Marquette General Health System

Consolidated Financial Report

June 30, 2011

Marquette General Health System

Contents

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Independent Auditor's Report

To the Board of Trustees
Marquette General Health System

We have audited the accompanying consolidated balance sheet of Marquette General Health System (the "System") as of June 30, 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

	June 30, 2011	June 30, 2010
Assets		
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	76,365,169	98,526,975
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	**$ 248,826,715**	**$ 266,722,341**
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	42,153,908	50,771,655
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	167,162,681	193,086,160
Net Assets		
Unrestricted	78,348,751	70,934,334
Temporarily restricted	3,315,283	2,701,847
Total net assets	81,664,034	73,636,181
Total liabilities and net assets	**$ 248,826,715**	**$ 266,722,341**

See Notes to Consolidated Financial Statements.

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)**

See Notes to Consolidated Financial Statements.

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	(451,637)	(484,938)
Increase in Temporarily Restricted Net Assets	613,436	839,495
Increase (Decrease) in Net Assets	8,027,853	(5,725,552)
Net Assets - Beginning of year	73,636,181	79,361,733
Net Assets - End of year	**$ 81,664,034**	**$ 73,636,181**

Marquette General Health System

Consolidated Statement of Cash Flows

	Year Ended June 30, 2011	Year Ended 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	21,082,562	20,213,682
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	(24,265,126)	(6,906,892)
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	(5,069,976)	(4,677,406)
Net (Decrease) Increase in Cash and Cash Equivalents	(8,252,540)	8,629,384
Cash and Cash Equivalents - Beginning of year	36,710,985	28,081,601
Cash and Cash Equivalents - End of year	**$ 28,458,445**	**$ 36,710,985**

See Notes to Consolidated Financial Statements.

Note 1 - Nature of Business and Significant Accounting Policies

Basis of Consolidation - Marquette General Health System (the "System") is a Michigan nonstock corporation providing healthcare services in Michigan's Upper Peninsula.

The System 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.

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

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

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

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.

Note 1 - 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.

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.

Note 1 - 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 1 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.

Note 1 - 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.

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	$ 32,116,389	$ 44,586,913

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	100 %	100 %

Note 3 - Patient Service Revenue

The System has agreements with third-party payors that provide for payments to the System at amounts different from its established rates. Approximately 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.

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.

Note 4 - Assets Limited as to Use

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

	2011	2010
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	2,433,831	1,703,604
Total investments limited as to use and temporarily restricted	59,596,589	39,372,126
Pledges receivable	881,452	998,243
Less current portion	(575,887)	(593,717)
Total assets limited as to use	$ 59,902,154	$ 39,776,652

Investments consist of the following:

	2011	2010
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	111,988	188,453
Total	$ 59,596,589	$ 39,372,126

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

	2011	2010
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	1,557,137	1,553,353
Total	$ 1,376,786	$ 2,368,021

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.

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	-	5,279,946	-	5,279,946
Federal Home Loan Mortgage Corporation	-	3,643,546	-	3,643,546
Federal Farm Credit Bank	-	1,861,408	-	1,861,408
Corporate bonds	-	13,182,400	-	13,182,400
Private bonds	-	5,901,849	-	5,901,849
Other	-	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	-	4,036,072	-	4,036,072
Federal Home Loan Mortgage Corporation	-	3,097,990	-	3,097,990
Federal Farm Credit Bank	-	1,221,750	-	1,221,750
Corporate bonds	-	4,407,524	-	4,407,524
Private bonds	-	5,922,238	-	5,922,238
Other	-	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

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	$ 91,942,951	$ 100,913,805	

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.

Note 7 - Long-term Debt

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

	2011	2010
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	67,089	136,933
Total	61,548,125	67,884,222
Less current portion	2,492,374	6,336,097
Long-term portion	$ 59,055,751	$ 61,548,125

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.

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.

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

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	$ 61,548,125

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.

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	$ 6,868,449

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.

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.

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
Curtailments	(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

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.

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.

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	$ -

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.

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:

Years Ending June 30	Pension Benefits
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:

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

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.

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
UPHP		
Total assets	$ 37,086,841	$ 44,501,052
Total liabilities	20,013,348	16,010,666
Stockholders' equity	$ 17,073,493	$ 28,490,386
Net income	$ 2,618,824	$ 7,151,056

	2011	2010
UPMC		
Total assets	$ 1,804,443	$ 1,506,931
Total liabilities	637,940	640,299
Stockholders' equity	$ 1,166,503	$ 866,632
Net income	$ 1,716,764	$ 2,411,997

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	$ 28,139,542	$ 30,797,484

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.

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.