years Ended June 30, 2006 and 2005

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## Report of Independent Auditors

The 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, 2006 and 2005, 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, 2006 and 2005, 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.

*Ernst + Young LLP*

August 24, 2006

# Marquette General Health System

## Consolidated Balance Sheets

	<b>June 30</b>	
	<b>2006</b>	<b>2005</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 26,037,449	\$ 21,895,159
Assets limited as to use – required for current liabilities	287,438	251,704
Accounts receivable, net of allowances for uncollectible accounts of \$5,781,000 and \$5,262,000 in 2006 and 2005, respectively	35,108,502	33,025,799
Inventories	7,449,181	7,297,392
Prepaid expenses	2,396,676	2,111,094
Total current assets	71,279,246	64,581,148
Assets limited as to use, net of current portion:		
Board-designated for capital improvements	56,041,089	45,188,990
Under the following agreements:		
Bond agreements	3,388,124	17,642,463
Self insurance for professional liability and workers' compensation	16,990,017	16,466,741
	76,419,230	79,298,194
Property and equipment:		
Land and land improvements	10,585,589	9,944,944
Buildings	147,911,869	131,990,099
Equipment	129,836,144	122,909,339
Construction in progress	5,609,879	14,087,299
	293,943,481	278,931,681
Less accumulated depreciation	173,477,465	162,888,587
	120,466,016	116,043,094
Other assets:		
Deferred financing costs, net of amortization	537,715	599,171
Intangible pension asset	2,946,132	3,469,755
Other	9,268,053	8,431,318
	12,751,900	12,500,244
Total assets	\$ 280,916,392	\$272,422,680

	<b>June 30</b>	
	<b>2006</b>	<b>2005</b>
<b>Liabilities and net assets</b>		
Current liabilities:		
Accounts payable and other liabilities	\$ 10,849,747	\$ 9,845,453
Current portion of employee compensation and benefits	16,463,005	15,718,549
Current portion of accrued pension liability	15,125,153	10,469,643
Third-party settlement liabilities	5,949,240	8,154,363
Accrued interest payable	414,652	360,958
Current portion of long-term debt	5,560,435	1,845,158
Total current liabilities	<u>54,362,232</u>	46,394,124
Professional liability and workers' compensation reserves	4,234,111	4,564,261
Accrued employee compensation and benefits, net of current portion	3,033,728	2,670,439
Accrued pension liability, net of current portion	13,029,127	33,363,971
Interest rate lock agreement	57,390	1,639,374
Long-term debt, net of current portion	69,585,306	67,151,358
Total long-term liabilities	<u>89,939,662</u>	109,389,403
Unrestricted net assets	136,614,498	116,639,153
Total liabilities and net assets	<u>\$ 280,916,392</u>	<u>\$272,422,680</u>

*See accompanying notes.*

## Marquette General Health System

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

	<b>Years Ended June 30</b>	
	<b>2006</b>	<b>2005</b>
Unrestricted revenues and other support:		
Net patient service revenue	<b>\$258,954,111</b>	\$249,058,858
Other operating revenue	<b>12,867,492</b>	10,297,847
Total revenue	<b>271,821,603</b>	259,356,705
Expenses:		
Salaries and wages	<b>112,179,551</b>	106,439,939
Supplies and other services	<b>100,524,714</b>	94,221,964
Employee health and welfare benefits	<b>42,412,333</b>	36,132,901
Depreciation and amortization	<b>13,733,725</b>	12,658,589
Provision for uncollectible accounts	<b>5,932,597</b>	5,428,895
Interest and amortization of deferred finance costs	<b>3,411,950</b>	1,740,983
Total expenses	<b>278,194,870</b>	256,623,271
Operating (loss) income	<b>(6,373,267)</b>	2,733,434
Nonoperating income (expense):		
Net realized investment gains	<b>4,406,633</b>	1,116,937
Loss on disposal of assets	<b>(280,639)</b>	(82,321)
Loss on extinguishment of debt	-	(2,215,247)
	<b>4,125,994</b>	(1,180,631)
Excess of revenue (under) over expenses	<b>(2,247,273)</b>	1,552,803
Net unrealized gains on investments	<b>341,349</b>	1,301,530
Gain (loss) on interest rate lock agreement	<b>1,581,984</b>	(1,639,374)
Contribution received for property acquisitions	<b>881,455</b>	24,000
Change in minimum pension liability	<b>19,417,830</b>	(19,711,546)
Increase (decrease) in unrestricted net assets	<b>19,975,345</b>	(18,472,587)
Unrestricted net assets at beginning of year	<b>116,639,153</b>	135,111,740
Unrestricted net assets at end of year	<b>\$136,614,498</b>	\$116,639,153

*See accompanying notes.*

Marquette General Health System  
Consolidated Statements of Cash Flows

	<b>Years Ended June 30</b>	
	<b>2006</b>	<b>2005</b>
<b>Operating activities</b>		
Increase (decrease) in unrestricted net assets	<b>\$ 19,975,345</b>	\$ (18,472,587)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization, including amortization of deferred finance costs	<b>13,795,180</b>	12,712,334
Net unrealized gains on investments	<b>(341,349)</b>	(1,301,530)
Loss on extinguishment of debt	–	2,215,247
(Gain) loss on interest rate lock agreement	<b>(1,581,984)</b>	1,639,374
Loss on disposal of assets	<b>280,639</b>	82,321
Net periodic pension cost	<b>14,731,762</b>	9,997,244
Pension contributions	<b>(10,469,643)</b>	(8,154,533)
Change in minimum pension liability	<b>(19,417,830)</b>	19,711,546
Changes in operating assets and liabilities:		
Accounts receivable – net	<b>(2,082,703)</b>	(282,629)
Inventories, prepaid expenses, and other assets	<b>(1,274,106)</b>	(1,139,943)
Accounts payable and other liabilities	<b>1,004,294</b>	1,652,787
Third-party settlement liabilities	<b>(2,205,123)</b>	2,656,701
Employee compensation and related liabilities	<b>1,107,745</b>	1,201,796
Accrued interest payable	<b>53,694</b>	(75,496)
Professional liability and workers' compensation reserves	<b>(330,150)</b>	(201,956)
Net cash provided by operating activities	<b>13,245,771</b>	22,240,676
<b>Investing activities</b>		
Capital expenditures – net	<b>(18,437,285)</b>	(19,506,528)
Decrease (increase) in assets limited as to use	<b>3,184,579</b>	(23,627,887)
Net cash used in investing activities	<b>(15,252,706)</b>	(43,134,415)
<b>Financing activities</b>		
Proceeds from long-term debt	<b>8,000,000</b>	68,385,875
Principal payments of long-term debt	<b>(1,452,592)</b>	(39,488,846)
Principal payments of capital leases	<b>(398,183)</b>	(377,198)
Net cash provided by financing activities	<b>6,149,225</b>	28,519,831
Net increase in cash and cash equivalents	<b>4,142,290</b>	7,626,092
Cash and cash equivalents at beginning of year	<b>21,895,159</b>	14,269,067
Cash and cash equivalents at end of year	<b>\$ 26,037,449</b>	\$ 21,895,159

*( ) Denotes use of cash and cash equivalents.*

*See accompanying notes.*

# Marquette General Health System

## Notes to Consolidated Financial Statements

June 30, 2006 and 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. Klinitex 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, 2006, 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 \$32,000 in 2006 and \$936,000 in 2005, 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 44%, 5%, and 26%, 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>2006</u>	<u>2005</u>
	<i>(Unaudited)</i>	
Charity care costs	\$ 578,000	\$ 509,000
Costs in excess of reimbursement from state programs for services to the financially disadvantaged	9,744,000	9,350,000
Cost of services associated with uncollectible accounts	3,996,000	3,261,000
Total charity and other uncompensated care	<u>\$14,318,000</u>	<u>\$13,120,000</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 acquisitions, unrealized gains or losses on investments, gain or loss on interest rate lock agreement, 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 acquisitions, 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 conditional promises of contributions in 2006 or 2005.

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>2006</u>	<u>2005</u>
<b>Board designated for capital improvements</b>		
Cash and cash equivalents	\$ 9,304,297	\$ 1,059,406
Government fixed income securities	22,676,820	22,424,558
Equity securities	24,059,972	21,705,026
	<u>56,041,089</u>	<u>45,188,990</u>
<b>Under bond agreements</b>		
Cash and cash equivalents	298,242	419,096
Government fixed income securities	3,377,320	17,475,071
	<u>3,675,562</u>	<u>17,894,167</u>
<b>Self-insurance for professional liability and workers' compensation</b>		
Cash and cash equivalents	404,053	72,880
Government fixed income securities	9,386,863	8,584,037
Equity securities	7,199,101	7,809,824
	<u>16,990,017</u>	<u>16,466,741</u>
	<u>\$76,706,668</u>	<u>\$79,549,898</u>

The following schedule ages assets limited as to use that are in an unrealized loss position as of June 30, 2006.

	<u>Unrealized Loss</u>	<u>Carrying Amount</u>
Less than 12 months	\$ 829,367	\$22,958,022
Greater than 12 months	713,072	11,985,934
	<u>\$ 1,542,439</u>	<u>\$34,943,956</u>

The system periodically reviews investments for other-than-temporary decline in value. At June 30, 2006 and 2005, 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 hired prior to January 1, 2006. 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:

	2006	2005
<b>Change in projected benefit obligation</b>		
Benefit obligation at beginning of year	\$178,819,572	\$140,543,381
Service cost	9,740,156	7,661,237
Interest cost	10,201,039	9,068,882
Plan amendments	—	(306,702)
Actuarial (gain) loss	(26,548,561)	24,243,080
Benefits paid	(2,757,223)	(2,390,306)
Benefit obligation at end of year	\$169,454,983	\$178,819,572
<b>Change in plan assets</b>		
Fair value of plan assets at beginning of year	\$ 94,649,178	\$ 84,527,662
Actual return on assets	6,441,423	4,357,289
Employer contributions received	10,469,643	8,154,533
Benefits paid	(2,757,223)	(2,390,306)
Fair value of plan assets at end of year	\$108,803,021	\$ 94,649,178
<b>Reconciliation of funded status</b>		
Funded status	\$ (60,651,962)	\$ (84,170,394)
Unrecognized prior service cost	2,946,132	3,469,755
Unrecognized loss	44,415,721	71,672,649
Net accrued pension liability	\$ (13,290,109)	\$ (9,027,990)
<b>Amounts recognized in the consolidated balance sheets</b>		
Accrued pension liability included in the consolidated balance sheets	\$ (28,154,280)	\$ (43,833,614)
Intangible pension asset	2,946,132	3,469,755
Additional minimum pension liability recorded as an adjustment to unrestricted net assets	11,918,039	31,335,869
Net accrued pension liability	\$ (13,290,109)	\$ (9,027,990)

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:

	<u>2006</u>	<u>2005</u>
Service cost	\$ 9,740,156	\$ 7,661,237
Interest cost	10,201,039	9,068,882
Expected return on plan assets	(9,715,615)	(9,006,648)
Amortization of unrecognized prior service cost	523,623	550,498
Amortization of net loss	3,982,559	1,723,275
Net periodic pension cost	<u>\$14,731,762</u>	<u>\$ 9,997,244</u>

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

	<u>2006</u>	<u>2005</u>
Weighted-average discount rate	6.75%	5.75%
Expected return on plan assets	8.0	9.0
Rate of compensation increase	4.0	4.0

At June 30, 2006 and 2005, 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 \$15,125,153.

## 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:

2007	\$ 3,470,637
2008	4,032,975
2009	4,752,825
2010	5,615,990
2011	6,561,705
2012 to 2016	51,601,316

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 Pension Plan; providing long-term growth of principal without undue risk, through capital appreciation, income, and System contributions; and focusing 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:

	Target	2006	2005
Equity	55-65%	53%	0%
Bonds and notes	35-45	38	13
Cash equivalents	0	9	87

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.

Effective January 1, 2006, new employees are not eligible to participate in the defined benefit pension plan, but are eligible, subject to the vesting requirement of the plan, for participation in the 401(k) defined-contribution plan along with all existing employees. Effective January 1, 2006, the System began matching contributions in this plan, of up to 4% of compensation.

## 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, 2006 and 2005, 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:

	2006	2005
Michigan State Hospital Finance Authority Hospital Revenue Bonds, Series 2005A	<b>\$28,988,283</b>	\$29,085,875
City of Marquette Hospital Finance Authority Variable Rate Demand Hospital Revenue Bonds, Series 2004A	<b>10,645,000</b>	12,000,000
Term Loan	<b>35,300,000</b>	27,300,000
Obligations under capital leases	<b>212,458</b>	610,641
	<b>75,145,741</b>	68,996,516
Less current portion	<b>5,560,435</b>	1,845,158
	<b>\$69,585,306</b>	\$67,151,358

In May 2005, the Michigan State Hospital Finance Authority issued Hospital Revenue Bonds, Series 2005A, totaling \$28,465,000 (unamortized premium of \$523,283 and \$620,875 at June 30, 2006 and 2005, respectively). 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 (the Term Bonds), totaling \$16,450,000, are redeemable at a price of par plus accrued interest. The 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.

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 (4.05% and 2.32% at June 30, 2006 and 2005, respectively) and are to be repaid in annual amounts ranging from \$2,535,000 in July 2006 to \$2,790,000 in July 2009. The 2004 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.

## Marquette General Health System

### Notes to Consolidated Financial Statements (continued)

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

In December 2004, the System secured a Term Loan totaling \$27,300,000. In October 2005, the System obtained an additional \$8,000,000 on the Term Loan. The Term Loan is payable in annual amounts of 1/13th of the principal balance due, commencing in December 2006 and annually thereafter through December 2009. The Term Loan bears 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 1996 Series 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 issuance of tax-exempt refunding bonds in fiscal 2007.

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. 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.

## Marquette General Health System

### Notes to Consolidated Financial Statements (continued)

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

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.

Subsequent to year-end, the Michigan State Hospital Finance Authority issued Hospital Revenue Bonds, Series 2006, totaling \$37,000,000. The Bonds bear interest as determined by an auction rate and are to be repaid in annual amounts ranging from \$4,000,000 in June 2015 to \$5,325,000 in June 2022. Proceeds were used to repay certain amounts outstanding on the Term Loan and for various property acquisitions.

Future maturities of long-term debt during the four years subsequent to fiscal 2007 have been adjusted to reflect the Series 2006 Bond issuance, and are as follows: 2008 – \$3,332,977; 2009 – \$3,412,977; 2010 – \$5,673,960; 2011 – \$2,970,229; and thereafter – \$65,995,163.

The System made interest payments of approximately \$3,412,000 and \$2,006,000 for the years ended June 30, 2006 and 2005, respectively. The carrying value and fair value of long-term debt are \$75,145,741 and \$75,847,015, respectively, at June 30, 2006. The carrying value at June 30, 2005 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 that have initial or remaining noncancelable lease terms in excess of one year as of June 30, 2006:

Years ending June 30:	
2007	\$ 1,104,946
2008	730,632
2009	286,888
2010	245,052
2011	196,278
Thereafter	36,755
	<u>\$ 2,600,551</u>

Lease expense for all operating leases amounted to approximately \$2,165,000 and \$2,273,000 in 2006 and 2005, respectively.

The System has entered into certain purchase commitments with vendors for the construction of building additions and acquisition of equipment totaling \$4,967,000 and \$4,138,000 as of June 30, 2006 and 2005, 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 \$5,638,000 and \$6,256,000 for the years ended June 30, 2006 and 2005, respectively.

### 8. Guaranteed Debt

In 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, 2006.