Municipal Secondary Market Disclosure Information Cover Sheet

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

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

IF THIS FILING RELATES TO A SINGLE BOND ISSUE:
Provide name of bond issue exactly as it appears on the cover of the Official Statement (please include name of state where issuer is located):

$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:

59465HAV8	59465HAW6	59465HAX4
59465HAY2	59465HAZ9	59465HBA3

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

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

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

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

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

TYPE OF FILING:

✔ Electronic (number of pages attached) 59 ☐ Paper (number of pages attached) ______

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

Municipal Secondary Market Disclosure Information Cover Sheet

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

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

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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):

$37,000,000

Michigan State Hospital Finance Authority

Hospital Revenue Bonds, Series 2006

Marquette General Hospital Obligated Group

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

59465HDX1

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

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

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

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

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

TYPE OF FILING:

✔ Electronic (number of pages attached) 59

☐ Paper (number of pages attached) __________

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

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

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

Fiscal Period Covered: July 2009 – June 2010 (FY2010)

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

Fiscal Period Covered: July 2009 – June 2010 (FY2010)

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

1. ☐ Principal and interest payment delinquencies
2. ☐ Non-payment related defaults
3. ☐ Unscheduled draws on debt service reserves reflecting financial difficulties
4. ☐ Unscheduled draws on credit enhancements reflecting financial difficulties
5. ☐ Substitution of credit or liquidity providers, or their failure to perform
6. ☐ Adverse tax opinions or events affecting the tax-exempt status of the security
7. ☐ Modifications to the rights of security holders
8. ☐ Bond calls
9. ☐ Defeasances
10. ☐ Release, substitution, or sale of property securing repayment of the securities
11. ☐ 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 Overridge 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 Jerry L. Worden, CPA Title Senior Vice President and 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 JLWorden@mgh.org Obligor Web Site Address www.mgh.org

Investor Relations Contact, if any:

Name ______ Title ______

Telephone ______ Email Address ______

MARQUETTE GENERAL HOSPITAL
420 WEST MAGNETIC STREET
MARQUETTE, MI 49855

OFFICER'S CERTIFICATE

DATED: DECEMBER 29, 2010

This Officer's Certificate is delivered to Assured Guaranty Corporation (the Bond Insurer) for the purpose of certifying compliance by Marquette General Hospital (the Corporation), for itself and as the sole Member of the Obligated Group, with certain relevant provisions of:

- the Loan Agreement between the Corporation and the Michigan State Hospital Finance Authority (the Issuer), dated as of August 1, 2006;
- Supplemental Indenture Number 5 between the Corporation and Wells Fargo Bank, N.A., as Master Trustee, dated as of August 1, 2006; and
- the Waiver and Reservation of Rights Agreement between the Corporation and the Bond Insurer dated December 24, 2008.

All capitalized terms used herein are as defined in the Loan Agreement, in the Trust Indenture between the Issuer and Wells Fargo Bank, N.A., as Bond Trustee, dated as of August 1, 2006 relating to the Series 2006 Bonds, in the Master Indenture and Security Agreement between the Corporation and Wells Fargo Bank, N.A., as Master Trustee, dated as of December 1, 2004, or in Supplemental Indenture Number 5 to the Master Indenture. The Master Trustee, the Beneficial Owners of the Series 2005A Bonds and other Obligation Holders may rely on the financial ratio calculations as evidence of compliance with Sections 501(b)(ii), 501(d) and 501(e) of the Master Indenture. The undersigned certifies that:

1. pursuant to Section 5.10(f)(ii) of the Loan Agreement, neither the Corporation nor the Obligated Group (currently the same) were in default of any of their obligations or covenants under the Master Indenture, Supplemental Indenture Number 5, the Waiver and Reservation of Rights Agreement (except as described in the separate certification which addresses Section 4(e) thereof) or the related financing documents with respect to FY2010;

2. pursuant to Section 4(c) of the Waiver and Reservation of Rights Agreement, the Obligated Group complied with the Debt Service Coverage Ratio covenant for FY2010, as demonstrated by the following calculation:

Debt Service Coverage Ratio Calculation ***Based on Maximum Annual Debt Service Requirements in FY2011*** ***(bracketed references to the definition of Net Income Available for Debt Service)***		
Excess (Deficit) of Revenue over Expenses		7,606,466
Depreciation Expense		11,080,861
Interest Expense		3,647,149
Net Unrealized Investment Gains [(i)(A)]		(1,553,353)
Loss on Interest Rate Swap valuation [(i)(B)]		1,542,089
Loss on Disposal of Capital Assets [(i)(C)]		62,571
Plus: Loss on Extinguishment of Debt [(i)(E)]		0
Net Income Available for Debt Service	NIADS	22,385,783
Maximum Annual Debt Service Requirements	MADS	9,078,460
Debt Service Coverage Ratio	NIADS / MADS	2.47
Requirement		1.35
Note: MADS elevated due to prepayment in full of the Term Loan during FY2011		

3. pursuant to Section 901(b) of Supplemental Indenture Number 5, as amended by Section 7 of the Waiver and Reservation of Rights Agreement, the Obligated Group complied with the Days Cash on Hand covenant with respect to the June 30, 2010 DCOH Measuring Date, as demonstrated by the following calculation:

Days Cash on Hand Calculation ***at June 30, 2010***		
Cash and Cash Equivalents		36,710,985
Board-Designated Assets for Capital Improvements		26,614,402
Less: Outstanding Principal Balance of Short-Term Indebtedness		0
Liquid Assets	LA	63,325,387
Operating Expenses		317,042,841
Less: Depreciation and Amortization		(11,080,861)
Daily Operating Expenses[1]	DOE	838,252
Days' Cash on Hand	LA / DOE	75.5
Requirement		65.0

[1] 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 2005A Bonds.

4. pursuant to Section 501(d) of the Master Indenture, the Obligated Group complied with the trade account payables covenant for FY2010, as demonstrated by the following calculation:

Average Age of Trade Accounts Payable, FY2010 ($000s omitted, except for Average Age)		
Trade Accounts Payable at FYE	AP	$24,411
Average Daily Trade Accounts Payable	ADAP	$362
Average Age of Trade Accounts Payable (days)	AP / ADAP	67.4
Requirement (limit)		90.0

5. pursuant to Section 901(f) of Supplemental Indenture Number 5, the Obligated Group complied with the aggregate long-term debt-to-capitalization ratio covenant as of June 30, 2010, as demonstrated by the following calculation:

Debt-to-Capitalization Calculation at June 30, 2010 Per Section 901(f) of Supplemental Indenture Number 5		
Current Portion of Long-Term Debt		6,336,097
Long-Term Debt		61,548,125
Total Indebtedness	D	67,884,222
Unrestricted Net Assets	NA	70,934,334
Debt-to-Capitalization Ratio	D / (D + NA)	48.9%
Requirement (limit)		65.0%

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

Jerry L. Worden

By: Jerry L. Worden, Senior Vice President and Chief Financial Officer

MARQUETTE GENERAL HOSPITAL
420 WEST MAGNETIC STREET
MARQUETTE, MI 49855

OFFICER'S CERTIFICATE
Section 5.01 of the Standby Bond Purchase Agreement

DATED: DECEMBER 29, 2010

This Officer's Certificate is delivered to JP Morgan Chase Bank, N.A. (the Bank) pursuant to Section 5.01 of the Standby Bond Purchase Agreement (the SBPA) between Marquette General Hospital (the Corporation) and the Bank, dated as of April 16, 2008. All capitalized terms used herein are as defined in the SBPA. The undersigned certifies that:

1. neither the Corporation nor the Obligated Group (currently the same) are in default of any of their obligations or covenants under the Master Indenture, Supplemental Indenture Number 5 or the related financing documents; and

2. as of June 30, 2010, the aggregate long-term debt to capitalization ratio of the Obligated Group did not exceed 65% of the Obligated Group's total unrestricted net assets, as demonstrated in the following calculation:

Debt-to-Capitalization Calculation at June 30, 2010 Per Section 901(f) of Supplemental Indenture Number 5		
Current Portion of Long-Term Debt		6,336,097
Long-Term Debt		61,548,125
Total Indebtedness	D	67,884,222
Unrestricted Net Assets	NA	70,934,334
Debt-to-Capitalization Ratio	D / (D + NA)	48.9%
Requirement (limit)		65.0%

Very truly yours,

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

Jerry L. Worden, Senior Vice President and Chief Financial Officer

MARQUETTE GENERAL HOSPITAL
420 WEST MAGNETIC STREET
MARQUETTE, MI 49855

OFFICER'S CERTIFICATE
Section 4(d) of the Waiver and Reservation of Rights Agreement with the Series 2005 Bondholders
Section 4(e) of the Waiver and Reservation of Rights Agreement with Assured Guaranty Corporation

DATED: DECEMBER 29, 2010

This Officer's Certificate is delivered to Wells Fargo Bank, N.A., as Bond Trustee for the Series 2005A Bonds (the 2005A Bond Trustee), pursuant to Section 4(d) of the Waiver and Reservation of Rights Agreement with the 2005A Bond Trustee on behalf of the Series 2005A Bondholders, and to Assured Guaranty Corporation (AGC) pursuant to Section 4(e) of the Waiver and Reservation of Rights Agreement with AGC. All capitalized terms used herein are as defined in the Waiver and Reservation of Rights Agreements, in the Master Indenture and Security Agreement between the Corporation and Wells Fargo Bank, N.A., as Master Trustee, dated as of December 1, 2004, or in Supplemental Indenture Number 5 between the Corporation and the Master Trustee dated as of August 1, 2006.

The Obligated Group failed to achieve the required Operating Margin Target for the Fiscal Year ended June 30, 2010 as required by Section 4(d) of the Waiver and Reservation of Rights Agreement with the Series 2005A Bondholders and Section 4(e) of the Waiver and Reservation of Rights Agreement with AGC, as demonstrated by the following calculation:

Operating Margin Targets for FY2010			
	As Reported	***UPHP Adjustments***	***Net of UPHP Adjustments***
Total Operating Revenue	323,885,946	(5,184,474)	318,701,472
Total Operating Expenses	317,042,841	0	317,042,841
Operating Income	6,843,105	(5,184,474)	1,658,631
Target Operating Margin			0.52%
Requirement			1.50%

However, the 2005A Bond Trustee, at the direction of the 2005A Bondholders, and AGC have both waived compliance with this covenant by execution of, respectively, a Waiver and Reservation of Rights Agreement between the 2005A Bond Trustee and the Corporation, and a Waiver and Reservation of Rights Agreement between AGC and the Corporation, both dated December 22, 2010.

Very truly yours,

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

____

Jerry L. Worden, Senior Vice President and Chief Financial Officer

MARQUETTE GENERAL HOSPITAL

SERVICE VOLUMES AND UTILIZATION STATISTICS FOR THE FISCAL YEAR ENDED JUNE 30, 2010 (FY2010)

Unless otherwise noted, all data apply to the Fiscal Year ended June 30, 2010, or are accurate as of June 30, 2010, as appropriate. OS-2005 pages refer to the Official Statement relating to the Series 2005A Securities, dated April 21, 2005; OS-2006 pages refer to the Official Statement relating to the Series 2006 Securities, dated August 15, 2006; RC-2008 pages refer to the Reoffering Circular relating to the Series 2006 Securities, dated April 15, 2008. The source of all data, unless otherwise specified, is the Corporation's records.

Historical Adult Medical/Surgical and Pediatrics Utilization
(excludes newborns)
[OS-2005 Page A-51] [OS-2006 Page A-52] [RC-2008 Page A-39]

	Fiscal Years Ended June 30				
	2010	***2009***	***2008***	***2007***	***2006***
Days in Period	365	365	366	365	365
Licensed Beds[1,2]	234	234	259	259	259
Available Beds[1,3]	178	186	197	197	197
Admissions	7,970	8,752	9,086	9,158	9,419
Change over Previous Period	(8.9)%	(3.7)%	(0.8)%	(2.8)%	(0.6)%
Patient Days	32,472	34,676	37,367	37,741	38,676
Average Daily Census	89.0	95.0	102.1	103.4	106.0
Average Length of Stay	4.1	4.0	4.1	4.1	4.1
Occupancy Rate[4]	50.0%	51.1%	51.8%	52.5%	53.8%

1 Corrects information previously reported by the Corporation; includes five beds licensed as adult medical/surgical beds, but used for detoxification and included among Available Behavioral Health Services Beds

2 20 Rehabilitation beds now have distinct licensure; prior FYs' figures adjusted accordingly

2 Available Beds were decreased from 192 to 178 in February 2009

3 Based on Available Beds

Historical Obstetrics Utilization
[OS-2005 Page A-52] [OS-2006 Page A-53] [RC-2008 Page A-40]

	Fiscal Years Ended June 30				
	2010	***2009***	***2008***	***2007***	***2006***
Days in Period	365	365	366	365	365
Licensed Beds	0	0	0	0	0
Available Beds	12	12	12	12	12
Admissions	789	821	914	874	851
Change over Previous Period	(3.9)%	(10.2)%	4.6%	2.7%	5.7%
Patient Days	2,135	2,149	2,011	2,173	2,131
Births	727	773	806	722	715
Average Daily Census	5.8	5.9	5.5	6.0	5.8
Average Length of Stay	2.7	2.6	2.2	2.5	2.5
Occupancy Rate[1]	48.7%	49.1%	45.8%	49.6%	48.7%

[1] Based on Available Beds

Historical Neonatal Intensive Care Utilization
[OS-2005 Page A-53] [OS-2006 Page A-54] [RC-2008 Page A-41]

	Fiscal Years Ended June 30				
	2010	***2009***	***2008***	***2007***	***2006***
Days in Period	365	365	366	365	365
Licensed Beds	10	10	10	10	10
Available Beds	10	10	10	10	10
Admissions	203	175	163	204	182
Change over Previous Period	16.0%	7.4%	(20.1)%	12.1%	4.0%
Patient Days	3,755	3,272	2,949	3,735	3,153
Average Daily Census	10.3	9.0	8.1	10.2	8.6
Average Length of Stay	18.5	18.7	18.1	18.3	17.3
Occupancy Rate[1]	102.9%	89.6%	80.6%	102.3%	86.4%

[1] Based on Available Beds

Historical Rehabilitation (CIRU) Utilization
[OS-2005 Page A-54] [OS-2006 Page A-55] [RC-2008 Page A-42]

	Fiscal Years Ended June 30				
	2010	***2009***	***2008***	***2007***	***2006***
Days in Period	365	365	366	365	365
Licensed Beds	20	20	20	20	20
Available Beds	20	20	20	20	20
Admissions	430	389	230	257	274
Change over Previous Period	10.5%	69.1%	(10.5)%	(6.2)%	(11.0)%
Patient Days	5,040	4,509	2,312	2,532	2,579
Average Daily Census	13.8	12.4	6.3	6.9	7.1
Average Length of Stay	11.7	11.6	10.1	9.9	9.4
Occupancy Rate[1]	69.0%	61.8%	31.6%	34.7%	35.3%

[1] 20 Rehabilitation beds now have distinct licensure; prior FYs' figures adjusted accordingly
[2] Based on Available Beds

Historical Total Acute Care Utilization
(Adult Medical/Surgical, Pediatrics, Obstetrics, NICU and Rehabilitation; excludes newborns)
[OS-2005 Page A-55] [OS-2006 Page A-56] [RC-2008 Page A-43]

	Fiscal Years Ended June 30				
	2010	***2009***	***2008***	***2007***	***2006***
Days in Period	365	365	366	365	365
Licensed Beds[1]	264	264	289	289	289
Available Beds[1]	220	228	239	239	239
Admissions	9,392	10,137	10,393	10,493	10,726
Change over Previous Period	(7.3)%	(2.5)%	(1.0)%	(0.4)%	(0.4)%
Patient Days	43,402	44,606	44,639	46,181	46,539
Average Daily Census	118.9	122.2	122.0	126.5	127.5
Average Length of Stay	4.6	4.4	4.3	4.4	4.3
Occupancy Rate[2]	54.1%	53.6%	51.0%	52.9%	53.3%

[1] Corrects information previously reported by the Corporation
[2] Based on Available Beds

Historical Behavioral Health Services Inpatient Utilization [OS-2005 Page A-56] [OS-2006 Page A-57] [RC-2008 Page A-44]					
	Fiscal Years Ended June 30				
	2010	***2009***	***2008***	***2007***	***2006***
Days in Period	365	365	366	365	365
Licensed Beds[1]	51	51	51	51	51
Available Beds[1]	56	56	51	51	51
Admissions	1,506	1,453	1,667	1,583	1,963
Change over Previous Period	3.6%	(12.8)%	5.3%	(19.4)%	12.4%
Patient Days	12,397	12,529	11,963	10,339	12,672
Average Daily Census	34.0	34.3	32.7	28.3	34.7
Average Length of Stay	8.2	8.6	7.2	6.5	6.5
Occupancy Rate[2] (%)	60.7%	61.3%	64.1%	55.5%	68.1%

1 Corrects information previously reported by the Corporation; FY2010 and FY2009 figures include five Medical/Surgical beds used for detoxification
2 Based on Available Beds

Historical Total Inpatient Utilization
(Acute Care plus BHS; excludes newborns
[OS-2005 Page A-57] [OS-2006 Page A-58] [RC-2008 Page A-45]

	Fiscal Years Ended June 30				
	2010	***2009***	***2008***	***2007***	***2006***
Days in Period	365	365	366	365	365
Licensed Beds	315	315	340	340	340
Available Beds[1]	276	284	290	290	290
Admissions	10,898	11,590	12,060	12,076	12,689
Change over Previous Period	(6.0)%	(3.9)%	(0.1)%	1.4%	1.4%
Patient Days	55,799	57,135	56,602	56,520	59,211
Avg. Daily Census	152.9	156.5	154.7	154.8	162.2
Avg. Length of Stay	5.1	4.9	4.7	4.7	4.7
Occupancy Rate[2]	55.4%	55.1%	53.3%	53.4%	55.9%

[1] Corrects information previously reported by the Corporation
[2] Based on Available Beds

Certain Outpatient Volume Indicators
[OS-2005 Page A-58] [OS-2006 Page A-59] [RC-2008 Page A-46]

	Fiscal Years Ended June 30				
	2010	***2009***	***2008***	***2007***	***2006***
ED Visits	24,973	25,258	28,542	28,632	26,773
Change over Previous Period	(1.1)%	(11.5)%	(0.3)%	6.9%	28.3%
Ambulance Runs	N/A	2,437	2,659	2,488	2,570
Change over Previous Period	N/A	(8.3)%	6.9%	(3.2)%	(20.2)%

Surgical and Other Procedures
[OS-2005 Page A-58] [OS-2006 Page A-59] [RC-2008 Page A-46]

	Fiscal Years Ended June 30				
	2010	***2009***	***2008***	***2007***	***2006***
Inpatient Surgeries	4,540	4,996	5,024	4,051	4,468
Outpatient Surgeries at the Hospital Facility	4,829	4,102	4,697		
Outpatient Surgeries at the PMC	1,947	2,063	1,297		
Total Outpatient Surgeries	6,776	6,165	5,994	4,778	5,068
Total Surgeries	11,316	11,161	11,018	8,829	9,536
Change over Previous Period[1]	1.4%	1.3%	24.8%	(7.4)%	(3.1)%
Percent Outpatient	59.9%	55.2%	54.4%	54.1%	53.1%

[1] FY2008 figure overstated due to inclusion of Outpatient Surgeries at the PMC beginning in FY2008

Ancillary Services
(Volumes of Services Denoted by Italics are Delivered Exclusively to Outpatients)
[OS-2005 Page A-59] [OS-2006 Page A-60] [RC-2008 Page A-47]
Table reflecting new record-keeping as of FY2010 follows

		Fiscal Years Ended June 30			
		2009	***2008***	***2007***	***2006***
Laboratory	Main Laboratory[1]	1,050,337	1,057,410	976,694	944,440
	PMC Laboratory[1]	Service substantially discontinued; most laboratory procedures now performed in the Main Laboratory, which figures include PMC Laboratory volumes		13,025	26,607
	Blood Bank[2]	Included in Main Laboratory figures		13,057	13,042
Imaging	Radiology[1,3]	36,991	37,985	36,530	36,108
	Ultrasound[1,3]	15,549	18,312	17,806	16,702
	CT Scanning[1,3]	18,017	18,640	17,158	15,952
	Nuclear Medicine[1,3]	8,177	9,522	9,982	10,468
	MRI[1,3]	7,907	8,677	8,105	8,257
	Special Procedures (Interventional Radiology)[1,3]	8,872	8,552	9,913	9,769
	PMC Imaging Center[1,3]	9,785	10,437	10,259	10,619
Rehabilitation Services	Physical Therapy[4]	17,159	18,198	17,609	17,399
	Occupational Therapy[4]	17,880	16,987	17,032	19,121
	Return to Work Therapy[4]	2,008	4,257	3,258	3,287
	Communications Rehab[4]	4,885	3,373	2,919	2,546
	Audiology[1]	881	1,347	1,258	1,344
	Escanaba Rehabilitation[4]	4,824	5,702	5,508	5,992
	Sawyer Rehabilitation[4]	2,317	1,691	1,763	1,873
Cardiac Services	Cardiac Imaging[5]	2,614	2,622	2,932	2,950
	Cardiac Rehabilitation[1,3]	12,905	20,123	23,312	19,628
	Cardiographic Services[1,3]	17,732	17,010	16,616	17,134
	Outpatient Cardiac[6,7]	N/A	N/A	N/A	2,567

MUNICIPAL SECONDARY MARKET DISCLOSURE
Michigan State Hospital Finance Authority / Marquette General Hospital
Fiscal Year Ended June 30, 2010

Ancillary Services
(Volumes of Services Denoted by Italics are Delivered Exclusively to Outpatients)
[OS-2005 Page A-59] [OS-2006 Page A-60] [RC-2008 Page A-47]
Table reflecting new record-keeping as of FY2010 follows

		Fiscal Years Ended June 30			
		2009	***2008***	***2007***	***2006***
Dialysis	*Marquette Center*[8,9]	8,923	9,493	9,773	10,145
	Eastern UP Center[8,10]	0	0	999	1,183
	Western UP Center[8,11]	0	0	2,841	5,375
Other	Endoscopy[1]	4,001	5,320	5,683	5,445
	Neurophysiology[1]	7,016	6,669	6,857	6,788
	Perfusion[5]	189	210	223	256
	Pulmonary Function[1]	2,103	2,692	2,713	3,028
	Respiratory Care[3,4]	39,596	47,147	36,795	37,917
	Radiology Oncology[1,3]	13,499	13,505	13,278	14,423

1 Procedures
2 Donors
3 Reflects change in counting methodology initiated during FY2006Q4; FY2006 figures were adjusted for consistency with FY2007 figures
4 Hours
5 Patients
6 Visits
7 Service volumes not tracked after FY2006
8 Runs
9 Includes acute dialysis runs
10 Service discontinued in March 2007
11 Service discontinued in December 2006

MUNICIPAL SECONDARY MARKET DISCLOSURE
Michigan State Hospital Finance Authority / Marquette General Hospital
Fiscal Year Ended June 30, 2010

Certain Ancillary Services Provided Exclusively to Outpatients
[OS-2005 Page A-61] [OS-2006 Page A-62] [RC-2008 Page A-49]
Table reflecting new record-keeping as of FY2010 follows

	Fiscal Years Ended June 30			
	2009	***2008***	***2007***	***2006***
Main Laboratory[1]	710,709	706,579	631,880	587,350
PMC Laboratory[1]	Service substantially discontinued; most laboratory procedures now performed in the Main Laboratory, which figures include PMC Laboratory volumes		13,025	25,713
Radiology[1,2]	18,983	20,270	19,220	17,614
Ultrasound[1,2]	9,285	10,874	10,534	10,464
CT Scanning[1,2]	12,393	12,996	11,842	11,010
Nuclear Medicine[1,2]	7,036	8,073	8,428	10,460
MRI[1,2]	6,683	7,480	6,988	7,118
Special Procedures (Interventional Radiology)[1,2]	3,785	3,828	5,086	4,527
Physical Therapy[3]	8,358	11,170	10,454	9,775
Cardiac Imaging[4]	1,091	1,143	1,189	1,129
Endoscopy[1]	2,984	4,124	4,451	4,158
Neurophysiology[1]	4,777	5,011	5,150	4,881
Radiology Oncology[1,2]	12,996	12,912	12,671	13,474

[1] Procedures
[2] Reflects change in counting methodology initiated during FY2006Q4; FY2006 figures were adjusted for consistency with FY2007 figures
[3] Hours
[4] Patients

Ancillary Services (reflects new record-keeping as of FY2010Q1)							
		Fiscal Years Ended June 30					
		Inpatient		***Outpatient***		***Total***	
		2010	***2009***	***2010***	***2009***	***2010***	***2009***
Imaging	Radiology[1]	12,712	13,617	14,945	14,069	27,657	27,686
	Ultrasound[1]	3,504	5,107	6,583	7,164	10,087	12,271
	CT Scanning[1]	3,997	4,257	9,704	9,125	13,701	13,382
	Nuclear Medicine[1]	524	929	4,260	5,288	4,784	6,217
	UPIMS Nuclear Medicine[1,2]			194	0	194	0
	MRI[1]	821	923	4,840	5,032	5,661	5,955
	Special Procedures (Interventional Radiology)[1]	3,561	3,871	3,166	2,793	6,727	6,664
	PMC Imaging Center[1]	147	149	6,546	7,138	6,693	7,287
	UPIMS Echocardiology[1,2]	6	0	553	0	559	0
	UPIMS PET Scanning[1,2]			21	0	21	0
Rehabilitation Services	Physical Therapy[3]	9,013	8,801	8,600	8,358	17,613	17,159
	Occupational Therapy[3]	13,485	13,304	4,679	4,576	18,164	17,880
	Return to Work Therapy[3]			1,006	2,008	1,006	2,008
	Communications Rehab (Speech Therapy)[3]	3,469	2,666	3,565	2,220	7,034	4,886
	UP Sports Medicine[4]			4,867	0	4,867	0
	Escanaba Rehabilitation[3]	0	20	6,033	4,804	6,033	4,824
	Sawyer Rehabilitation[3]	2	1	3,276	2,316	3,278	2,317
Cardiac Services	Cardiac Imaging[5]	1,226	1,523	1,453	1,091	2,679	2,614
	Cardiac Rehabilitation[1,6]	11	0	10,866	12,905	10,877	12,905
	Cardiographic Services[1]	8,008	8,065	13,421	9,661	21,429	17,726
	Perfusion[5]	201	189			201	189

Ancillary Services (reflects new record-keeping as of FY2010Q1)							
		Fiscal Years Ended June 30					
		Inpatient		*Outpatient*		*Total*	
		2010	*2009*	*2010*	*2009*	*2010*	*2009*
Other	Endoscopy[1]	986	1,017	2,671	2,984	3,657	4,001
	Laboratory[1]	313,757	339,628	654,979	710,709	968,736	1,050,337
	Neurophysiology[1]	2,453	2,239	4,330	4,777	6,783	7,016
	Hemodialysis[5,7]	1,015	1,086	8,414	7,837	9,429	8,923
	Pulmonary Function[1]	394	448	2,008	1,656	2,402	2,104
	Respiratory Care[3]	41,820	37,043	3,310	2,553	45,130	39,596
	Radiation Oncology[1]	278	503	13,293	12,996	13,571	13,499

1 Procedures
2 Effective May 1, 2010, activities conducted by the joint venture between the Corporation and Upper Michigan Cardiovascular Associates
3 Hours
4 Relative Value Units; Service commenced in September 2009
5 Patients
6 Pacemaker clinic discontinued in April 2008
7 Includes acute dialysis runs

MGHH&H Volumes [OS-2005 Page A-61] [OS-2006 Page A-62] [RC-2008 Page A-49]					
	Fiscal Years Ended June 30				
	2010	*2009*	*2008*	*2007*	*2006*
Home Care Admissions	1,923	1,880	2,105	2,014	2,258
Home Care Visits	34,233	37,518	46,792	45,426	48,601
Private Duty Hours[1]	0	0	0	0	41,982

1 Service discontinued in April 2006

Physician Practice Volumes
(in Relative Value Units)
[OS-2005 Page A-62] [OS-2006 Page A-63] [RC-2008 Page A-50]

	Fiscal Years Ended June 30				
	2010	***2009***	***2008***	***2007***	***2006***
Family Care Doctors[1,2]	49,966	52,650	48,422	49,535	49,695
Doctor's Park Family Physicians[1]	24,725	27,729	26,971	35,872	38,576
Iron River Clinic[1]	6,831	7,188	8,418	7,717	8,729
Gladstone Clinic[1]	9,306	12,846	10,812	11,631	12,733
Kingsford Clinic[1]	21,727	25,279	25,825	23,656	20,090
Chippewa Medical Associates[1]	19,901	15,392	18,886	18,853	13,897
Negaunee Clinic[1]	6,623	5,315	3,323	3,081	2,605
Lakewood Clinic[1]	7,578	5,720	3,639	3,614	3,844
Trenary Clinic[1]	1,450	1,471	1,999	1,919	2,028
Grand Marais Clinic[1]	324	448	400	382	406
Gwinn/Sawyer Clinic[3]	14,857	5,380	0	0	0
UP Hematology/Oncology[1] (6 sites)	37,603	36,772	40,021	34,939	31,836
Professional Surgical Services[4]	6,668	7,889	5,092	0	0
Neurology Associates[1]	20,430	25,671	27,856	30,735	27,796
Pediatric Specialists[1]	14,861	14,277	16,300	14,999	13,802
North Shore Internal Medicine[1,5]	0	1,755	4,803	4,621	5,609
UP Internal Medicine[1]	28,338	26,448	30,636	33,159	30,895
Respiratory Medicine[1]	17,874	18,655	19,163	19,002	16,921
Infectious Diseases[1]	17,676	17,706	18,054	17,297	16,658
Occupational Medicine[1]	10,063	8,255	4,910	4,129	4,292
Professional Sports Medicine[6]	4,067	3,099	0	0	0
Neuropsychiatric Rehabilitation[7]	2,890	4,430	5,510	0	0
Women's Health Services[8]	4,327	1,919	0	0	0
Marquette General Neurosurgery[9]	54,711	52,095	43,854	20,506	0

Physician Practice Volumes
(in Relative Value Units)
[OS-2005 Page A-62] [OS-2006 Page A-63] [RC-2008 Page A-50]

Urology Services[10]	17,099	19,082	18,369	0	0
Endocrinology Services[10]	5,029	6,276	5,726	0	0
Emergency Medical Associates[11]	72,902	67,789	N/A	N/A	N/A
Behavioral Health[12]	43,267	30,425	57,905	54,022	65,448
Geriatric Psychiatry[13]	1,327	0	0	0	0
Prof. Radiation Oncology (DCHS)[11]	5,542	4,932	5,822	N/A	N/A
Professional Neonatology[11]	14,816	14,252	12,567	N/A	N/A
Professional Gastroenterology[10]	1,787	4,402	4,366	0	0
Professional Orthopaedics[14]	11,687	9,222	8,823	4,209	0
Professional Bariatric Surgery[10]	17,866	16,833	10,836	0	0
Hospitalists[11,15]	955	29,541	28,588	N/A	N/A
Intensivists[16]	1,442	419	0	0	0
Total Relative Value Units	576,515	581,562	517,896	393,878	365,860

1 Reflects change in counting methodology initiated during FY2006Q4; FY2006 figures were adjusted for consistency with FY2007 figures
2 Includes RVUs generated by Family Practice residents
3 Service commenced in March 2009
4 Service commenced in October 2007
5 Service discontinued in December 2008
6 Service commenced in September 2008
7 Service commenced in January 2009
8 Service commenced in January 2009
9 Service commenced in January 2007
10 Service commenced toward end of FY2008
11 Service provided prior to FY2009 but volumes not previously reported
12 Services in Escanaba and Hancock were discontinued at the end of FY2008
13 Service commenced in August 2009
14 Service commenced in September 2006
15 Service was outsourced in July 2009; still provided by physicians who are no longer Corporation employees
16 Service commenced in May 2009

FINANCIAL INFORMATION

Payor Mix by Gross Revenue ***[OS-2005 Page A-67] [OS-2006 Page A-68] [RC-2008 Page A-55]***					
	Fiscal Years Ended June 30				
	2010	***2009***	***2008***	***2007***	***2006***
Medicare	49.9%	48.5%	46.3%	47.1%	47.2%
Medicaid	12.1%	10.0%	10.1%	10.1%	9.9%
Blue Cross	23.4%	23.7%	25.2%	24.8%	25.2%
Self-Pay	1.6%	2.3%	1.7%	1.9%	1.5%
Commercial and Other	13.0%	15.5%	16.7%	16.1%	16.2%
TOTALS	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, 2010

Summary of Statements of Operations
($000s omitted)
[OS-2005 Page A-69] [OS-2006 Page A-70] [RC-2008 Page A-56]

	Fiscal Years Ended June 30				
	2010	***2009***	***2008***	***2007*** [1]	***2006*** [2]
Net Patient Service Revenue	304,354	302,513	281,490	262,867	258,954
Other Operating Revenue	19,532	16,799	19,184	12,382	12,867
Total Operating Revenue	323,886	319,312	300,674	275,249	271,821
Depreciation and Amortization	11,081	10,860	10,848	12,380	13,734
Interest	3,647	4,016	4,421	3,988	3,412
Provision for Bad Debts	10,993	12,677	11,951	6,435	5,933
Other Operating Expenses	291,322	281,559	283,795	257,595	255,116
Total Operating Expenses	317,043	309,113	311,015	280,398	278,195
Income (Loss) from Operations	6,843	10,199	(10,341)	(5,149)	(6,374)
Net Nonoperating Revenue[3,4,5,6]	763	(8,222)	(3,642)	8,795	4,467
Revenue over (under) Expenses	7,606	1,977	(13,983)	3,646	(1,907)
Net Income Available for Debt Service	22,386	21,878	8,305	19,582	13,597

Note: Some figures might not add precisely due to rounding.

1 Certain FY2007 figures have been changed to reflect the presentation in the FY2008 audited financial statements.

2 Certain FY2006 figures have been changed to reflect the presentation in the FY2007 audited financial statements.

3 FY2010, FY2009, FY2008, FY2007 and FY2006 Net Nonoperating Revenue includes net unrealized investment gains (losses) of $1,553,000, ($2,820,000), ($3,140,000), $415,000 and $341,000, respectively. These amounts were (added back to) deducted from the Net Income Available for Debt Service in accordance with Section (i)(A) of its definition in the Master Indenture.

4 FY2010, FY2009, FY2008, FY2007 and FY2006 Net Nonoperating Revenue includes gains (losses) in the valuation of instruments which are Financial Products Agreements of ($1,542,000), ($2,113,000), ($2,219,000), $394,000 and $1,582,000, respectively. These amounts were (added back to) deducted from the Net Income Available for Debt Service in accordance with Section (i)(B) of its definition in the Master Indenture.

5 FY2010, FY2009, FY2008, FY2007 and FY2006 Net Nonoperating Revenue includes losses on dispositions of Capital Assets of $63,000, $91,000, $634,000, $377,000 and $281,000, respectively. These amounts were added back to the Net Income Available for Debt Service in accordance with Section (i)(C) of its definition in the Master Indenture.

6 FY2008 Net Nonoperating Revenue includes losses on extinguishment of debt of $1,026,000. 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, 2010

Balance Sheet Summary
($000s omitted)
[OS-2005 Page A-73] [OS-2006 Page A-75] [RC-2008 Page A-57]

	Fiscal Years Ended June 30				
	2010	***2009***	***2008***	***2007*** [1]	***2006*** [2]
Cash and Cash Equivalents[3]	36,711	28,082	11,923	13,824	26,037
Net Patient Accounts Receivable	46,947	44,475	37,928	39,918	35,109
Other Current Assets	14,672	12,835	13,417	17,798	10,133
Total Current Assets	98,330	85,392	63,268	71,540	71,279
Board-Designated Investments[3]	26,614	23,373	27,583	57,315	56,041
Net Property and Equipment	100,914	105,403	110,243	115,167	120,466
Other Non-Current Assets	40,667	38,453	47,647	38,394	33,130
Total	266,525	252,620	248,740	282,416	280,916
Current Liabilities	50,574	42,941	30,178	33,775	39,237
Long-Term Debt, net Current Portion	61,548	67,362	74,170	77,868	69,585
Other Non-Current Liabilities	80,766	62,955	32,533	59,765	35,479
Net Assets[4]	73,636	79,362	111,859	111,009	136,614
Total	266,525	252,620	248,740	282,416	280,916

Note: Some figures might not add precisely due to rounding.
[1] Certain FY2007 figures have been changed to reflect the presentation in the FY2008 audited financial statements.
[2] Certain FY2006 figures have been changed to reflect the presentation in the FY2007 audited financial statements.
[3] Used in “Days’ Cash on Hand” and “Cushion Ratio” calculations.
[4] FY2010, FY2009, FY2008 and FY2007 amounts include $2,702,000, $1,862,000, $1,108,000 and $646,000 of temporarily restricted net assets, respectively.

Liquid Assets and Capital Expenditures
($000s omitted)
[OS-2005 Page A-67] [OS-2006 Page A-68] [RC-2008 Page A-55]

	Fiscal Years Ended June 30				
	2010	***2009***	***2008***	***2007***	***2006***
Cash and Cash Equivalents	38,711	28,082	11,923	13,824	26,037
Board-Designated Investments	26,614	23,373	27,583	57,315	56,041
Liquid Assets	65,325	51,455	39,506	71,139	82,078
Capital Expenditures	7,275	6,271	7,859	15,277	18,437

Note: Some figures might not add precisely due to rounding.

Marquette General Health System

Consolidated Financial Report
June 30, 2010

Marquette General Health System

Contents

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Independent Auditor's Report

To the Board of Trustees
Marquette General Health System

We have audited the accompanying consolidated balance sheet of Marquette General Health System (the "System") as of June 30, 2010 and 2009 and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the System's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of the equity method investments of Upper Peninsula Health Plan, Inc. and Upper Peninsula Managed Care, LLC whose statements are utilized to record the investment in unconsolidated affiliates of $16,519,194 and $13,279,444 and income from unconsolidated affiliates of $5,184,474 and $2,853,931 as of and for the years ended June 30, 2010 and 2009, respectively. Those statements were audited by others as of and for the years ended December 31, 2009 and 2008, whose reports have been furnished to us and our opinion, insofar as it relates to the amounts incurred for Upper Peninsula Health Plan, Inc. and Upper Peninsula Managed Care, LLC, is based solely on the reports of other auditors as well as interim statements as of and for the years ended June 30, 2010 and 2009, prepared based on the same basis as that of the audited statements.

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

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

To the Board of Trustees
Marquette General Health System

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2010 on our consideration of Marquette General Health System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grants, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Plante & Moran, PLLC

December 23, 2010

Marquette General Health System

Consolidated Balance Sheet

	June 30, 2010	June 30, 2009
Assets		
Current Assets		
Cash and cash equivalents	$ 36,710,985	$ 28,081,601
Accounts receivable (Note 2)	46,946,872	44,475,168
Estimated third-party payor settlements (Note 3)	3,140,174	1,314,123
Assets limited as to use (Notes 4 and 5)	593,717	803,579
Other current assets	2,447,369	2,117,770
Inventory	8,490,577	8,599,310
Total current assets	98,329,694	85,391,551
Assets Limited as to Use (Notes 4 and 5)	39,776,652	38,101,802
Property and Equipment - Net (Note 6)	100,913,805	105,402,559
Other Assets		
Investment in unconsolidated affiliates (Note 13)	20,165,080	16,130,462
Bond issue costs	1,149,647	1,251,304
Other noncurrent assets	6,190,182	6,342,195
Total assets	**$ 266,525,060**	**$ 252,619,873**
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	$ 23,937,611	$ 14,622,717
Current portion of long-term debt (Note 7)	6,336,097	6,808,575
Estimated third-party payor settlements (Note 3)	-	1,067,956
Accrued liabilities and other:		
Current portion of employee compensation and benefits	19,327,189	19,065,833
Accrued interest	308,217	331,315
Other accrued liabilities	665,260	1,044,760
Total current liabilities	50,574,374	42,941,156
Long-term Debt - Net of current portion (Note 7)	61,548,125	67,361,548
Accrued Pension Liability	66,915,115	50,677,144
Fair Value of Interest Rate Swap Agreement (Notes 5 and 7)	5,537,242	3,995,153
Other Liabilities		
Long-term portion of employee compensation and benefits	3,696,903	3,674,898
Other long-term liabilities	4,617,120	4,608,241
Total liabilities	192,888,879	173,258,140
Net Assets		
Unrestricted	70,934,334	77,499,381
Temporarily restricted	2,701,847	1,862,352
Total net assets	73,636,181	79,361,733
Total liabilities and net assets	**$ 266,525,060**	**$ 252,619,873**

Consolidated Statement of Operations

	Year Ended June 30, 2010	Year Ended June 30, 2009
Unrestricted Revenue, Gains, and Other Support		
Net patient service revenue	$ 304,354,444	$ 302,512,916
Other	13,582,090	13,945,481
Income from investment in unconsolidated affiliates	5,464,474	2,853,931
Net assets released from restrictions	484,938	243,482
Unrestricted revenue, gains, and other support	323,885,946	319,555,810
Expenses		
Salaries and wages	123,881,687	120,384,009
Employee benefits and payroll taxes	31,560,236	31,350,395
Operating supplies and expenses	71,806,092	66,740,387
Professional services and consultant fees	2,793,740	4,169,614
Purchased services	35,193,467	33,449,686
Utilities	4,852,460	5,357,769
Other	21,234,231	19,982,877
Depreciation	11,080,861	10,860,416
Provision for bad debts	10,992,918	12,677,377
Interest expense	3,647,149	4,016,161
Restructuring and other nonrecurring expenses	-	367,621
Total expenses (Note 11)	317,042,841	309,356,312
Operating Income	6,843,105	10,199,498
Other Income (Loss)		
Interest income (Note 4)	1,155,247	1,764,947
Net realized investment loss (Note 4)	(340,579)	(4,962,790)
Change in unrealized investment gain (loss) (Note 4)	1,553,353	(2,820,409)
Change in fair value of interest swap agreements (Note 7)	(1,542,089)	(2,113,271)
Other expense	(62,571)	(90,816)
Total other income (loss)	763,361	(8,222,339)
Excess of Revenue Over Expenses	7,606,466	1,977,159
Contribution Received for Property Acquisitions	769,000	112,920
Pension-related Changes Other Than Net Periodic Benefit	(14,478,366)	(34,968,977)
Decrease Before Extraordinary Items	(6,102,900)	(32,878,898)
Loss on Discontinued Operations (Note 15)	(462,147)	(372,511)
Decrease in Unrestricted Net Assets	**$ (6,565,047)**	**$ (33,251,409)**

Marquette General Health System

Consolidated Statement of Changes in Net Assets

	Year Ended June 30, 2010	Year Ended June 30, 2009
Decrease in Unrestricted Net Assets	$ (6,565,047)	$ (33,251,409)
Temporarily Restricted Net Assets		
Contributions	1,324,433	998,106
Net assets released from restriction	(484,938)	(243,482)
Increase in Temporarily Restricted Net Assets	839,495	754,624
Decrease in Net Assets	(5,725,552)	(32,496,785)
Net Assets - Beginning of year	79,361,733	111,858,518
Net Assets - End of year	**$ 73,636,181**	**$ 79,361,733**

Marquette General Health System

Consolidated Statement of Cash Flows

	Year Ended June 30, 2010	Year Ended June 30, 2009
Cash Flows from Operating Activities		
Decrease in net assets	$ (5,725,552)	$ (32,496,785)
Adjustments to reconcile decrease in net assets to net cash from operating activities:		
Depreciation and amortization	11,182,518	11,007,779
Net change in realized and unrealized gains and losses on investments	(1,212,774)	7,783,199
Change in fair value of interest rate swap	1,542,089	2,113,271
Net periodic pension cost	5,420,746	5,373,086
Pension contributions	(3,661,141)	(12,518,424)
Pension-related changes other than net periodic benefit	14,478,366	34,968,977
Loss on disposal of equipment	62,571	90,816
Proceeds from assets held for sale	-	2,784,478
Equity earnings in unconsolidated affiliates	(5,464,474)	(2,853,931)
Increase in temporarily restricted net assets	(839,495)	(754,624)
Contribution received for property acquisition	(769,000)	(112,920)
Provision for bad debts	10,992,918	12,677,377
Changes in assets and liabilities which (used) provided cash:		
Accounts receivable	(13,464,622)	(19,224,284)
Estimated third-party payor settlements	(2,894,007)	2,583,897
Inventories	108,733	(926,047)
Prepaid and other assets	1,252,270	(158,979)
Accounts payable	9,314,894	6,913,720
Accrued and other liabilities	(110,358)	2,155,507
Net cash provided by operating activities	20,213,682	19,406,113
Cash Flows from Investing Activities		
Purchase of property and equipment	(7,275,048)	(6,271,176)
Proceeds from sale of property and equipment	620,370	226,506
Purchase of investments	(4,585,704)	(8,081,651)
Proceeds from sale and maturities of investments	4,333,490	13,709,105
Net cash used in investing activities	(6,906,892)	(417,216)
Cash Flows from Financing Activities		
Proceeds from issuance of debt obligations	559,800	-
Principal payment on long-term debt	(6,845,701)	(3,697,592)
Increase in temporarily restricted net assets	839,495	754,624
Contribution received for property acquisition	769,000	112,920
Net cash used in financing activities	(4,677,406)	(2,830,048)
Net Increase in Cash and Cash Equivalents	8,629,384	16,158,849
Cash and Cash Equivalents - Beginning of year	28,081,601	11,922,752
Cash and Cash Equivalents - End of year	**$ 36,710,985**	**$ 28,081,601**

Note 1 - Nature of Business and Significant Accounting Policies

Basis of Consolidation - Marquette General Health System (the "System") is a Michigan nonstock corporation providing healthcare 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.

Marquette General Foundation (the "Foundation") is a Michigan nonstock corporation whose sole corporate member is the System. The Foundation receives and administers funds for charitable purposes to promote and support the healthcare mission of the System.

The System owns all of the outstanding shares of common stock of Upcare Technology, Inc. (formerly Klinitek, Inc). Upcare Technology, Inc. is in the business of developing computer software for healthcare applications. During 2009, the operations of Upcare Technology, Inc. have been presented as a discontinued operation as described in Note 15.

All intercompany accounts and transactions are eliminated in preparation of the consolidated financial statements.

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

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

The System maintains cash and investment balances at several financial institutions. Accounts that bear an interest rate of less than .50 percent per year are insured in full under the Transaction Account Guarantee Program, which is provided by the Federal Deposit Insurance Corporation. Other accounts at each institution are insured by the Federal Deposit Insurance Corporation for up to $250,000 per account type, per institution, for the years ended June 30, 2010 and 2009. As of June 30, 2010 and 2009, the consolidated uninsured cash balances were $33,846,409 and $23,482,309, respectively.

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

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

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

Investments - Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the consolidated balance sheet. Investment income or loss (including realized gains and losses on investments, interest, and dividends) is included in excess of revenue over expenses unless the income or loss is restricted by donor or law. The System classifies its investment portfolio as trading, with unrealized gains and losses included in excess of revenue over expenses.

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

Assets Limited as to Use - Assets whose use is limited primarily include designated assets set aside by the board of trustees for future capital improvements, over which the board retains control and may, at its discretion, subsequently use for other purposes, amounts set aside under revocable self-insurance trust agreements, assets held by trustees under indenture agreements, and assets restricted as to use by donors. Amounts designated to help meet current liabilities of the System have been classified as the current portion of assets whose use is limited in the consolidated balance sheet.

Fair Value of Financial Instruments - The fair value of financial instruments, including cash, accounts receivable, and accounts payable, approximates carrying values. Investments are recorded at fair value under generally accepted accounting principles. The fair value of debt is based on current rates at which the System could borrow funds with similar remaining maturities.

Inventories - Inventories, which consist of medical and office supplies, pharmaceutical products, and durable medical equipment, are valued at the lower of cost (average cost) or market.

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

Property and Equipment - Property and equipment purchases are recorded at cost. Depreciation is computed principally on the straight-line basis over the estimated useful lives of the assets. Costs of maintenance and repairs are charged to expense when incurred.

Bond Issuance Costs - Bond issuance costs represent financing costs that are being amortized over the period of related debt outstanding using the straight-line method, which approximates the effective interest rate method.

Interest Rate Swap - The System entered into an interest rate swap transaction to reduce economic risks associated with variability in cash outflows for interest required under provisions of variable rate revenue bonds. Interest rate swaps are recognized as assets or liabilities at fair value. Realized gains and losses on interest rate swaps are classified as a component of income from operations and are presented as part of interest expense in the consolidated statement of changes in net assets. Unrealized changes in the fair value of the interest rate swap are recognized in other income, separate from income from operations.

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

The System reports gifts of property and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the System reports the expiration of donor restrictions when the assets are placed in service.

Classification of Net Assets - Net assets of the System are classified as temporarily restricted or unrestricted depending on the presence and characteristics of donor-imposed restrictions limiting the System's ability to use or dispose of contributed assets or economic benefits embodied in those assets. Donor-imposed restrictions that expire with the passage of time or that can be removed by meeting certain requirements result in temporarily restricted net assets. Earnings, gains, and losses on restricted net assets are classified as unrestricted unless specifically restricted by the donor or by applicable state law.

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

Net Patient Service Revenue - The System has agreements with third-party payors that provide for payments to the System at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactively calculated adjustments arising under reimbursement agreements with third-party payors are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Management believes that it is in compliance with all applicable laws and regulations. Final determination of compliance of such laws and regulations is subject to future government review and interpretation. Violations may result in significant regulatory action including fines, penalties, and exclusions from the Medicare and Medicaid programs.

Excess of Revenue Over Expenses - The consolidated statement of operations includes excess of revenue over expenses. Changes in unrestricted net assets, which are excluded from excess of revenue over expenses, consistent with industry practice, include pension-related changes other than net periodic pension costs, loss from discontinued operations, and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purpose of acquiring such assets).

Accounting for Conditional Asset Retirement Obligation - Management has considered its legal obligation to report asset retirement activities, such as asbestos removal, on its existing properties. Over the past 20 years, management has systematically renovated, replaced, or constructed the majority of the physical plant facilities, resulting in a relatively small portion of the facility with any remaining hazardous material. Management believes that there is an indeterminate settlement date for the asset retirement obligations because the range of time over which the System may settle the obligation is unknown and does not believe that the estimate of the liability related to these asset retirement activities is a material amount at June 30, 2010 and 2009.

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

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

Tax Status - 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. Upcare Technology, Inc. is a taxable organization and records a provision for income taxes to the extent required based on its separate earnings and IRC regulations. The Foundation is a nonprofit, tax-exempt organization and is a Type 1 supporting organization as defined by the IRC.

Reclassification - Certain 2009 amounts have been reclassified to conform to the 2010 presentation.

Subsequent Events - The consolidated financial statements and related disclosures include evaluation of events up through and including December 23, 2010, which is the date the consolidated financial statements were available to be issued.

Note 2 - Patient Accounts Receivable

The details of patient accounts receivable are set forth below:

	2010	2009
Patient account receivable	$ 115,369,820	$ 107,088,150
Less allowance for uncollectible accounts	(10,796,938)	(11,639,203)
Less allowance for contractual adjustments	(57,626,010)	(50,973,779)
Net patient accounts receivable	$ 46,946,872	$ 44,475,168

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

	Percent	
	2010	2009
Medicare	41 %	34 %
Blue Cross/Blue Shield of Michigan	15	15
Medicaid	21	25
Commercial insurance	9	12
Self-pay	9	8
Other	5	6
Total	100 %	100 %

Note 3 - Patient Service Revenue

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

- **Medicare** - Inpatient, acute-care, psychiatric, and rehabilitation services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system based on clinical, diagnostic, and other factors. Outpatient and homecare services related to Medicare beneficiaries are reimbursed based on a prospectively determined amount per episode of care.
- **Medicaid** - Inpatient acute-care services rendered to Medicaid program beneficiaries are also paid at prospectively determined rates per discharge. Inpatient psychiatric and rehabilitation services are reimbursed on per diem rates. Capital costs relating to Medicaid patients are paid on a cost-reimbursement method. Outpatient and physician services are reimbursed on an established fee-for-service methodology.
- **Blue Cross/Blue Shield of Michigan** - Inpatient acute-care services are reimbursed at prospectively determined rates per discharge. Inpatient psychiatric and rehabilitation services are reimbursed on per diem rates. Outpatient services are reimbursed on a fee-for-service and percentage-of-charge basis.

Cost report settlements result from the adjustment of interim payments to final reimbursement under Medicare, Medicaid, Blue Cross/Blue Shield of Michigan, and HMO programs that are subject to audit by fiscal intermediaries. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

The Medicare program has initiated a recovery audit contractor (RAC) initiative, whereby claims subsequent to October 1, 2007 will be reviewed by contractors for validity, accuracy, and proper documentation. A demonstration project completed in several other states resulted in the identification of potential significant overpayments. The RAC program has began for Michigan hospitals in 2009. The System has been selected for audit, but is unable to determine the extent of liability for overpayments, if any.

Note 4 - Assets Limited as to Use

The detail of assets limited as to use is summarized in the following schedule:

	2010	2009
Assets limited as to use and temporarily restricted:		
Funds held by trustees under bond indenture	$ 6,515,955	$ 6,725,817
Funds held in trust for payment of professional and other liability claims	4,538,165	6,944,197
By the board of trustees for future capital improvements	26,614,402	23,373,016
By donors for specific purposes	1,703,604	1,466,558
Total investments limited as to use and temporarily restricted	39,372,126	38,509,588
Pledges receivable	998,243	395,793
Less current portion	(593,717)	(803,579)
Total assets limited as to use	$ 39,776,652	$ 38,101,802

Investments consist of the following:

	2010	2009
Cash and cash equivalents	$ 3,839,349	$ 5,335,176
Government securities	18,429,969	15,939,267
Certificate of deposits	4,602,135	3,227,220
Corporate and private bonds	10,329,762	8,334,827
Equity securities	1,982,458	4,817,415
Other	188,453	855,683
Total	$ 39,372,126	$ 38,509,588

Investment income and realized and unrealized gains (losses) are comprised of the following for the years ended June 30, 2010 and 2009:

	2010	2009
Interest income	$ 1,155,247	$ 1,764,947
Realized loss on sale of investments	(340,579)	(4,962,790)
Change in net unrealized gains (losses) on investments	1,553,353	(2,820,409)
Total	$ 2,368,021	$ (6,018,252)

Note 5 - Fair Value Measurements

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

The following tables present information about the System's assets and liabilities measured at fair value on a recurring basis at June 30, 2010 and 2009 and the valuation techniques used by the System to determine those fair values.

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

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset. These Level 3 fair value measurements are based primarily on management's own estimates using pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The System's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

Note 5 - Fair Value Measurements (Continued)

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

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at June 30, 2010
Assets - Assets limited as to use				
Cash and cash equivalents	$ 3,839,349	$ -	$ -	$ 3,839,349
Certificates of deposit	4,602,135	-	-	4,602,135
Equity securities	1,982,458	-	-	1,982,458
Government securities	-	18,429,969	-	18,429,969
Corporate and private bonds	-	10,329,762	-	10,329,762
Other	-	188,453	-	188,453
Total assets	$ 10,423,942	$ 28,948,184	$ -	$ 39,372,126
Liabilities - Derivative financial instruments - Interest rate swap	$ -	$ 5,537,242	$ -	$ 5,537,242

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

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at June 30, 2009
Assets - Assets limited as to use				
Cash and cash equivalents	$ 5,335,176	$ -	$ -	$ 5,335,176
Equity securities	4,817,415	-	-	4,817,415
Certificates of deposit	3,227,220	-	-	3,227,220
Government securities	-	15,939,267	-	15,939,267
Corporate and private bonds	-	8,334,827	-	8,334,827
Other	-	855,683	-	855,683
Total assets	$ 13,379,811	$ 25,129,777	$ -	$ 38,509,588
Liabilities - Derivative financial instruments - Interest rate swap	$ -	$ 3,995,153	$ -	$ 3,995,153

Note 6 - Property and Equipment

Costs of property, plant, equipment, and depreciable lives are summarized as follows:

	2010	2009	Depreciable Life - Years
Land	$ 7,570,000	$ 7,570,000	-
Land improvements	3,217,390	3,217,390	3-15
Buildings	147,919,304	147,825,616	7-40
Equipment	148,527,511	143,102,097	3-10
Construction in progress	3,113,411	4,062,296	-
Total cost	310,347,616	305,777,399	
Accumulated depreciation	(209,433,811)	(200,374,840)	
Net property and equipment	$ 100,913,805	$ 105,402,559	

Note 7 - Long-term Debt

A summary of long-term debt at June 30, 2010 and 2009 is as follows:

	2010	2009
Hospital Revenue Bonds, Series 2004	$ -	$ 2,790,000
Hospital Revenue Bonds, Series 2005	26,290,000	28,465,000
Hospital Revenue Bonds, Series 2006	37,000,000	37,000,000
Term loan	3,934,615	5,684,615
Other	522,674	-
Bond premium - Less accumulated amortization	136,933	230,508
Total	67,884,222	74,170,123
Less current portion	6,336,097	6,808,575
Long-term portion	$ 61,548,125	$ 67,361,548

Note 7 - Long-term Debt (Continued)

The Michigan State Hospital Finance Authority (MSHFA) and City of Marquette Hospital Finance Authority (CMHFA) have at various times issued Hospital Revenue Bonds on behalf of the Marquette General Hospital Obligated Group (the "Obligated Group") and loaned the proceeds to the Obligated Group (which is comprised of the System) under the terms of the Master Indenture and Security Agreement. The Obligated Group has pledged to Wells Fargo Bank, N.A. (as master trustee) the gross revenue of the System. The loans are also secured by a first priority mortgage on the real property and the structures and improvements of the main campus of the Obligated Group and a security interest in personal property, accounts receivable, and other intangible property.

The 2004A Bonds were issued by CMHFA on behalf of the Obligated Group. The 2004 Bonds were variable rate demand bonds, whereby interest was determined weekly by a remarketing agent (0.35 percent at June 30, 2009), and were repaid with a final payment of $2,790,000 in July 2009. The 2004 bonds were secured by a letter of credit which expired on July 16, 2009 and contained an option to convert to a fixed interest rate. Proceeds were used to refund amounts previously outstanding and for various capital purchases. The letter of credit was also available for the purchase of bonds tendered but not remarketed. There were no borrowings on the letter of credit during 2009.

The Series 2005A Bonds were issued by MSHFA on behalf of the Obligated Group in the amount of $28,465,000 (unamortized premium of $136,933 and $230,508 at June 30, 2010 and 2009, respectively). The proceeds were used to finance construction projects and certain capital equipment. The Series 2005A Serial Bonds, totaling $12,015,000, mature through May 15, 2014, are not subject to optional redemption, bear interest at 5.0 percent, and are due in annual amounts ranging from $2,285,000 in 2011 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 beginning on May 15, 2015. 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 percent and are to be repaid in annual amounts ranging from $760,000 in 2020 to $1,510,000 in 2034.

The Series 2006 Bonds were issued by MSHFA on behalf of the Obligated Group in the amount of $37,000,000. The proceeds were used to repay certain amounts outstanding on the term loan and for various property acquisitions. The bonds are to be repaid in annual amounts ranging from $4,000,000 in June 2015 to $5,325,000 in June 2022. Effective April 16, 2008, the System converted from interest rates determined by an auction process to a weekly rate (0.31 percent and 0.3 percent at June 30, 2010 and 2009, respectively). As a result of this conversion, a mandatory tender feature was invoked.

Note 7 - Long-term Debt (Continued)

Payment of the Series 2006 Bonds principal and interest is guaranteed under a financial guaranty insurance policy. Also, a Standby Bond Purchase Agreement is available for the purchase of bonds tendered but not remarketed. Accordingly, the bonds have been classified as long-term as the Obligated Group has engaged a remarketing agent to remarket these obligations, if presented. The Standby Bond Purchase Agreement was set to expire on April 16, 2011. In December 2010, the expiration date of the Standby Bond Purchase Agreement was extended to July 1, 2013. There were no borrowings during 2010 and 2009 on the agreement.

The Term Loan outstanding is payable in annual amounts of $1,900,000 in December 2010 and $2,034,615 in December 2011. The term loan bears interest at a variable rate. The Obligated Group elected to prepay the full amount of $3,934,615 in December 2010.

The MSHFA Series 2006 and 2005A Bonds, the CMHFA Series 2004A Bonds, and the Term Loan have all been issued under a Master Indenture and Security Agreement, which contain certain restrictive covenants. Documents relating to each debt instrument contain certain restrictive covenants. The Bond Insurer, with respect to the Series 2006 Bonds, the Bond Trustee, at the direction of a majority of the Beneficial Owners of the Series 2005A Bonds, the issuer of the Standby Bond Purchase Agreement (SBPA) associated with the Series 2006 Bonds, and the Lenders with respect to the Term Loan waived the Obligated Group's failure to comply with certain covenants applicable to the year ended June 30, 2008 (the Bond Insurer, the Beneficial Owners of the Series 2005A Bonds, the issuer of the SBPA, and the Lenders are hereinafter referred to as the Financial Stakeholders). In connection with these covenant compliance waivers, the Financial Stakeholders modified certain existing covenants and introduced new covenants.

Note 7 - Long-term Debt (Continued)

The Obligated Group entered into waiver and reservation of rights agreements with the Bond Trustee, on behalf of the Beneficial Owners of the Series 2005A Bonds, and with the Bond Insurer in which each such Financial Stakeholder agreed to forbear its right to exercise any rights or remedies related to the failure to meet the debt service coverage ratio and days cash on hand covenants, and, with respect to the Bond Insurer only, failure to obtain its prior approval to retain a consultant. The forbearance provisions of these agreements require the Obligated Group to maintain a debt service coverage ratio in excess of 1.35, measured at the close of each fiscal year, days cash on hand of at least 55 days at June 30, 2009 and December 31, 2009; days cash on hand of at least 65 days at June 30, 2010 and December 31, 2010; days cash on hand of at least 75 days at June 30, 2011 and each June 30 thereafter; operating margin targets which are within 25 percent of amounts approved by the board of trustees (the Adjusted Operating Margin); and monthly reports during fiscal year 2009 prepared by a consultant which describe the Obligated Group's progress in meeting a prior consultant's operational improvement recommendations. If the Obligated Group were unable to meet the provisions of the waiver and reservation of rights agreement, or if the debt service coverage ratio falls below 1.0, or if days cash on hand fall below 50, the Bond Insurer or the Bond Trustee, at the direction of a majority of Beneficial Owners of the Series 2005A Bonds, may declare an immediate event of default under the Master Indenture.

The Obligated Group failed to comply with the Adjusted Operating Margin covenant for the year ended June 30, 2010. The Bond Insurer, with respect to the Series 2006 Bonds and the Bond Trustee, at the direction of a majority of the Beneficial Owners of the Series 2005A Bonds, waived this Adjusted Operating Margin covenant for the fiscal year ended June 30, 2010. The Bond Insurer and the Bond Trustee each agreed to forebear its right to exercise any rights or remedies related to this Adjusted Operating Margin covenant. In consideration for this covenant compliance waiver, the Bond Insurer required the following modifications to the Adjusted Operating Margin covenant and certain new covenants:

- Adjusted Operating Margin greater than 1.00 percent (without the former 25 percent reduction factor) for fiscal years ending June 30, 2011 and 2012. In the event that the Series 2006 Bonds are converted to a fixed interest rate prior to June 30, 2012, then the Operating Margin covenant shall not apply after June 30, 2011. If the Obligated Group achieves its Operating Margin Target for the fiscal years ending June 30, 2011 and June 30, 2012 (if applicable), and meets all other financial covenants for the fiscal years ending June 30, 2011 and 2012, then no Operating Margin Covenant shall apply after June 30, 2012;
- The Obligated Group cannot incur “puttable” indebtedness that would cause such “puttable” indebtedness to exceed 25 percent of total indebtedness;

Note 7 - Long-term Debt (Continued)

- Conversion of the Series 2006 Bonds to a fixed interest rate no later than December 31, 2012; and
- Upon conversion of the Series 2006 Bonds, unless otherwise agreed to by the Bond Insurer, the swap related to the bonds will be terminated.

During 2006, the System entered into a fixed payor interest rate swap agreement. The interest rate swap agreement is based on a notional amount of $37,000,000 and allows the System to offset the changes in overall cash flows due to the repricing of debt obligations from the date of transaction through the fiscal 2022 termination date. The interest rate swap agreement has not been designated as a cash flow hedge for accounting purposes as defined by standards.

The fair value of long-term debt is based on current rates at which the System could borrow funds with similar remaining maturities. The fair market value of long-term debt was estimated to be $65,760,000 and $68,916,000 at June 30, 2010 and 2009, respectively.

Scheduled maturities of long-term debt for the next five years and thereafter are as follows:

Years Ending June 30		Amount
2011		$ 6,336,097
2012		2,492,374
2013		2,585,271
2014		2,699,168
2015		4,056,940
Thereafter		49,714,372
	Total	$ 67,884,222

Note 8 - Operating Leases

The System is obligated under certain operating leases, primarily for facilities and equipment. Total rent expense under these leases was approximately $3,559,000 and $2,991,000 in 2010 and 2009, respectively.

The following is a schedule of future minimum lease payments under operating leases that have initial or remaining lease terms in excess of one year:

Years Ending June 30	Amount
2011	$ 4,185,706
2012	3,558,515
2013	2,375,844
2014	1,037,376
2015	145,838
Thereafter	-
Total	$ 11,303,279

Note 9 - 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 retention of $2,000,000 per occurrence and $6,000,000 annual aggregate for its general liability claims. The System's malpractice insurance coverage currently expires on March 29, 2011. 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.

Note 9 - Professional Liability, Workers' Compensation, and General Liability Reserves (Continued)

The System, with 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 4 percent per annum. Trusts have been established to which contributions are made based upon these estimates. The revocable 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, 2010 and 2009 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.

Note 10 - Pension Plans

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 approprate from time to time.

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 percent of compensation. Expenses charged to operations under these plans were $647,177 and $438,233 for the years ended June 30, 2010 and 2009, respectively.

Note 10 - Pension Plans (Continued)

Obligations and Funded Status

	Pension Benefits 2010	Pension Benefits 2009
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 190,803,814	$ 175,003,803
Service cost	6,463,057	8,049,623
Interest cost	12,840,448	11,947,369
Actuarial loss	17,348,434	2,142,052
Benefits paid	(6,546,124)	(6,339,033)
Benefit obligation at end of year	220,909,629	190,803,814
Change in plan assets:		
Fair value of plan assets at beginning of year	140,126,670	152,150,298
Actual return on plan assets	16,752,827	(18,203,019)
Employer contributions	3,661,141	12,518,424
Benefits paid	(6,546,124)	(6,339,033)
Fair value of plan assets at end of year	153,994,514	140,126,670
Funded status at end of year	$ (66,915,115)	$ (50,677,144)

Amounts recognized in the consolidated balance sheet consist of noncurrent liabilities of $66,915,115 and $50,677,144 at June 30, 2010 and 2009, respectively.

Amounts recognized in accumulated other comprehensive income consist of the following:

	Pension Benefits 2010	Pension Benefits 2009
Net loss	$ 89,946,491	$ 77,590,157
Prior service credit	(18,610,223)	(20,732,255)
Total recognized in other comprehensive income	$ 71,336,268	$ 56,857,902

The accumulated benefit obligation for all defined benefit pension plans was $213,811,927 and $179,543,159 at June 30, 2010 and 2009, respectively.

Note 10 - Pension Plans (Continued)

Information for pension plans with an accumulated benefit obligation in excess of plan assets is as follows:

	2010	2009
Projected benefit obligation	$ 220,909,629	$ 190,803,814
Accumulated benefit obligation	213,811,927	179,543,159
Fair value of plan assets	153,994,514	140,126,670

Components of net periodic benefit cost and other amounts recognized in other comprehensive income are as follows:

	Pension Benefits	
	2010	2009
Net periodic benefit cost:		
Service cost	$ 6,463,057	$ 8,049,623
Interest cost	12,840,448	11,947,369
Expected return on plan assets	(13,920,300)	(13,712,517)
Amortization of prior service credit	(2,122,032)	(2,121,851)
Amortization of net loss	2,159,573	1,210,462
Total net periodic benefit cost	5,420,746	5,373,086
Other changes in plan assets and benefit obligations recognized in other comprehensive income:		
Net loss	14,515,907	34,057,588
Amortization of prior service credit	2,122,032	2,121,851
Amortization of net loss	(2,159,573)	(1,210,462)
Total recognized in other comprehensive income	14,478,366	34,968,977
Total recognized in net periodic benefit cost and other comprehensive income	$ 19,899,112	$ 40,342,063

The estimated net loss and prior service credit for the defined benefit pension plans that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year are $4,253,145 and $2,122,032, respectively.

Note 10 - Pension Plans (Continued)

Assumptions

Weighted average assumptions used to determine benefit obligations at June 30:

	Pension Benefits	
	2010	2009
Discount rate	6.00 %	6.85 %
Rate of compensation increase	4.00	4.00

Weighted average assumptions used to determine net periodic benefit cost for years ended June 30:

	Pension Benefits	
	2010	2009
Discount rate	6.85 %	6.95 %
Expected long-term return on plan assets	8.00	8.00
Rate of compensation increase	4.00	4.00

The overall expected rate of return on plan assets is based on the expected return of the plan asset categories, weighted based on the median of the target allocation for each class.

Pension Plan Assets

The goals of the pension plan investment program are to meet and fund the liabilities of the defined benefit retirement plan and provide long-term growth of principal without undue exposure to risk, through capital appreciation, income, and system contributions. The focus will be on consistent long-term capital appreciation with income generation as a secondary consideration.

Equity securities primarily include investments in large-cap and mid-cap companies primarily located in the United States. Fixed-income securities include corporate bonds of companies from diversified industries, mortgage-backed securities, and U.S. Treasuries. Other types of investments include investments in hedge funds and private equity funds that follow several different strategies.

The target allocation range of percentages for plan assets is 45 percent to 65 percent equity securities and 35 percent to 55 percent fixed-income securities.

Note 10 - Pension Plans (Continued)

The fair values of the System's pension plan assets at June 30, 2010 by major asset classes are as follows:

Fair Value Measurements at June 30, 2010

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	$ 6,762,381	$ 6,762,381	$ -	$ -
Equity securities - ADRs	9,381,059	9,381,059	-	-
Mutual equity funds (a)	61,483,203	61,483,203	-	-
U.S. Treasury securities	26,917,042	-	26,917,042	-
Municipal debt securities	1,727,479	-	1,727,479	-
Asset-backed securities	9,461,390	-	9,461,390	-
Corporate bonds - Financial institutions	13,899,996	-	13,899,996	-
Corporate bonds - Industrial	16,731,450	-	16,731,450	-
Corporate bonds - Global	4,173,351	-	4,173,351	-
Corporate bonds - Other	3,457,163	-	3,457,163	-
Total	$ 153,994,514	$ 77,626,643	$ 76,367,871	$ -

(a) 94 percent of mutual funds invest in common stock of large and mid cap companies.

The above table presents information about the pension assets measured at fair value at June 30, 2010, and the valuation techniques used by the System to determine those fair values.

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

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets in active markets, and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The System's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each plan asset.

Note 10 - Pension Plans (Continued)

Cash Flow

Contributions

The System expects to contribute approximately $9,156,000 to its pension plan in 2010.

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid as follows:

Years Ending June 30	Pension Benefits
2011	$ 7,452,091
2012	8,102,334
2013	8,808,294
2014	9,640,506
2015	10,635,331
2016-2020	71,804,564

Pension Plan - Subsequent Event

Effective November 1, 2010, employees not under the collective bargaining agreement (non-contractual employees) will no longer accrue benefits under the defined benefit pension plan. Non-contractual employees will be eligible to participate in the 401(k) defined contribution plan where the System will match contributions of up to 4 percent of compensation.

Effective November 1, 2010, employees under the collective bargaining agreement (bargaining employees) will have the option to continue accruing benefits under the defined benefit pension plan or to stop accruing benefits. In order to continue to accrue benefits, bargaining employees will be required to annually pay a contribution equal to 6 percent of compensation into the plan. Those not choosing this option will no longer accrue benefits under the pension plan but will be eligible to participate in the 401(k) defined contribution plan where the System will match contributions of up to 4 percent of compensation.

Note 11 - Functional Expenses

The System fulfills the health requirements of residents within the communities it serves by providing, as its principal function, a complete array of health services. Expenses relating to providing these services for the years ended June 30, 2010 and 2009 are as follows:

	2010	2009
Healthcare services	$ 304,525,179	$ 300,106,656
General and administrative	11,766,126	8,547,653
Fundraising	751,536	702,003
Total	$ 317,042,841	$ 309,356,312

Note 12 - Union Contract

Approximately 17 percent of the System's employees are subject to a collective bargaining agreement. The collective bargaining agreement expired on May 31, 2010. A new three-year agreement was ratified and will expire on May 31, 2013.

Note 13 - Investment in Affiliates

At June 30, 2010 and 2009, the System has contributed 57 percent of the capital for Upper Peninsula Health Plan, Inc. (UPHP) and Upper Peninsula Managed Care, LLC (UPMC). For both entities, an affirmative vote of members holding a greater than 50 percent of the equity interests is required for routine operational matters submitted to a vote, and greater than 70 percent for other significant matters. Based on the requirement for 70 percent approval on significant transactions, the System does not have control of these entities and records them using the equity method. UPHP is a Medicaid-only HMO in Michigan's Upper Peninsula. The net carrying value of the UPHP interest at June 30, 2010 and 2009 was approximately $16,032,000 and $12,163,000, respectively. UPMC serves as the management company for UPHP. The net carrying value of UPMC's interest at June 30, 2010 and 2009 was approximately $488,000 and $1,116,000, respectively. UPMC paid dividends to the System of $1,944,724 and $1,021,117 as of June 30, 2010 and 2009, respectively.

The System provides healthcare services to enrollees of UPHP. Net patient service revenue for services rendered to plan participants totaled $7,193,984 and $7,584,236 for the years ended June 30, 2010 and 2009, respectively.

Note 13 - Investment in Affiliates (Continued)

Effective May 1, 2010, a new partnership was formed between the System and a physician group. This new partnership is called U.P. Imaging Management Services (UPIMS), and provides the technical component of outpatient non-invasive diagnostic cardiovascular imaging services. This partnership consists of two partners, with the System having 60 percent equity interest, and 50 percent voting interest. The System does not have control of UPIMS and therefore records the transactions of this partnership using the equity method. The net carrying value of the UPIMS interest at June 30, 2010 was approximately $280,000.

The System has additional investments in affiliates that are not material to the financial statements.

The following is a summary of financial position and results of operations of UPHP and UPMC for the years ended June 30, 2010 and 2009:

	2010	2009
UPHP		
Total assets	$ 44,501,052	$ 33,851,466
Total liabilities	16,010,666	12,512,136
Stockholders' equity	$ 28,490,386	$ 21,339,330
Net income	$ 7,151,056	$ 3,186,013

	2010	2009
UPMC		
Total assets	$ 1,506,931	$ 2,506,312
Total liabilities	640,299	548,371
Stockholders' equity	$ 866,632	$ 1,957,941
Net income	$ 2,411,997	$ 1,819,277

Note 14 - Community Benefit

In support of its mission, the System provides various health-related services, at a loss, to the indigent and other residents in its service area. The following is a summary of the System's community benefit expense for the years ended June 30, 2010 and 2009:

	2010	2009
Community partnership programs (unaudited)	$ 10,577,677	$ 12,019,146
Donations/Contributions (unaudited)	80,784	120,945
Traditional charity care	2,335,378	1,005,943
Unpaid costs for government program patients (unaudited)	14,345,704	8,698,482
Other community benefit activities (unaudited)	3,457,941	6,005,716
Total	$ 30,797,484	$ 27,850,232

Community Partnership Programs - Community partnership programs include programs provided to persons with inadequate healthcare resources or for other groups within the community that need special services and support. Examples include programs related to the poor, elderly, substance abuse, child abuse, and others with specific particular healthcare needs. They also include broader populations who benefit from health community initiatives such as health promotion, education, and health screening.

Donations/Contributions - Donations/contributions include cash and in-kind donations that are made on behalf of the poor and needy to community agencies and to special funds for charitable activities, as well as resources contributed directly to programs, organizations, and foundations for efforts on behalf of the poor and disadvantaged.

Traditional Charity Care - Traditional charity care covers services provided to persons who cannot afford to pay. The amount reflects the cost of free or discounted health services, net of contributions and other revenue received, as direct assistance for the provision of charity care. Charity care is determined based on established policies, using patient income and assets to determine payment ability.

Unpaid Costs for Government Program Patients - The System is a licensed Medicaid provider with approximately 10 percent of its patient base qualifying for this program. At present, the reimbursement rates for this program do not fully cover the cost of provider care to these patients. This represents the estimated "shortfall" created when a facility receives payments below the costs of treating Medicaid beneficiaries.

Note 15 - Discontinued Operations

During the year ended June 30, 2008, the System's management undertook action to sell Brookridge Long-term Care Facility (Brookridge) in Marquette, Michigan. Accordingly, Brookridge was considered an asset held for sale as of June 30, 2008 in accordance with standards. The System recognized an impairment charge of $450,000 during the year ended June 30, 2008 to reduce the carrying value of the Brookridge facility to its net realizable value. The net realizable value was determined by management based on the expected sales proceeds for the facility. The transaction has been accounted for as a discontinued operation in the accompanying consolidated financial statements. Final sale of Brookridge to an outside party occurred on February 12, 2009.

Revenue and net loss for Brookridge included in the results of discontinued operations for the year ended June 30, 2009 were $702,000 and $150,000, respectively.

In addition, management undertook action to terminate the operations and dispose of the net assets of Upcare Technology, Inc. (formerly Klinitek, Inc.) effective June 30, 2008. This action qualified as a discontinued operation. The System recognized an impairment charge of $4,154,398 during the year ended June 30, 2008 to reflect the abandonment of construction in progress assets of Upcare Technology, Inc. The transaction has been accounted for as a discontinued operation in the accompanying consolidated financial statements. Upcare Technology, Inc. has terminated all contracts as of June 30, 2009, and complete dissolution occurred during fiscal year 2010.

Revenue and net loss for Upcare Technology, Inc. included in the results of discontinued operations for the year ended June 30, 2009 were $124,000 and $223,000, respectively.

In addition, management undertook action to terminate the operations and dispose of the net assets of the FastCare Clinics in Marquette and Escanaba effective December 2009 and April 2010, respectively. The transaction has been accounted for as a discontinued operation in the accompanying consolidated financial statements.

Revenue and net loss for the FastCare Clinics included in the results of discontinued operations for the year ended June 30, 2010 was $240,396 and $462,147, respectively. Assets transferred to other departments primarily consisted of property, plant, and equipment with a net book value of $7,384 for the year ended June 30, 2010.

Note 16 - Subsequent Event

The System became a member of Superior Health Partners with the June 29, 2010 execution of a Joint Operating Agreement effective July 1, 2010.

Superior Health Partners is a Michigan nonprofit corporation and has submitted its application to the Internal Revenue Service for a determination that the organization is described in Internal Revenue Code Section 501(c)(3). The System amended and restated its articles of incorporation and bylaws to provide the board of directors of Superior Health Partners with governance authority over certain aspects of the System. Existing debt instruments, obligations, and covenants of the members are not affected by their relationship with Superior Health Partners, and all financial relationships established with Superior Health Partners are construed to comply with those debt instruments, obligations, and covenants. There is no financial impact of the Joint Operating Agreement on the System as of June 30, 2010.