

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:

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) 61 Paper (number of pages attached) _____

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

Municipal Secondary Market Disclosure Information Cover Sheet

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

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

IF THIS FILING RELATES TO A SINGLE BOND ISSUE:

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

\$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.)

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Electronic (number of pages attached) 61 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 2010 – June 2011 (FY2011)

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

Fiscal Period Covered: July 2010 – June 2011 (FY2011)

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

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

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

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

Period Covered: _____

F. Other Secondary Market Information (Specify): _____

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

Issuer Contact:

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

Dissemination Agent Contact, if any:

Name Shelley J. Aronson Title President
Employer First River Advisory L.L.C.
Address 2640 Override Drive City Ann Arbor State MI Zip Code 48104
Telephone (734) 761-3624 Fax (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 Jerry.Worden@MGHS.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: OCTOBER 31, 2011

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 these 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 or the related financing documents with respect to FY2011;
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 FY2011, as demonstrated by the following calculation:

<i>Debt Service Coverage Ratio Calculation</i>		
<i>Based on Maximum Annual Debt Service Requirements in FY2011</i>		
<i>(bracketed references to the definition of Net Income Available for Debt Service)</i>		
Excess (Deficit) of Revenue over Expenses		10,798,397
Depreciation Expense		11,017,283
Interest Expense		3,486,480
Net Unrealized Investment Gains [(i)(A)]		(1,557,137)
Gain on Interest Rate Swap valuation [(i)(B)]		(588,450)
Loss on Disposal of Capital Assets [(i)(C)]		396,598
Plus: Loss on Extinguishment of Debt [(i)(E)]		0
Net Income Available for Debt Service	NIADS	23,553,171
Maximum Annual Debt Service Requirements	MADS	9,088,449
Debt Service Coverage Ratio	NIADS / MADS	2.59
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, 2011 DCOH Measuring Date, as demonstrated by the following calculation:

<i>Days Cash on Hand Calculation</i>		
<i>at June 30, 2011</i>		
Cash and Cash Equivalents		28,458,445
Board-Designated Assets for Capital Improvements		45,244,044
Less: Outstanding Principal Balance of Short-Term Indebtedness		0
Liquid Assets	LA	73,702,489
Operating Expenses		307,890,662
Less: Depreciation and Amortization		(11,017,283)
Daily Operating Expenses ¹	DOE	813,352
Days' Cash on Hand	LA / DOE	90.6
Requirement		75.0
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 FY2011, as demonstrated by the following calculation:

<i>Average Age of Trade Accounts Payable, FY2011</i>		
Trade Accounts Payable at FYE	AP	\$17,859,810
Average Daily Trade Accounts Payable	ADAP	\$410,241
Average Age of Trade Accounts Payable (days)	AP / ADAP	43.5
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, 2011, as demonstrated by the following calculation:

<i>Debt-to-Capitalization Calculation at June 30, 2011 Per Section 901(f) of Supplemental Indenture Number 5</i>		
Current Portion of Long-Term Debt		2,492,374
Long-Term Debt		59,055,751
Total Indebtedness	D	61,548,125
Unrestricted Net Assets	NA	78,348,751
Debt-to-Capitalization Ratio	D / (D + NA)	44.0%
Requirement (limit)		65.0%

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



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: OCTOBER 31, 2011

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, 2011, 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:

<i>Debt-to-Capitalization Calculation at June 30, 2011 Per Section 901(f) of Supplemental Indenture Number 5</i>		
Current Portion of Long-Term Debt		2,492,374
Long-Term Debt		59,055,751
Total Indebtedness	D	61,548,125
Unrestricted Net Assets	NA	78,348,751
Debt-to-Capitalization Ratio	$D / (D + NA)$	44.0%
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: OCTOBER 31, 2011

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 achieved the required Operating Margin Target for the Fiscal Year ended June 30, 2011 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:

<i>Operating Margin Targets for FY2011</i>			
	<i>As Reported</i>	<i>UPHP Adjustments</i>	<i>Net of UPHP Adjustments</i>
Total Operating Revenue	317,120,421	(2,461,772)	314,658,649
Total Operating Expenses	307,890,662	0	307,890,662
Operating Income	9,229,759	(2,461,772)	6,767,987
Target Operating Margin			2.15%
Requirement			1.00%

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, 2011 (FY2011)

Unless otherwise noted, all data apply to the Fiscal Year ended June 30, 2011, or are accurate as of June 30, 2011, 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.

<i>Historical Adult Medical/Surgical and Pediatrics Utilization (excludes newborns) [OS-2005 Page A-51] [OS-2006 Page A-52] [RC-2008 Page A-39]</i>					
	<i>Fiscal Years Ended June 30</i>				
	<i>2011</i>	<i>2010</i>	<i>2009</i>	<i>2008</i>	<i>2007</i>
Days in Period	365	365	365	366	365
Licensed Beds ^{1,2}	234	234	234	259	259
Available Beds ^{1,3}	178	178	186	197	197
Admissions	7,574	7,970	8,752	9,086	9,158
Change over Previous Period	(5.0)%	(8.9)%	(3.7)%	(0.8)%	(2.8)%
Patient Days	31,149	32,472	34,676	37,367	37,741
Average Daily Census	85.3	89.0	95.0	102.1	103.4
Average Length of Stay	4.1	4.1	4.0	4.1	4.1
Occupancy Rate ⁴	47.9%	50.0%	51.1%	51.8%	52.5%
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 ³ Available Beds were decreased from 192 to 178 in February 2009 ⁴ Based on Available Beds					

MUNICIPAL SECONDARY MARKET DISCLOSURE
Michigan State Hospital Finance Authority / Marquette General Hospital
Fiscal Year Ended June 30, 2011

<i>Historical Obstetrics Utilization</i>					
<i>[OS-2005 Page A-52] [OS-2006 Page A-53] [RC-2008 Page A-40]</i>					
	<i>Fiscal Years Ended June 30</i>				
	<i>2011</i>	<i>2010</i>	<i>2009</i>	<i>2008</i>	<i>2007</i>
Days in Period	365	365	365	366	365
Licensed Beds	0	0	0	0	0
Available Beds	12	12	12	12	12
Admissions	732	789	821	914	874
Change over Previous Period	(7.2)%	(3.9)%	(10.2)%	4.6%	2.7%
Patient Days	2,191	2,135	2,149	2,011	2,173
Births	672	727	773	806	722
Average Daily Census	6.0	5.8	5.9	5.5	6.0
Average Length of Stay	3.0	2.7	2.6	2.2	2.5
Occupancy Rate ¹	50.0%	48.7%	49.1%	45.8%	49.6%
¹ Based on Available Beds					

MUNICIPAL SECONDARY MARKET DISCLOSURE
Michigan State Hospital Finance Authority / Marquette General Hospital
Fiscal Year Ended June 30, 2011

<i>Historical Neonatal Intensive Care Utilization</i>					
<i>[OS-2005 Page A-53] [OS-2006 Page A-54] [RC-2008 Page A-41]</i>					
	<i>Fiscal Years Ended June 30</i>				
	<i>2011</i>	<i>2010</i>	<i>2009</i>	<i>2008</i>	<i>2007</i>
Days in Period	365	365	365	366	365
Licensed Beds	10	10	10	10	10
Available Beds	10	10	10	10	10
Admissions	225	203	175	163	204
Change over Previous Period	10.8%	16.0%	7.4%	(20.1)%	12.1%
Patient Days	4,087	3,755	3,272	2,949	3,735
Average Daily Census	11.2	10.3	9.0	8.1	10.2
Average Length of Stay	18.2	18.5	18.7	18.1	18.3
Occupancy Rate ¹	112.0%	102.9%	89.6%	80.6%	102.3%
¹ Based on Available Beds					

MUNICIPAL SECONDARY MARKET DISCLOSURE
Michigan State Hospital Finance Authority / Marquette General Hospital
Fiscal Year Ended June 30, 2011

<i>Historical Rehabilitation (CIRU) Utilization</i>					
<i>[OS-2005 Page A-54] [OS-2006 Page A-55] [RC-2008 Page A-42]</i>					
	<i>Fiscal Years Ended June 30</i>				
	<i>2011</i>	<i>2010</i>	<i>2009</i>	<i>2008</i>	<i>2007</i>
Days in Period	365	365	365	366	365
Licensed Beds	20	20	20	20	20
Available Beds	20	20	20	20	20
Admissions	450	430	389	230	257
Change over Previous Period	4.7%	10.5%	69.1%	(10.5)%	(6.2)%
Patient Days	5,076	5,040	4,509	2,312	2,532
Average Daily Census	13.9	13.8	12.4	6.3	6.9
Average Length of Stay	11.3	11.7	11.6	10.1	9.9
Occupancy Rate ¹	69.5%	69.0%	61.8%	31.6%	34.7%
¹ 20 Rehabilitation beds now have distinct licensure; prior FYs' figures adjusted accordingly					
² Based on Available Beds					

MUNICIPAL SECONDARY MARKET DISCLOSURE
Michigan State Hospital Finance Authority / Marquette General Hospital
Fiscal Year Ended June 30, 2011

<i>Historical Total Acute Care Utilization</i>					
<i>(Adult Medical/Surgical, Pediatrics, Obstetrics, NICU and Rehabilitation; excludes newborns)</i>					
<i>[OS-2005 Page A-55] [OS-2006 Page A-56] [RC-2008 Page A-43]</i>					
	<i>Fiscal Years Ended June 30</i>				
	<i>2011</i>	<i>2010</i>	<i>2009</i>	<i>2008</i>	<i>2007</i>
Days in Period	365	365	365	366	365
Licensed Beds ¹	264	264	264	289	289
Available Beds ¹	220	220	228	239	239
Admissions	8,981	9,392	10,137	10,393	10,493
Change over Previous Period	(4.4)%	(7.3)%	(2.5)%	(1.0)%	(0.4)%
Patient Days	42,503	43,402	44,606	44,639	46,181
Average Daily Census	116.4	118.9	122.2	122.0	126.5
Average Length of Stay	4.7	4.6	4.4	4.3	4.4
Occupancy Rate ²	52.9%	54.1%	53.6%	51.0%	52.9%
¹ Corrects information previously reported by the Corporation ² Based on Available Beds					

MUNICIPAL SECONDARY MARKET DISCLOSURE
Michigan State Hospital Finance Authority / Marquette General Hospital
Fiscal Year Ended June 30, 2011

<i>Historical Behavioral Health Services Inpatient Utilization</i>					
<i>[OS-2005 Page A-56] [OS-2006 Page A-57] [RC-2008 Page A-44]</i>					
	<i>Fiscal Years Ended June 30</i>				
	<i>2011</i>	<i>2010</i>	<i>2009</i>	<i>2008</i>	<i>2007</i>
Days in Period	365	365	365	366	365
Licensed Beds ¹	51	51	51	51	51
Available Beds ¹	56	56	56	51	51
Admissions	1,554	1,506	1,453	1,667	1,583
Change over Previous Period	3.2%	3.6%	(12.8)%	5.3%	(19.4)%
Patient Days	13,008	12,397	12,529	11,963	10,339
Average Daily Census	35.6	34.0	34.3	32.7	28.3
Average Length of Stay	8.4	8.2	8.6	7.2	6.5
Occupancy Rate ² (%)	63.6%	60.7%	61.3%	64.1%	55.5%
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					

MUNICIPAL SECONDARY MARKET DISCLOSURE
Michigan State Hospital Finance Authority / Marquette General Hospital
Fiscal Year Ended June 30, 2011

<i>Historical Total Inpatient Utilization</i> <i>(Acute Care plus BHS; excludes newborns</i> <i>[OS-2005 Page A-57] [OS-2006 Page A-58] [RC-2008 Page A-45]</i>					
	<i>Fiscal Years Ended June 30</i>				
	<i>2011</i>	<i>2010</i>	<i>2009</i>	<i>2008</i>	<i>2007</i>
Days in Period	365	365	365	366	365
Licensed Beds	315	315	315	340	340
Available Beds ¹	276	276	284	290	290
Admissions	10,535	10,898	11,590	12,060	12,076
Change over Previous Period	(3.3)%	(6.0)%	(3.9)%	(0.1)%	1.4%
Patient Days	55,511	55,799	57,135	56,602	56,520
Avg. Daily Census	152.1	152.9	156.5	154.7	154.8
Avg. Length of Stay	5.3	5.1	4.9	4.7	4.7
Occupancy Rate ²	55.1%	55.4%	55.1%	53.3%	53.4%
¹ Corrects information previously reported by the Corporation ² Based on Available Beds					

MUNICIPAL SECONDARY MARKET DISCLOSURE
Michigan State Hospital Finance Authority / Marquette General Hospital
Fiscal Year Ended June 30, 2011

<i>Certain Outpatient Volume Indicators</i>					
<i>[OS-2005 Page A-58] [OS-2006 Page A-59] [RC-2008 Page A-46]</i>					
	<i>Fiscal Years Ended June 30</i>				
	<i>2011</i>	<i>2010</i>	<i>2009</i>	<i>2008</i>	<i>2007</i>
ED Visits	26,105	24,973	25,258	28,542	28,632
Change over Previous Period	4.5%	(1.1)%	(11.5)%	(0.3)%	6.9%
Ambulance Runs	N/A	N/A	2,437	2,659	2,488
Change over Previous Period	N/A	N/A	(8.3)%	6.9%	(3.2)%

<i>Surgical and Other Procedures</i>					
<i>[OS-2005 Page A-58] [OS-2006 Page A-59] [RC-2008 Page A-46]</i>					
	<i>Fiscal Years Ended June 30</i>				
	<i>2011</i>	<i>2010</i>	<i>2009</i>	<i>2008</i>	<i>2007</i>
Inpatient Surgeries	4,190	4,540	4,996	5,024	4,051
Outpatient Surgeries at the Hospital Facility	4,916	4,829	4,102	4,697	
Outpatient Surgeries at the PMC	1,702	1,947	2,063	1,297	
Total Outpatient Surgeries	6,618	6,776	6,165	5,994	4,778
Total Surgeries	10,808	11,316	11,161	11,018	8,829
Change over Previous Period ¹	(4.5)%	1.4%	1.3%	24.8%	(7.4)%
Percent Outpatient	61.2%	59.9%	55.2%	54.4%	54.1%

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

MUNICIPAL SECONDARY MARKET DISCLOSURE
Michigan State Hospital Finance Authority / Marquette General Hospital
Fiscal Year Ended June 30, 2011

<i>Ancillary Services</i>				
<i>(Volumes of Services Denoted by Italics are Delivered Exclusively to Outpatients)</i>				
<i>[OS-2005 Page A-59] [OS-2006 Page A-60] [RC-2008 Page A-47]</i>				
<i>Table reflecting new record-keeping as of FY2010 follows</i>				
		<i>Fiscal Years Ended June 30</i>		
		<i>2009</i>	<i>2008</i>	<i>2007</i>
Laboratory	Main Laboratory ¹	1,050,337	1,057,410	976,694
	<i>PMC Laboratory¹</i>	Service substantially discontinued; most laboratory procedures now performed in the Main Laboratory, which figures include PMC Laboratory volumes		13,025
	<i>Blood Bank²</i>	Included in Main Laboratory figures		13,057
Imaging	Radiology ^{1,3}	36,991	37,985	36,530
	Ultrasound ^{1,3}	15,549	18,312	17,806
	CT Scanning ^{1,3}	18,017	18,640	17,158
	Nuclear Medicine ^{1,3}	8,177	9,522	9,982
	MRI ^{1,3}	7,907	8,677	8,105
	Special Procedures (Interventional Radiology) ^{1,3}	8,872	8,552	9,913
	<i>PMC Imaging Center^{1,3}</i>	9,785	10,437	10,259
Rehabilitation Services	Physical Therapy ⁴	17,159	18,198	17,609
	Occupational Therapy ⁴	17,880	16,987	17,032
	Return to Work Therapy ⁴	2,008	4,257	3,258
	Communications Rehab ⁴	4,885	3,373	2,919
	<i>Audiology¹</i>	881	1,347	1,258
	<i>Escanaba Rehabilitation⁴</i>	4,824	5,702	5,508
	<i>Sawyer Rehabilitation⁴</i>	2,317	1,691	1,763
Cardiac Services	Cardiac Imaging ⁵	2,614	2,622	2,932
	Cardiac Rehabilitation ^{1,3}	12,905	20,123	23,312
	Cardiographic Services ^{1,3}	17,732	17,010	16,616
	<i>Outpatient Cardiac^{6,7}</i>	N/A	N/A	N/A

MUNICIPAL SECONDARY MARKET DISCLOSURE
Michigan State Hospital Finance Authority / Marquette General Hospital
Fiscal Year Ended June 30, 2011

<i>Ancillary Services</i>				
<i>(Volumes of Services Denoted by Italics are Delivered Exclusively to Outpatients)</i>				
<i>[OS-2005 Page A-59] [OS-2006 Page A-60] [RC-2008 Page A-47]</i>				
<i>Table reflecting new record-keeping as of FY2010 follows</i>				
		<i>Fiscal Years Ended June 30</i>		
		<i>2009</i>	<i>2008</i>	<i>2007</i>
<i>Dialysis</i>	<i>Marquette Center^{8,9}</i>	8,923	9,493	9,773
	<i>Eastern UP Center^{8,10}</i>	0	0	999
	<i>Western UP Center^{8,11}</i>	0	0	2,841
<i>Other</i>	<i>Endoscopy¹</i>	4,001	5,320	5,683
	<i>Neurophysiology¹</i>	7,016	6,669	6,857
	<i>Perfusion⁵</i>	189	210	223
	<i>Pulmonary Function¹</i>	2,103	2,692	2,713
	<i>Respiratory Care^{3,4}</i>	39,596	47,147	36,795
	<i>Radiology Oncology^{1,3}</i>	13,499	13,505	13,278
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, 2011

<i>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</i>			
	<i>Fiscal Years Ended June 30</i>		
	<i>2009</i>	<i>2008</i>	<i>2007</i>
Main Laboratory ¹	710,709	706,579	631,880
PMC Laboratory ¹	Service substantially discontinued; most laboratory procedures now performed in the Main Laboratory, which figures include PMC Laboratory volumes		13,025
Radiology ^{1,2}	18,983	20,270	19,220
Ultrasound ^{1,2}	9,285	10,874	10,534
CT Scanning ^{1,2}	12,393	12,996	11,842
Nuclear Medicine ^{1,2}	7,036	8,073	8,428
MRI ^{1,2}	6,683	7,480	6,988
Special Procedures (Interventional Radiology) ^{1,2}	3,785	3,828	5,086
Physical Therapy ³	8,358	11,170	10,454
Cardiac Imaging ⁴	1,091	1,143	1,189
Endoscopy ¹	2,984	4,124	4,451
Neurophysiology ¹	4,777	5,011	5,150
Radiology Oncology ^{1,2}	12,996	12,912	12,671
¹ Procedures ² Reflects change in counting methodology initiated during FY2006Q4; FY2006 figures were adjusted for consistency with FY2007 figures ³ Hours ⁴ Patients			

MUNICIPAL SECONDARY MARKET DISCLOSURE
Michigan State Hospital Finance Authority / Marquette General Hospital
Fiscal Year Ended June 30, 2011

<i>Ancillary Services</i> <i>(reflects new record-keeping as of FY2010Q1)</i>										
<i>Fiscal Years Ended June 30</i>										
		<i>Inpatient</i>			<i>Outpatient</i>			<i>Total</i>		
		<i>2011</i>	<i>2010</i>	<i>2009</i>	<i>2011</i>	<i>2010</i>	<i>2009</i>	<i>2011</i>	<i>2010</i>	<i>2009</i>
Other	Endoscopy ¹	1,087	986	1,017	2,587	2,671	2,984	3,674	3,657	4,001
	Laboratory ¹	328,533	313,757	339,628	691,860	654,979	710,709	1,020,393	968,736	1,050,337
	Neurophysiology ¹	2,587	2,453	2,239	4,066	4,330	4,777	6,653	6,783	7,016
	Hemodialysis ^{5,6}	1,041	1,015	1,086	8,886	8,414	7,837	9,927	9,429	8,923
	Pulmonary Function ¹	287	394	448	2,450	2,008	1,656	2,737	2,402	2,104
	Respiratory Care ³	39,740	41,820	37,043	3,586	3,310	2,553	43,326	45,130	39,596
	Radiation Oncology ¹	478	278	503	12,174	13,293	12,996	12,652	13,571	13,499
	Specialty Clinic	6	8		2,688	2,491		2,694	2,499	
	Pain Management	2	0		1,015	144		1,017	144	

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 Includes acute dialysis runs
⁷ Service (pediatric subspecialties) provided prior to FY2011, but volumes not previously reported
⁸ Service commenced April 2010

<i>MGHH&H Volumes</i> <i>[OS-2005 Page A-61] [OS-2006 Page A-62] [RC-2008 Page A-49]</i>					
<i>Fiscal Years Ended June 30</i>					
	<i>2011</i>	<i>2010</i>	<i>2009</i>	<i>2008</i>	<i>2007</i>
Home Care Admissions	1,824	1,923	1,880	2,105	2,014
Home Care Visits	35,308	34,233	37,518	46,792	45,426

MUNICIPAL SECONDARY MARKET DISCLOSURE
Michigan State Hospital Finance Authority / Marquette General Hospital
Fiscal Year Ended June 30, 2011

<i>Physician Practice Volumes</i> <i>(in Relative Value Units)</i> <i>[OS-2005 Page A-62] [OS-2006 Page A-63] [RC-2008 Page A-50]</i>					
	<i>Fiscal Years Ended June 30</i>				
	<i>2011</i>	<i>2010</i>	<i>2009</i>	<i>2008</i>	<i>2007</i>
Family Care Doctors ¹	49,971	49,966	52,650	48,422	49,535
Doctor's Park Family Physicians	14,311	24,725	27,729	26,971	35,872
Iron River Clinic	6,500	6,831	7,188	8,418	7,717
Gladstone Clinic	4,847	9,306	12,846	10,812	11,631
Kingsford Clinic	24,037	21,727	25,279	25,825	23,656
Chippewa Medical Associates	25,238	19,901	15,392	18,886	18,853
Negaunee Clinic	6,698	6,623	5,315	3,323	3,081
Lakewood Clinic	7,955	7,578	5,720	3,639	3,614
Trenary Clinic	1,358	1,450	1,471	1,999	1,919
Grand Marais Clinic	293	324	448	400	382
Gwinn/Sawyer Clinic ²	18,099	14,857	5,380		
UP Hematology/Oncology (multiple sites)	35,026	37,603	36,772	40,021	34,939
Professional Surgical Services ³	6,777	6,668	7,889	5,092	
Neurology Associates	23,798	20,430	25,671	27,856	30,735
Pediatric Specialists	16,168	14,861	14,277	16,300	14,999
North Shore Internal Medicine ⁴			1,755	4,803	4,621
UP Internal Medicine	27,463	28,338	26,448	30,636	33,159
Respiratory Medicine	17,510	17,874	18,655	19,163	19,002
Infectious Diseases	14,628	17,676	17,706	18,054	17,297
Occupational Medicine	9,620	10,063	8,255	4,910	4,129
Professional Sports Medicine ⁵	5,029	4,067	3,099		
Physiatry ⁶	3,156				
Neuropsychiatric Rehabilitation ⁷	4,372	2,890	4,430	5,510	
Women's Health Services ⁸	244	4,327	1,919		

MUNICIPAL SECONDARY MARKET DISCLOSURE
Michigan State Hospital Finance Authority / Marquette General Hospital
Fiscal Year Ended June 30, 2011

<i>Physician Practice Volumes</i> <i>(in Relative Value Units)</i> <i>[OS-2005 Page A-62] [OS-2006 Page A-63] [RC-2008 Page A-50]</i>					
	<i>Fiscal Years Ended June 30</i>				
	<i>2011</i>	<i>2010</i>	<i>2009</i>	<i>2008</i>	<i>2007</i>
Marquette General Neurosurgery ⁹	49,481	54,711	52,095	43,854	20,506
Urology Services ¹⁰	14,494	17,099	19,082	18,369	
Endocrinology Services ¹⁰	4,927	5,029	6,276	5,726	
Emergency Medical Associates ¹¹	71,285	72,902	67,789	N/A	N/A
Behavioral Health – Marquette ¹²	46,480	43,267	30,425	57,905	54,022
Geriatric Psychiatry ¹³	380	1,327			
Prof. Radiation Oncology (DCHS) ¹¹	6,109	5,542	4,932	5,822	N/A
Professional Neonatology ¹¹	21,072	14,816	14,252	12,567	N/A
Professional Gastroenterology ¹⁰	2,123	1,787	4,402	4,366	
Professional Orthopaedics ¹⁴	11,853	11,687	9,222	8,823	4,209
Professional Bariatric Surgery ¹⁰	18,761	17,866	16,833	10,836	
Intensivists and Hospitalists ^{11,15}	1,732	2,397	29,960	28,588	N/A
Audiology ¹⁶	251	N/A	N/A	N/A	N/A
Digestive and Liver Specialists ¹⁷	7,388				
Total Relative Value Units	579,434	576,515	581,562	517,896	393,878

MUNICIPAL SECONDARY MARKET DISCLOSURE
Michigan State Hospital Finance Authority / Marquette General Hospital
Fiscal Year Ended June 30, 2011

<i>Physician Practice Volumes</i> (in Relative Value Units) [OS-2005 Page A-62] [OS-2006 Page A-63] [RC-2008 Page A-50]									
					<i>Fiscal Years Ended June 30</i>				
					<i>2011</i>	<i>2010</i>	<i>2009</i>	<i>2008</i>	<i>2007</i>
¹	Includes RVUs generated by Family Practice residents								
²	Service commenced in March 2009; Gwinn and Sawyer locations combined during FY2011								
³	Service commenced in October 2007								
⁴	Service discontinued in December 2008								
⁵	Service commenced in September 2008								
⁶	Service commenced in October 2010								
⁷	Service commenced in January 2009								
⁸	Service discontinued in August 2010								
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 provided prior to FY2009 but volumes not previously reported; service was outsourced in July 2009, but still provided by physicians who are no longer Corporation employees								
¹⁶	Service volumes reported among ancillary services prior to FY2011								
¹⁷	Service commenced in January 2011								

MUNICIPAL SECONDARY MARKET DISCLOSURE
Michigan State Hospital Finance Authority / Marquette General Hospital
Fiscal Year Ended June 30, 2011

FINANCIAL INFORMATION

<i>Payor Mix by Gross Revenue</i>					
<i>[OS-2005 Page A-67] [OS-2006 Page A-68] [RC-2008 Page A-55]</i>					
	<i>Fiscal Years Ended June 30</i>				
	<i>2011</i>	<i>2010</i>	<i>2009</i>	<i>2008</i>	<i>2007</i>
Medicare	48.4%	49.9%	48.5%	46.3%	47.1%
Medicaid	12.0%	12.1%	10.0%	10.1%	10.1%
Blue Cross	23.1%	23.4%	23.7%	25.2%	24.8%
Self-Pay	2.1%	1.6%	2.3%	1.7%	1.9%
Commercial and Other	14.4%	13.0%	15.5%	16.7%	16.1%
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, 2011

<i>Summary of Statements of Operations</i> (<i>\$000s omitted</i>) <i>[OS-2005 Page A-69] [OS-2006 Page A-70] [RC-2008 Page A-56]</i>					
	<i>Fiscal Years Ended June 30</i>				
	<i>2011</i>	<i>2010</i>	<i>2009</i>	<i>2008</i>	<i>2007¹</i>
Net Patient Service Revenue	298,590	304,354	302,513	281,490	262,867
Other Operating Revenue	18,530	<u>19,532</u>	<u>16,799</u>	<u>19,184</u>	<u>12,382</u>
Total Operating Revenue	317,120	323,886	319,312	300,674	275,249
Depreciation and Amortization	11,017	11,081	10,860	10,848	12,380
Interest	3,486	3,647	4,016	4,421	3,988
Provision for Bad Debts	13,686	10,993	12,677	11,951	6,435
Other Operating Expenses	<u>279,700</u>	<u>291,322</u>	<u>281,559</u>	<u>283,795</u>	<u>257,595</u>
Total Operating Expenses	307,891	317,043	309,113	311,015	280,398
Income (Loss) from Operations	9,230	6,843	10,199	(10,341)	(5,149)
Net Nonoperating Revenue ^{2,3,4,5}	<u>1,569</u>	<u>763</u>	<u>(8,222)</u>	<u>(3,642)</u>	<u>8,795</u>
Revenue over (under) Expenses	10,798	7,606	1,977	(13,983)	3,646
Net Income Available for Debt Service	23,553	22,386	21,878	8,305	19,582

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 FY2011, FY2010, FY2009, FY2008 and FY2007 Net Nonoperating Revenue includes net unrealized investment gains (losses) of \$1,557,000, \$1,553,000, (\$2,820,000), (\$3,140,000) and \$415,000, 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.

³ FY2011, FY2010, FY2009, FY2008 and FY2007 Net Nonoperating Revenue includes gains (losses) in the valuation of instruments which are Financial Products Agreements of \$588,000, (\$1,542,000), (\$2,113,000), (\$2,219,000) and \$394,000, 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.

⁴ FY2011, FY2010, FY2009, FY2008 and FY2007 Net Nonoperating Revenue includes losses on dispositions of Capital Assets of \$397,000, \$63,000, \$91,000, \$634,000 and \$377,000, 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.

⁵ 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, 2011

<i>Balance Sheet Summary</i>					
<i>(\$000s omitted)</i>					
<i>[OS-2005 Page A-73] [OS-2006 Page A-75] [RC-2008 Page A-57]</i>					
	<i>Fiscal Years Ended June 30</i>				
	<i>2011</i>	<i>2010</i>	<i>2009</i>	<i>2008</i>	<i>2007¹</i>
Cash and Cash Equivalents ²	28,458	36,711	28,082	11,923	13,824
Net Patient Accounts Receivable	32,116	46,947	44,475	37,928	39,918
Other Current Assets	15,790	<u>14,672</u>	<u>12,835</u>	<u>13,417</u>	<u>17,798</u>
Total Current Assets	76,365	98,330	85,392	63,268	71,540
Board-Designated Investments ²	45,244	26,614	23,373	27,583	57,315
Net Property and Equipment	91,943	100,914	105,403	110,243	115,167
Other Non-Current Assets	35,275	<u>40,667</u>	<u>38,453</u>	<u>47,647</u>	<u>38,394</u>
Total	248,827	266,525	252,620	248,740	282,416
Current Liabilities	42,154	50,574	42,941	30,178	33,775
Long-Term Debt, net Current Portion	59,056	61,548	67,362	74,170	77,868
Other Non-Current Liabilities	65,953	80,766	62,955	32,533	59,765
Net Assets ³	<u>81,664</u>	<u>73,636</u>	<u>79,362</u>	<u>111,859</u>	<u>111,009</u>
Total	248,827	266,525	252,620	248,740	282,416
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 Used in "Days' Cash on Hand" and "Cushion Ratio" calculations.					
³ FY2011, FY2010, FY2009, FY2008 and FY2007 amounts include \$3,315,000, \$2,702,000, \$1,862,000, \$1,108,000 and \$646,000 of temporarily restricted net assets, respectively.					

MUNICIPAL SECONDARY MARKET DISCLOSURE
Michigan State Hospital Finance Authority / Marquette General Hospital
Fiscal Year Ended June 30, 2011

<i>Liquid Assets and Capital Expenditures</i>					
<i>(\$000s omitted)</i>					
<i>[OS-2005 Page A-67] [OS-2006 Page A-68] [RC-2008 Page A-55]</i>					
	<i>Fiscal Years Ended June 30</i>				
	<i>2011</i>	<i>2010</i>	<i>2009</i>	<i>2008</i>	<i>2007</i>
Cash and Cash Equivalents	28,458	38,711	28,082	11,923	13,824
Board-Designated Investments	<u>45,244</u>	<u>26,614</u>	<u>23,373</u>	<u>27,583</u>	<u>57,315</u>
Liquid Assets	73,702	65,325	51,455	39,506	71,139
Capital Expenditures	2,954	7,275	6,271	7,859	15,277
Note: Some figures might not add precisely due to rounding.					

Marquette General Health System

Consolidated Financial Report

June 30, 2011

Marquette General Health System

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Plante & Moran, PLLC
Suite 300
600 E. Front St.
Traverse City, MI 49686
Tel: 231.947.7800
Fax: 231.947.0348
plantemoran.com

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, 2011 and 2010 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 \$10,263,645 and \$16,519,194 and income from unconsolidated affiliates of \$2,461,772 and \$5,184,474 as of and for the years ended June 30, 2011 and 2010, respectively. Those statements were audited by others as of and for the years ended December 31, 2010 and 2009, 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, 2011 and 2010, 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. 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, 2011 and 2010 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.

Plante & Moran, PLLC

September 27, 2011

Marquette General Health System

Consolidated Balance Sheet

Assets	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Current Assets		
Cash and cash equivalents	\$ 28,458,445	\$ 36,710,985
Accounts receivable (Note 2)	32,116,389	44,586,913
Estimated third-party payor settlements (Note 3)	4,486,048	5,697,414
Assets limited as to use (Notes 4 and 5)	575,887	593,717
Other current assets	2,609,834	2,447,369
Inventory	8,118,566	8,490,577
Total current assets	<u>76,365,169</u>	<u>98,526,975</u>
Assets Limited as to Use (Notes 4 and 5)	59,902,154	39,776,652
Property and Equipment - Net (Note 6)	91,942,951	100,913,805
Other Assets		
Investment in unconsolidated affiliates (Note 13)	14,187,564	20,165,080
Bond issue costs	1,064,831	1,149,647
Other noncurrent assets	5,364,046	6,190,182
Total assets	<u>\$ 248,826,715</u>	<u>\$ 266,722,341</u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 17,279,122	\$ 23,937,611
Current portion of long-term debt (Note 7)	2,492,374	6,336,097
Estimated third-party payor settlements (Note 3)	554,699	197,281
Accrued liabilities and other:		
Current portion of employee compensation and benefits	20,095,436	19,327,189
Accrued interest	267,610	308,217
Other accrued liabilities	1,464,667	665,260
Total current liabilities	<u>42,153,908</u>	<u>50,771,655</u>
Long-term Debt - Net of current portion (Note 7)	59,055,751	61,548,125
Accrued Pension Liability (Note 10)	51,837,385	66,915,115
Fair Value of Interest Rate Swap Agreement (Notes 5 and 7)	4,948,792	5,537,242
Other Liabilities		
Long-term portion of employee compensation and benefits	3,686,809	3,696,903
Other long-term liabilities	5,480,036	4,617,120
Total liabilities	<u>167,162,681</u>	<u>193,086,160</u>
Net Assets		
Unrestricted	78,348,751	70,934,334
Temporarily restricted	3,315,283	2,701,847
Total net assets	<u>81,664,034</u>	<u>73,636,181</u>
Total liabilities and net assets	<u>\$ 248,826,715</u>	<u>\$ 266,722,341</u>

Marquette General Health System

Consolidated Statement of Operations

	Year Ended	
	June 30, 2011	June 30, 2010
Unrestricted Revenue, Gains, and Other Support		
Net patient service revenue	\$ 298,590,335	\$ 304,354,444
Other	14,301,245	13,582,090
Income from investment in unconsolidated affiliates (Note 13)	3,982,732	5,464,474
Net assets released from restrictions	246,109	161,432
Unrestricted revenue, gains, and other support	317,120,421	323,562,440
Expenses		
Salaries and wages	126,539,378	123,881,687
Employee benefits and payroll taxes	38,147,703	31,560,236
Operating supplies and expenses	68,164,858	71,806,092
Professional services and consultant fees	1,903,335	2,793,740
Purchased services	33,446,976	35,193,467
Utilities	5,263,770	4,852,460
Other	22,288,651	20,910,725
Depreciation	11,017,283	11,080,861
Provision for bad debts	13,686,490	10,992,918
Interest expense	3,486,480	3,647,149
Pension curtailment and special termination benefit (Note 10)	(16,054,262)	-
Total expenses (Note 11)	307,890,662	316,719,335
Operating Income	9,229,759	6,843,105
Other Income (Loss)		
Interest income (Note 4)	1,109,198	1,155,247
Net realized investment loss (Note 4)	(1,289,549)	(340,579)
Change in unrealized investment gain (Note 4)	1,557,137	1,553,353
Change in fair value of interest swap agreements (Note 7)	588,450	(1,542,089)
Other expense	(396,598)	(62,571)
Total other income	1,568,638	763,361
Excess of Revenue Over Expenses	10,798,397	7,606,466
Contribution Received for Property Acquisitions	131,204	445,494
Transfer to Affiliate (Note 13)	(1,982,015)	-
Pension-related Changes Other than Net Periodic Benefit (Note 10)	(1,738,697)	(14,478,366)
Net Assets Released From Restriction	205,528	323,506
Increase (Decrease) Before Extraordinary Items	7,414,417	(6,102,900)
Loss on Discontinued Operations (Note 15)	-	(462,147)
Increase (Decrease) in Unrestricted Net Assets	\$ 7,414,417	\$ (6,565,047)

Marquette General Health System

Consolidated Statement of Changes in Net Assets

	Year Ended	
	June 30, 2011	June 30, 2010
Increase (Decrease) in Unrestricted Net Assets	\$ 7,414,417	\$ (6,565,047)
Temporarily Restricted Net Assets		
Contributions	1,065,073	1,324,433
Net assets released from restriction	<u>(451,637)</u>	<u>(484,938)</u>
Increase in Temporarily Restricted Net Assets	<u>613,436</u>	<u>839,495</u>
Increase (Decrease) in Net Assets	8,027,853	(5,725,552)
Net Assets - Beginning of year	<u>73,636,181</u>	<u>79,361,733</u>
Net Assets - End of year	<u>\$ 81,664,034</u>	<u>\$ 73,636,181</u>

Marquette General Health System

Consolidated Statement of Cash Flows

	Year Ended	
	June 30, 2011	June 30, 2010
Cash Flows from Operating Activities		
Increase (decrease) in net assets	\$ 8,027,853	\$ (5,725,552)
Adjustments to reconcile increase (decrease) in net assets to net cash from operating activities:		
Depreciation and amortization	11,032,255	11,182,518
Net change in realized and unrealized gains and losses on investments	(267,588)	(1,212,774)
Change in fair value of interest rate swap	(588,450)	1,542,089
Net periodic pension cost	6,549,256	5,420,746
Pension contributions	(7,311,421)	(3,661,141)
Pension-related changes other than net periodic benefit	1,738,697	14,478,366
Pension curtailment and special termination benefit	(16,054,262)	-
Loss on disposal of equipment	396,598	62,571
Equity earnings in unconsolidated affiliates	(3,982,732)	(5,464,474)
Transfer to affiliate	1,982,015	-
Contribution received	(1,196,277)	(1,608,495)
Provision for bad debts	13,686,490	10,992,918
Changes in assets and liabilities which (used) provided cash:		
Accounts receivable	(1,215,966)	(13,464,622)
Estimated third-party payor settlements receivable	1,211,366	(2,894,007)
Inventories	372,011	108,733
Prepaid and other assets	10,623,919	1,252,270
Accounts payable	(6,658,489)	9,314,894
Accrued and other liabilities	2,379,869	(110,358)
Estimated third-party payor settlements payable	357,418	-
Net cash provided by operating activities	<u>21,082,562</u>	<u>20,213,682</u>
Cash Flows from Investing Activities		
Purchase of property and equipment	(2,953,654)	(7,275,048)
Proceeds from sale of property and equipment	510,627	620,370
Purchase of investments	(32,015,233)	(4,585,704)
Proceeds from sale and maturities of investments	12,175,149	4,333,490
Transfer to affiliate	(1,982,015)	-
Net cash used in investing activities	<u>(24,265,126)</u>	<u>(6,906,892)</u>
Cash Flows from Financing Activities		
Proceeds from issuance of debt obligations	-	559,800
Principal payment on long-term debt	(6,266,253)	(6,845,701)
Contribution received for property acquisition	1,196,277	1,608,495
Net cash used in financing activities	<u>(5,069,976)</u>	<u>(4,677,406)</u>
Net (Decrease) Increase in Cash and Cash Equivalents	(8,252,540)	8,629,384
Cash and Cash Equivalents - Beginning of year	<u>36,710,985</u>	<u>28,081,601</u>
Cash and Cash Equivalents - End of year	<u>\$ 28,458,445</u>	<u>\$ 36,710,985</u>

Marquette General Health System

Notes to Consolidated Financial Statements June 30, 2011 and 2010

Note I - 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 became a member of Superior Health Partners (SHP) effective July 1, 2010. Superior Health Partners is a Michigan nonprofit tax-exempt corporation as described under Section 501(c)(3) of the IRC. 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.

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.

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 located in northern Michigan. The System's cash is only insured up to the federal depository insurance limit. Cash balances held in bank accounts exceed federal depository insurance limits by approximately \$30,115,198 and \$33,846,509 at June 30, 2011 and 2010, respectively.

Marquette General Health System

Notes to Consolidated Financial Statements June 30, 2011 and 2010

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

Accounts Receivable - Accounts receivable for patients, insurance companies, and governmental agencies are based on gross charges. An allowance for uncollectible accounts is established on an aggregate basis by using historical 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.

The System invests in various investment securities. Investment securities are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the consolidated balance sheet.

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.

Marquette General Health System

Notes to Consolidated Financial Statements June 30, 2011 and 2010

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

Fair Value of Financial Instruments - The fair value of financial instruments, including cash, accounts receivable, and accounts payable, approximates carrying values. Investments and the interest rate swap 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.

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.

Marquette General Health System

Notes to Consolidated Financial Statements June 30, 2011 and 2010

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

Contributed Services - Volunteers donate significant amounts of time in providing services for the System. During the fiscal year ended June 30, 2011, volunteers provided over 31,400 hours of services. Volunteers provide patients with spiritual care, information, and entertainment as well as provide hospital administrative and logistical support. These services do not meet the criteria for recognition under generally accepted accounting principles and have not been reflected in the accompanying consolidated financial statements. Management estimates the fair value of these services to be approximately \$500,000.

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.

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.

Marquette General Health System

Notes to Consolidated Financial Statements June 30, 2011 and 2010

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

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, 2011 and 2010.

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 transfers to affiliate, 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).

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.

Tax Status - The System is exempt from income tax under provisions of Internal Revenue Code (IRC) Section 501(c)(3). The System is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Management believes it is no longer subject to income tax examinations for years prior to June 30, 2007. Rampart is a nonprofit, tax-exempt organization as described under Section 501(c)(3) of the IRC. The Foundation is a nonprofit, tax-exempt organization and is a Type I supporting organization as defined by the IRC.

Subsequent Events - The consolidated financial statements and related disclosures include evaluation of events up through and including September 27, 2011, which is the date the consolidated financial statements were available to be issued.

Marquette General Health System

Notes to Consolidated Financial Statements June 30, 2011 and 2010

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

New Accounting Pronouncements - During 2010, the Financial Accounting Standards Board (FASB) adopted new accounting guidance that will impact how health-care organizations account for claims liabilities and charity care. The new guidance requires that the accrued liability for malpractice claims and similar liabilities and the related insurance recovery receivable be presented separately on the balance sheet on a gross basis. Prior guidance allowed the liability to be reported net of the estimated insurance recovery receivable. This new standard will be effective for the first annual period beginning after December 15, 2010 and interim periods within that first annual period.

New guidance has also been adopted on how to measure the amount of charity care provided to patients. The new guidance requires that cost be used as the measurement basis for charity care disclosure purposes and that the cost be identified as the direct and indirect costs of providing the charity care. No other measurement basis should be used. Prior guidance did not dictate how charity care should be measured. This new standard will be effective for the first annual period beginning after December 15, 2010 and should be applied retrospectively to all prior periods presented.

During 2011, the Financial Accounting Standards Board (FASB) adopted Accounting Standards Update (ASU) 2011-07, *Health Care Entities (Topic 954) Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities*, establishing accounting and disclosures for healthcare entities that recognize significant amounts of patient service revenue at the time services are rendered even though the entities do not assess a patient's ability to pay. The amendments in the ASU change the presentation of the statement of operations and add new disclosures that are not required under current GAAP for entities within the scope of this update. The provision for bad debts associated with patient service revenue for certain entities is required to be presented on a separate line as a deduction from patient service revenue (net of contractual allowances and discounts) in the statement of operations. This new standard will be effective for the first annual period beginning after December 31, 2011 and interim periods within that first annual period and should be applied retrospectively to all prior periods presented.

The System is currently assessing the impact these new standards will have on its consolidated financial statements.

Marquette General Health System

Notes to Consolidated Financial Statements June 30, 2011 and 2010

Note 2 - Patient Accounts Receivable

The details of patient accounts receivable are set forth below:

	2011	2010
Patient accounts receivable	\$ 101,616,617	\$ 115,369,820
Less allowance for uncollectible accounts	(9,765,240)	(10,796,938)
Less allowance for contractual adjustments	(59,734,988)	(59,985,969)
Net patient accounts receivable	<u>\$ 32,116,389</u>	<u>\$ 44,586,913</u>

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	
	2011	2010
Medicare	35 %	41 %
Blue Cross/Blue Shield of Michigan	16	15
Medicaid	23	21
Commercial insurance	9	9
Self-pay	10	9
Other	7	5
Total	<u>100 %</u>	<u>100 %</u>

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 77 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 home-care services related to Medicare beneficiaries are reimbursed based on a prospectively determined amount per episode of care.

Marquette General Health System

Notes to Consolidated Financial Statements June 30, 2011 and 2010

Note 3 - Patient Service Revenue (Continued)

- **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 was implemented in Michigan hospitals in 2009. The System has undergone several RAC audits during 2011. The results of the audit initiative to date have not resulted in significant repayments to the Medicare program; however, the System is unable to determine the extent of any potential liability for overpayments related to services through June 30, 2011 that have yet to be audited by the recovery audit contractor.

Marquette General Health System

Notes to Consolidated Financial Statements June 30, 2011 and 2010

Note 4 - Assets Limited as to Use

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

	<u>2011</u>	<u>2010</u>
Assets limited as to use and temporarily restricted:		
Funds held by trustees under bond indenture	\$ 6,621,010	\$ 6,515,955
Funds held in trust for payment of professional and other liability claims	5,297,704	4,538,165
By the board of trustees for future capital improvements	45,244,044	26,614,402
By donors for specific purposes	<u>2,433,831</u>	<u>1,703,604</u>
Total investments limited as to use and temporarily restricted	59,596,589	39,372,126
Pledges receivable	881,452	998,243
Less current portion	<u>(575,887)</u>	<u>(593,717)</u>
Total assets limited as to use	<u>\$ 59,902,154</u>	<u>\$ 39,776,652</u>

Investments consist of the following:

	<u>2011</u>	<u>2010</u>
Cash and cash equivalents	\$ 8,989,580	\$ 5,138,998
Certificates of deposit	2,429,971	4,602,135
Equity securities	4,164,569	1,982,458
Government securities	24,816,232	17,130,320
Corporate bonds	13,182,400	4,407,524
Private bonds	5,901,849	5,922,238
Other	<u>111,988</u>	<u>188,453</u>
Total	<u>\$ 59,596,589</u>	<u>\$ 39,372,126</u>

Investment income and realized and unrealized gains (losses) are comprised of the following for the years ended June 30, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Interest income	\$ 1,109,198	\$ 1,155,247
Realized loss on sale of investments	(1,289,549)	(340,579)
Change in net unrealized gains on investments	<u>1,557,137</u>	<u>1,553,353</u>
Total	<u>\$ 1,376,786</u>	<u>\$ 2,368,021</u>

Marquette General Health System

Notes to Consolidated Financial Statements June 30, 2011 and 2010

Note 5 - Fair Value Measurements

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

The following tables present information about the System's assets and liabilities measured at fair value on a recurring basis at June 30, 2011 and 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 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.

Marquette General Health System

Notes to Consolidated Financial Statements June 30, 2011 and 2010

Note 5 - Fair Value Measurements (Continued)

Assets and Liabilities Measured at Fair Value on a Recurring Basis at June 30, 2011

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at June 30, 2011
Assets - Assets limited as to use				
Equity securities	\$ 4,164,569	\$ -	\$ -	\$ 4,164,569
Government securities:				
U.S. Treasury notes	-	7,366,606	-	7,366,606
Federal National Mortgage Association	-	6,664,726	-	6,664,726
Federal Home Loan Bank Federal Home Loan Mortgage Corporation	-	5,279,946	-	5,279,946
Federal Farm Credit Bank	-	3,643,546	-	3,643,546
Corporate bonds	-	1,861,408	-	1,861,408
Private bonds	-	13,182,400	-	13,182,400
Other	-	5,901,849	-	5,901,849
	-	111,988	-	111,988
Total assets	\$ 4,164,569	\$ 44,012,469	\$ -	\$ 48,177,038
Liabilities - Derivative financial instruments - Interest rate swap	\$ -	\$ 4,948,792	\$ -	\$ 4,948,792

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				
Equity securities	\$ 1,982,458	\$ -	\$ -	\$ 1,982,458
Government securities:				
U.S. Treasury notes	-	4,560,484	-	4,560,484
Federal National Mortgage Association	-	4,214,024	-	4,214,024
Federal Home Loan Bank Federal Home Loan Mortgage Corporation	-	4,036,072	-	4,036,072
Federal Farm Credit Bank	-	3,097,990	-	3,097,990
Corporate bonds	-	1,221,750	-	1,221,750
Private bonds	-	4,407,524	-	4,407,524
Other	-	5,922,238	-	5,922,238
	-	188,453	-	188,453
Total assets	\$ 1,982,458	\$ 27,648,535	\$ -	\$ 29,630,993
Liabilities - Derivative financial instruments - Interest rate swap	\$ -	\$ 5,537,242	\$ -	\$ 5,537,242

Marquette General Health System

Notes to Consolidated Financial Statements June 30, 2011 and 2010

Note 5 - Fair Value Measurements (Continued)

The fair value of government securities and corporate and private bonds at June 30, 2011 and 2010 was determined primarily based on Level 2 inputs. The System estimates the fair value of these investments based upon the amortized value of the bonds and the readily determinable fair value of the underlying investments in government securities.

Note 6 - Property and Equipment

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

	2011	2010	Depreciable Life - Years
Land	\$ 7,494,807	\$ 7,570,000	-
Land improvements	3,344,857	3,217,390	3-15
Buildings	147,582,699	147,919,304	7-40
Equipment	152,507,826	148,527,511	3-10
Construction in progress	1,001,405	3,113,411	-
Total cost	311,931,594	310,347,616	
Accumulated depreciation	(219,988,643)	(209,433,811)	
Net property and equipment	<u>\$ 91,942,951</u>	<u>\$ 100,913,805</u>	

In 2009, the Marquette General Foundation began a capital campaign with the purpose of raising \$4 million toward the purchase of a new linear accelerator and related equipment. Purchase agreements with expected total costs of \$5.6 million have been executed for this project. Implementation is planned to begin in September 2011, with operations commencing January 2012. The capital campaign will officially end on December 31, 2011 and the System will fund project costs in excess of amounts raised by the campaign. As of June 30, 2011, the campaign has raised approximately \$2,350,000.

Marquette General Health System

Notes to Consolidated Financial Statements June 30, 2011 and 2010

Note 7 - Long-term Debt

A summary of long-term debt at June 30, 2011 and 2010 is as follows:

	<u>2011</u>	<u>2010</u>
Hospital Revenue Bonds, Series 2005	\$ 24,005,000	\$ 26,290,000
Hospital Revenue Bonds, Series 2006	37,000,000	37,000,000
Term loan	-	3,934,615
Other	476,036	522,674
Bond premium - Less accumulated amortization	<u>67,089</u>	<u>136,933</u>
Total	61,548,125	67,884,222
Less current portion	<u>2,492,374</u>	<u>6,336,097</u>
Long-term portion	<u>\$ 59,055,751</u>	<u>\$ 61,548,125</u>

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 Series 2005A Bonds were issued by MSHFA on behalf of the Obligated Group in the amount of \$28,465,000 (unamortized premium of \$67,089 and \$136,933 at June 30, 2011 and 2010, 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 \$2,395,000 in 2012 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.

Marquette General Health System

Notes to Consolidated Financial Statements June 30, 2011 and 2010

Note 7 - Long-term Debt (Continued)

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 (0.17 percent and 0.31 percent at June 30, 2011 and 2010, respectively). As a result of this conversion, a mandatory tender feature was invoked. 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 expires on July 1, 2013. There were no borrowings during 2011 and 2010 on the agreement.

The Obligated Group elected to prepay the outstanding balance on the Term Loan of \$3,934,615 in December 2010.

The MSHFA Series 2006 and 2005A 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.

Marquette General Health System

Notes to Consolidated Financial Statements June 30, 2011 and 2010

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 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; and operating margin targets which are within 25 percent of amounts approved by the board of trustees (the Adjusted Operating Margin). 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 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.
- Conversion of the Series 2006 Bonds to a fixed interest rate no later than December 31, 2012

Marquette General Health System

Notes to Consolidated Financial Statements June 30, 2011 and 2010

Note 7 - Long-term Debt (Continued)

- 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.

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 \$59,122,000 and \$65,760,000 at June 30, 2011 and 2010, respectively. Scheduled maturities of long-term debt for the next five years and thereafter are as follows:

Years Ending June 30	Amount
2012	\$ 2,492,374
2013	2,585,271
2014	2,699,168
2015	4,056,940
2016	4,209,853
Thereafter	45,504,519
Total	<u>\$ 61,548,125</u>

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 \$4,546,000 and \$3,559,000 in 2011 and 2010, respectively.

Marquette General Health System

Notes to Consolidated Financial Statements June 30, 2011 and 2010

Note 8 - Operating Leases (Continued)

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
2012	\$ 3,426,299
2013	2,254,791
2014	1,005,005
2015	177,418
2016	4,936
Thereafter	-
Total	<u>\$ 6,868,449</u>

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. Prior to June 1, 1997, the System was completely self-insured for its professional liability claims. 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 professional liability and general liability claims. The System's malpractice insurance coverage currently expires on March 29, 2012. Insurance coverage has been obtained for workers' compensation claims in excess of \$500,000 per occurrence. 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.

Marquette General Health System

Notes to Consolidated Financial Statements June 30, 2011 and 2010

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, 2011 and 2010 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 appropriate 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 the 401(k) plan of up to 4 percent of compensation.

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

Effective November 1, 2010, employees under the collective bargaining agreement (bargaining employees) had 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 were required to annually pay a contribution equal to 6 percent of compensation into the Plan. Those not choosing this option were no longer eligible to accrue benefits under the pension plan but were eligible to participate in the 401(k) defined contribution plan whereby the System matched contributions of up to 4 percent of compensation.

Marquette General Health System

Notes to Consolidated Financial Statements June 30, 2011 and 2010

Note 10 - Pension Plans (Continued)

Expenses charged to operations under the 401(k) deferred compensation plan were \$2,395,458 and \$647,177 for the years ended June 30, 2011 and 2010, respectively.

Obligations and Funded Status

	Pension Benefits	
	2011	2010
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 220,909,629	\$ 190,803,814
Service cost	2,811,204	6,463,057
Interest cost	13,149,893	12,840,448
Curtailements	(2,557,154)	-
Special termination benefits	1,830,934	-
Actuarial loss	6,568,941	17,348,434
Benefits paid	(7,242,817)	(6,546,124)
Benefit obligation at end of year	235,470,630	220,909,629
Change in plan assets:		
Fair value of plan assets at beginning of year	153,994,514	140,126,670
Actual return on plan assets	29,127,295	16,752,827
Employer contributions	7,311,421	3,661,141
Plan participants' contributions	442,832	-
Benefits paid	(7,242,817)	(6,546,124)
Fair value of plan assets at end of year	183,633,245	153,994,514
Funded status at end of year	\$ (51,837,385)	\$ (66,915,115)

Amounts recognized in the consolidated balance sheet consist of noncurrent liabilities of \$51,837,385 and \$66,915,115 at June 30, 2011 and 2010, respectively.

Included in unrestricted net assets are the following amounts that have not yet been recognized in net periodic pension cost:

	Pension Benefits	
	2011	2010
Net loss	\$ 75,469,484	\$ 89,946,491
Prior service credit	(2,394,519)	(18,610,223)
Total included in net assets not yet recognized in net periodic pension cost	\$ 73,074,965	\$ 71,336,268

Marquette General Health System

Notes to Consolidated Financial Statements June 30, 2011 and 2010

Note 10 - Pension Plans (Continued)

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

	2011	2010
Projected benefit obligation	\$ 235,470,630	\$ 220,909,629
Accumulated benefit obligation	229,775,859	213,811,927
Fair value of plan assets	183,633,245	153,994,514

Components of net periodic benefit cost and other amounts included in net assets not yet recognized in net periodic benefit cost are as follows:

	Pension Benefits	
	2011	2010
Net periodic benefit cost:		
Service cost	\$ 2,811,204	\$ 6,463,057
Interest cost	13,149,893	12,840,448
Expected return on plan assets	(14,159,291)	(13,920,300)
Amortization of prior service credit	(887,661)	(2,122,032)
Curtailments	(17,885,197)	-
Amortization of net loss	5,635,112	2,159,573
Special termination benefits	1,830,934	-
Total net periodic benefit cost	(9,505,006)	5,420,746
Other changes in plan assets and benefit obligations included in net assets not yet recognized in net periodic pension cost:		
Net loss	6,486,148	14,515,907
Amortization of prior service credit	887,661	2,122,032
Amortization of net loss	(5,635,112)	(2,159,573)
Total included in net assets not yet recognized in net periodic pension cost	1,738,697	14,478,366
Total recognized in net periodic benefit cost and included in net assets not yet recognized in net periodic pension cost	\$ (7,766,309)	\$ 19,899,112

The estimated net loss and prior service credit for the defined benefit pension plans that will be recognized into net periodic benefit cost over the next fiscal year are \$5,034,771 and \$279,678, respectively.

Marquette General Health System

Notes to Consolidated Financial Statements June 30, 2011 and 2010

Note 10 - Pension Plans (Continued)

Assumptions

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

	Pension Benefits	
	2011	2010
Discount rate	6.00 %	6.00 %
Rate of compensation increase	4.00	4.00

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

	Pension Benefits	
	2011	2010
Discount rate	6.00 %	6.85 %
Expected long-term return on plan assets	7.75	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 and mutual funds 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, 25 percent to 45 percent fixed-income securities, and 0 to 10 percent cash equivalents.

Marquette General Health System

Notes to Consolidated Financial Statements June 30, 2011 and 2010

Note 10 - Pension Plans (Continued)

The fair values of the System's pension plan assets at June 30, 2011 and 2010 by major asset classes are as follows:

Fair Value Measurements at June 30, 2011

	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	\$ 5,615,237	\$ 5,615,237	\$ -	\$ -
Equity securities - ADRs	13,426,400	13,426,400	-	-
Mutual equity funds:				
Russell 1000 Growth Pooled Index Fund	35,525,874	35,525,874	-	-
Russell 1000 Value Pooled Index Fund	35,039,620	35,039,620	-	-
Vanguard Midcap Viper	8,932,811	8,932,811	-	-
Vanguard Small Cap Viper	4,338,019	4,338,019	-	-
Mutual funds	9,580,671	9,580,671	-	-
U.S. Treasury securities	22,788,354	-	22,788,354	-
Municipal debt securities	375,212	-	375,212	-
Asset-backed securities	5,497,343	-	5,497,343	-
Corporate bonds - Financial institutions	18,389,103	-	18,389,103	-
Corporate bonds - Industrial	18,752,672	-	18,752,672	-
Corporate bonds - Global	4,014,046	-	4,014,046	-
Corporate bonds - Other	1,357,883	-	1,357,883	-
Total	\$ 183,633,245	\$ 112,458,632	\$ 71,174,613	\$ -

Marquette General Health System

Notes to Consolidated Financial Statements June 30, 2011 and 2010

Note 10 - Pension Plans (Continued)

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:				
Russell 1000 Growth Pooled Index Fund	24,548,488	24,548,488	-	-
Russell 1000 Value Pooled Index Fund	25,328,635	25,328,635	-	-
Vanguard Midcap Viper	7,820,049	7,820,049	-	-
Vanguard Small Cap Viper	3,786,031	3,786,031	-	-
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	\$ -

The above tables present information about the pension assets measured at fair value at June 30, 2011 and 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.

Marquette General Health System

Notes to Consolidated Financial Statements June 30, 2011 and 2010

Note 10 - Pension Plans (Continued)

Cash Flow

Contributions

The System expects to contribute approximately \$6,789,000 to its pension plan in 2012.

Estimated Future Benefit Payments

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

<u>Years Ending June 30</u>	<u>Pension Benefits</u>
2012	\$ 8,752,454
2013	9,474,636
2014	10,113,791
2015	10,852,857
2016	11,631,821
2017-2021	71,144,433

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, 2011 and 2010 are as follows:

	<u>2011</u>	<u>2010</u>
Healthcare services	\$ 295,564,102	\$ 304,201,673
General and administrative	11,672,581	11,766,126
Fundraising	653,979	751,536
Total	<u>\$ 307,890,662</u>	<u>\$ 316,719,335</u>

Note 12 - Union Contract

Approximately 17 percent of the System's employees are subject to a collective bargaining agreement. The collective bargaining agreement expires on May 31, 2013.

Marquette General Health System

Notes to Consolidated Financial Statements June 30, 2011 and 2010

Note 13 - Investment in Affiliates

At June 30, 2011 and 2010, the System has contributed 56 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, 2011 and 2010 was approximately \$9,607,000 and \$16,032,000, respectively. UPMC serves as the management company for UPHP. The net carrying value of UPMC's interest at June 30, 2011 and 2010 was approximately \$656,000 and \$488,000, respectively. UPHP paid dividends to the System of \$7,918,031 as of June 30, 2011; no dividends were paid as of June 30, 2010. UPMC paid dividends to the System of \$799,290 and \$1,944,724 as of June 30, 2011 and 2010, respectively.

The System provides healthcare services to enrollees of UPHP. Net patient service revenue for services rendered to plan participants totaled \$7,738,821 and \$7,193,984 for the years ended June 30, 2011 and 2010, respectively.

The following is a summary of financial position and results of operations of UPHP and UPMC for the years ended June 30, 2011 and 2010:

		2011	2010
	<u>UPHP</u>		
Total assets		\$ 37,086,841	\$ 44,501,052
Total liabilities		<u>20,013,348</u>	<u>16,010,666</u>
Stockholders' equity		<u>\$ 17,073,493</u>	<u>\$ 28,490,386</u>
Net income		<u>\$ 2,618,824</u>	<u>\$ 7,151,056</u>
		2011	2010
	<u>UPMC</u>		
Total assets		\$ 1,804,443	\$ 1,506,931
Total liabilities		<u>637,940</u>	<u>640,299</u>
Stockholders' equity		<u>\$ 1,166,503</u>	<u>\$ 866,632</u>
Net income		<u>\$ 1,716,764</u>	<u>\$ 2,411,997</u>

Marquette General Health System

Notes to Consolidated Financial Statements June 30, 2011 and 2010

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 was approximately \$280,000 at June 30, 2011 and 2010. UPIMS paid dividends to the System of \$1,520,960 as of June 30, 2011; no dividends were paid as of June 30, 2010.

An equity transfer to SHP, which reduced the System's fund balance by \$1,982,015, was recorded during fiscal year 2011. This equity transfer primarily consisted of consulting fees and salaries paid by the System on SHP's behalf.

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

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, 2011 and 2010:

	2011	2010
Community partnership programs (unaudited)	\$ 8,971,868	\$ 10,577,677
Donations/Contributions (unaudited)	194,125	80,784
Traditional charity care	2,775,115	2,335,378
Unpaid costs for government program patients (unaudited)	12,013,745	14,345,704
Other community benefit activities (unaudited)	4,184,689	3,457,941
Total	<u>\$ 28,139,542</u>	<u>\$ 30,797,484</u>

Marquette General Health System

Notes to Consolidated Financial Statements June 30, 2011 and 2010

Note 14 - Community Benefit (Continued)

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 12 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, 2010, management undertook action to terminate the operations and dispose of the net assets of the FastCare Clinics in Marquette and Escanaba. 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 were \$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.

Marquette General Health System

Notes to Consolidated Financial Statements June 30, 2011 and 2010

Note 16 - Subsequent Event

On August 26, 2011, the System entered a commitment with a realty company to lease a new medical office building that will be located in Escanaba, Michigan. Construction of the 43,000 square-foot building began in September 2011 and is expected to be complete and occupied by September 2012. The lease term is 14 years, 5 months, with options to renew. Expected total annual cost to occupy this building is \$30 per square foot. The System has determined that the agreement constitutes an operating lease in accordance with existing generally accepted accounting principles.