

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):

\$25,040,000

Garden City Hospital Finance Authority (Michigan)

Hospital Revenue and Refunding Bonds, Series 1998A

Garden City Hospital Obligated Group

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

365128AE7

365128AF4

(originally assigned)

365128AJ6

365128AK3

(new - prerefunded)

365128AL1

365128AM9

(new - unrefunded balance)

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) 13 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):

\$46,870,000

Garden City Hospital Finance Authority (Michigan)

Hospital Revenue and Refunding Bonds, Series 2007A

Garden City Hospital Obligated Group

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

365128AG2

365128AH0

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) 13 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: _____

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

Fiscal Period Covered: _____

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: April – June 2010 (FY2010Q3)

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 I. Aronson Title President
Employer First River Advisory I.L.C.
Address 2640 Overridge Drive City Ann Arbor State MI Zip Code 48104
Telephone (734) 761-3624 Fax (734) 761-3614
Email Address aronson@firstriver.com Relationship to Issuer Dissemination Agent

Obligor Contact, if any:

Name M. Jane Hardy, CPA Title Director of Accounting
Employer Garden City Hospital
Address 6245 Inkster Road City Garden City State MI Zip Code 48135
Telephone (734) 458-4733 Fax (734) 422-0273
Email Address jhardy@gchosp.org Obligor Web Site Address www.gchosp.org

Investor Relations Contact, if any:

Name _____ Title _____
Telephone _____ Email Address _____

GARDEN CITY HOSPITAL, OSTEOPATHIC
6245 INKSTER ROAD
GARDEN CITY, MI 48135

OFFICER'S CERTIFICATE

DATED: AUGUST 17, 2010

This Officer's Certificate is delivered pursuant to Section 5.10(d)(iii) of the Loan Agreement between Garden City Hospital (the Corporation) and the Garden City Hospital Finance Authority (the Issuer), dated as of February 15, 2007. 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 February 15, 2007, or in the Amended and Restated Master Indenture and Security Agreement between the Corporation and Wells Fargo Bank, N.A., as Master Trustee, dated as of February 15, 2007.

As required by Section 5.10(c) of the Loan Agreement, attached is the Quarterly Report referenced therein. The Quarterly Report contains internally-prepared quarterly financial statements for the Fiscal Year (FY) quarter ended June 30, 2010, including a balance sheet as of the end of such quarter, statements of operations and changes in Net Assets for such quarter on a cumulative FY-to-date basis as required by Section 5.10(d)(i) of the Loan Agreement, volume and utilization data for such quarter on a cumulative FY-to-date basis as required by Section 5.10(d)(ii) of the Loan Agreement, and management's comments on financial condition and other matters as required by Section 5.10(d)(iv) of the Loan Agreement.

As required by Section 5.10(d)(iii) of the Loan Agreement, the undersigned certifies that:

1. I am the Chief Executive Officer of the Corporation and duly authorized to deliver this Officer's Certificate;
2. the Quarterly Financial Statements have been prepared on substantially the same accounting basis as the Corporation's audited financial statements for its Most Recent Fiscal Year;
3. the Quarterly Financial Statements are, to the best of my belief, true and correct, but may be subject to audit and Fiscal Year-end adjustments; and
4. no Default or Event of Default has occurred and/or is continuing.

GARDEN CITY HOSPITAL, OSTEOPATHIC
for itself and as Obligated Group Agent on behalf of the Obligated Group



By: Gary R. Ley, President and Chief Executive Officer



Series 2007A Bonds - Financial Report
Balance Sheet at June 30, 2010

	<u>Current Quarter</u>	<u>Previous Quarter</u>	<u>Change</u>
<u>Assets</u>			
<i>Current Assets</i>			
Cash and Cash Equivalents	\$6,630,569	\$5,230,210	\$1,400,359
Accounts Receivable	7,320,118	9,583,720	(2,263,602)
Due from Third Party Payors	1,390,512	182,044	1,208,468
Inventories	1,311,991	1,398,372	(86,381)
Prepaid Expenses and Other Current Assets	1,798,731	1,978,729	(179,998)
Total Current Assets	<u>18,451,921</u>	<u>18,373,075</u>	78,846
<i>Assets whose use is limited</i>			
Board-Designated Investments	20,754,986	20,694,249	60,737
Other Assets Whose Use is Limited	6,823,692	6,064,417	759,275
Total Assets whose use is limited	<u>27,578,678</u>	<u>26,758,666</u>	820,012
Due from related parties	1,607,961	1,386,860	221,101
<i>Other assets</i>			
Deferred bond costs, net	810,288	823,052	(12,764)
Investment in offshore captives	6,109,393	7,689,529	(1,580,136)
Other	165,000	165,000	0
Total Other assets	<u>7,084,681</u>	<u>8,677,581</u>	(1,592,900)
Property and equipment, net	<u>52,108,671</u>	<u>52,584,859</u>	(476,188)
Total Assets	<u><u>\$106,831,912</u></u>	<u><u>\$107,781,041</u></u>	<u><u>(\$949,129)</u></u>
<u>Liabilities and Net Assets</u>			
<i>Current Liabilities</i>			
Current portion obligation - Capital Leases	\$128,521	\$235,927	(\$107,406)
Current portion of Long Term Debt	809,792	813,792	(4,000)
Due to Third Party Payors			0
Accounts Payable	7,553,995	9,428,116	(1,874,121)
Accrued Wage / Benefits Payable	5,916,073	4,000,859	1,915,214
Total Current Liabilities	<u>14,408,381</u>	<u>14,478,694</u>	(70,313)
<i>Other Liabilities</i>			
Reserve for Professional Liability Claims	3,038,383	3,297,997	(259,614)
Pension Liability	15,103,346	14,953,846	149,500
Obligations under Capital Leases, less current portion	1,041,070	1,041,070	0
Long Term Debt, less current portion	54,059,531	54,059,531	0
Total Other Liabilities	<u>73,242,330</u>	<u>73,352,444</u>	(110,114)
Total Liabilities	<u>87,650,711</u>	<u>87,831,138</u>	(180,427)
<i>Net Assets</i>			
Unrestricted	19,018,196	19,787,136	(768,940)
Temporarily Restricted	163,005	162,767	238
Total Net Assets	<u>19,181,201</u>	<u>19,949,903</u>	(768,702)
Total Liabilities and Net Assets	<u><u>\$106,831,912</u></u>	<u><u>\$107,781,041</u></u>	<u><u>(\$949,129)</u></u>



Series 2007A Bonds - Financial Report

Income Statement and Key Statistics for the Quarter Ended June 30, 2010

	Year To Date			
	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>	<u>Prior Year</u>
<u>Revenues:</u>				
Net Patient Service Revenue	\$103,462,761	\$109,042,063	(\$5,579,302)	\$106,972,199
Other Operating Revenue	3,301,739	3,128,984	172,755	3,834,095
Total Operating Revenue	106,764,500	112,171,047	(5,406,547)	110,806,294
<u>Operating Expenses:</u>				
Salaries and Wages	43,352,800	43,235,216	(117,584)	43,817,517
Employee Benefits	11,760,488	12,216,602	456,114	12,497,368
Professional Fees	1,652,708	1,718,925	66,217	1,805,516
Supplies	19,436,605	19,863,490	426,885	20,094,666
Purchased Services	7,454,919	7,101,489	(353,430)	8,298,182
Insurance	1,671,440	2,691,000	1,019,560	2,231,683
Bad Debt	8,954,148	9,794,736	840,588	8,474,286
Other Operating Expense	7,859,279	8,028,219	168,940	8,142,037
Subtotal Operating Expenses	102,142,387	104,649,677	2,507,290	105,361,255
Earnings before Int,Depn,Amort	4,622,113	7,521,370	(2,899,257)	5,445,039
Interest	2,174,198	2,164,553	(9,645)	2,238,292
Depreciation and Amortization	4,872,585	5,400,000	527,415	4,826,542
(Loss)/Income from Operations	(\$2,424,670)	(\$43,183)	(\$2,381,487)	(\$1,619,795)
Investment income	1,167,653	758,400	\$409,253	214,160
Net (Loss)/Income	(1,257,017)	715,217	(1,972,234)	(1,405,635)
<u>Key Statistics:</u>				
Discharges (Excl. Newborn)	6,254	6,832	(578)	6,766
Patient Days	32,978	35,038	(2,060)	34,911
Average Length of Stay (M/S)	5.20	5.10	(0.10)	5.10
Surgical Cases	4,913	5,401	(488)	5,337
Emergency Visits	33,477	33,835	(358)	33,033
Case Mix Index	1.4460	1.3972	0.0488	1.4057
Outpatient Gross Revenue (000)	\$127,638	\$133,079	(\$5,442)	\$128,163



Series 2007A Bonds - Financial Report
Statement of Changes in Net Assets

	Quarter Ended	Nine Months Ended
	June 30	June 30
<i>Unrestricted net assets</i>		
Excess of revenue over expenses	\$ (763,195)	\$ (1,257,017)
Pension liability adjustment		
Transfer to/from affiliates	(5,745)	46,593
Increase in unrestricted net assets	<u>(768,940)</u>	<u>(1,210,424)</u>
<i>Temporarily restricted net assets</i>		
Contributions	238	47,360
Net assets released from restrictions		-
Increase (decrease) in temporarily restricted net assets	<u>238</u>	<u>47,360</u>
<i>Increase / (Decrease) in net assets</i>	(768,702)	(1,163,064)
<i>Net assets at beginning of period</i>	19,949,903	20,344,265
<i>Net assets at end of period</i>	\$ 19,181,201	\$ 19,181,201



Series 2007A Bonds - Financial Report
Cash Flow Statement for the period Ended June 30, 2010

	Quarter Ended June 30	Nine Months Ended June 30
Operating activities		
(Decrease) increase in net assets	\$ (768,702)	\$ (1,163,064)
Adjustments to reconcile (decrease) increase in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	1,711,865	4,872,585
Provision for uncollectible accounts	2,808,906	8,954,148
Change in investment in captive insurance company	1,580,136	(46,986)
Changes in assets and liabilities:		
Accounts receivable	(545,304)	(7,020,002)
Due to third-party payors	(1,208,468)	(1,671,613)
Due to/from related parties	(221,101)	(1,252,789)
Inventories, prepaid expenses, and other assets	266,379	131,693
Investments	(820,012)	(2,641,821)
Accounts payable	(1,874,121)	(310,178)
Accrued benefits payable	1,915,214	2,338,973
Reserve for professional liability claims	(259,614)	545,912
Pension obligation	149,500	448,500
Net cash provided by (used in) operating activities	<u>2,734,678</u>	<u>3,185,358</u>
Additions to property and equipment – net	(1,222,913)	(3,276,663)
Decrease (increase) in bond proceeds designated for capital projects		297,311
Proceeds from sale of property and equipment		–
Other		–
Net cash (used in) provided by investing activities	<u>(1,222,913)</u>	<u>(2,979,352)</u>
Financing activities		
Payments on capital leases	(107,406)	(308,588)
Payments on long-term debt	(4,000)	8,362
Net cash (used in) provided by financing activities	<u>(111,406)</u>	<u>(300,226)</u>
Increase/(Decrease) in cash and cash equivalents	1,400,359	(94,220)
Cash and cash equivalents at beginning of period	5,230,210	6,724,789
Cash and cash equivalents at end of period	<u>\$ 6,630,569</u>	<u>\$ 6,630,569</u>

1. Organization and Significant Accounting Policies

Garden City Hospital (the Corporation), a Michigan nonprofit organization, is the parent corporation of Garden City Hospital Foundation (the Foundation), Garden Nursing Center, Inc., Amerigard Development, Inc., United Home Health Services, Inc., and Amerigard Diagnostic Centre. Garden Nursing Center, Inc. formerly owned and operated Advance Nursing Center (Advance).

Since the Corporation is the only member of the Obligated Group, the financial statements only include the accounts of the Corporation and not the above subsidiaries.

Cash and Cash Equivalents

The Corporation considers all investments with an original maturity of three months or less when purchased, excluding amounts whose use is limited by other arrangements and under trust agreements, to be cash equivalents.

Investments

The Corporation has designated its entire investment portfolio as trading, with unrealized gains and losses included in the excess of (expenses over revenue) revenue over expenses. Investment income (including realized and unrealized gains and losses on investments, interest and dividends) is reported as operating gains (losses) unless the income is restricted by donor or law.

Assets Whose Use Is Limited

Assets whose use is limited include those assets held by trustees under indenture agreements, funds designated by the board of trustees for capital improvements, donor restricted funds which arise through specific contributions to the Corporation, and deposits held by the Corporation's multi-provider captive insurance company. As such, these assets are available to fund only approved expenditures.

Assets whose use is limited are comprised substantially of cash and cash equivalents, marketable securities, and debt securities, and are stated at fair value.

Inventory

Inventory, which consists principally of medical supplies, are valued at the lower of cost or market. Cost is determined based on the first-in, first out method.

Property and Equipment

Property and equipment, including amounts under capital lease, are stated at cost or estimated fair value at the date of donation, and are depreciated by the straight-line method. Estimated

useful lives by asset category are as follows: land improvements – 2 to 25 years; buildings and fixed equipment – 3 to 50 years; and furniture and equipment – 3 to 20 years.

Bond Issue Costs and Unamortized Bond Discounts

Bond issue costs and unamortized bond discounts are amortized by the bonds outstanding method over the terms of the bonds.

Net Patient Service Revenue

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. Estimated settlements are recorded in the period the related services are rendered and adjusted in future periods as final settlements are determined. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Management believes that adequate provision has been made in the financial statements for any adjustments that may result from final settlements.

The majority of the Corporation's services are reimbursed under fixed price provisions of third-party payment programs (primarily Medicare, Medicaid, and Blue Cross). Under these provisions, payment rates for patient care are determined prospectively on various bases, and the Corporation's revenues are limited to such amounts. Payments are also received for the Corporation's capital and medical education costs, subject to certain limits. Additionally, the Corporation has entered into agreements with commercial insurance carriers, certain health maintenance organizations, and preferred provider organizations. The basis for payment under these agreements includes prospectively determined per diem rates and discounts from established charges.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Management believes that it is in compliance with such laws and regulations. Compliance with such laws and regulations is subject to government review and interpretation as well as significant regulatory actions, including fines, penalties, and possible exclusion from the Medicare and Medicaid programs

The Corporation grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor arrangements.

The provision for bad debts is based upon management's assessment of historical and expected net collections considering business and economic conditions, trends in health care coverage and other collection indicators. Periodically throughout the year management assesses the adequacy of allowance for uncollectible accounts based upon historical write off experience by payor category. The results of this review are then used to make any modifications to the provisions for bad debts to establish an appropriate allowance for uncollectible receivables. After satisfactions of amounts due from insurance, the Corporation follows established guidelines for placing certain past due patient balances with collection agencies.

1. Organization and Significant Accounting Policies (continued)

Charity Care

The Corporation provides health care services to patients regardless of their ability to pay. The Corporation provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Corporation does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

Excess of Revenue Over Expenses

The statement of operations includes the excess of revenue over expenses. Changes in unrestricted net assets which are excluded from the excess of revenue over expenses, consistent with industry practice, include contributions of and net assets released from restrictions for long-lived assets and recognition of additional minimum pension liability adjustments.

Use of Estimates

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

Tax Status

The Corporation has been determined by the Internal Revenue Service to be an organization as described under Internal Revenue Code Section 501(c)(3), and as such is exempt from federal income taxes under Code Section 501(a).

2. Assets Whose Use is Limited

Assets whose use is limited as of June 30 and March 31 consisted of the following:

	<u>June</u>	<u>March</u>
Bond proceeds held by trustee	\$ 6,660,687	\$ 5,901,650
Bond proceeds held by trustee for construction	-	-
Board designated for capital improvements	20,754,986	20,694,249
Temporarily restricted investments	<u>163,005</u>	<u>162,767</u>
Total	<u>\$ 27,578,678</u>	<u>\$ 26,758,666</u>

3. Property and Equipment

Property and equipment as of June 30 and March 31, which are stated at cost, consists of the following:

	<u>June</u>	<u>March</u>
Land and land improvements	\$ 1,575,139	\$ 1,575,139
Buildings and fixed equipment	77,571,275	76,914,757
Furniture and equipment	53,005,576	52,098,412
Construction-in-progress	1,078,551	1,419,319
	<u>133,230,541</u>	<u>132,007,627</u>
Less accumulated depreciation	81,121,870	79,422,768
Total property and equipment	<u>\$ 52,108,671</u>	<u>\$ 52,584,859</u>

4. Long-Term Debt

Long-term debt as of June 30 and March 31 consists of:

	<u>June</u>	<u>March</u>
Garden City Hospital Finance Authority:		
Revenue Bonds – Series 1998A	\$ 7,830,000	\$ 7,830,000
Revenue and Refunding Bonds – Series 2007A	46,870,000	46,870,000
Other	169,323	173,323
	<u>54,869,323</u>	<u>54,873,323</u>
Less current portion	809,792	813,792
	<u>\$ 54,059,531</u>	<u>\$ 54,059,531</u>

The Corporation is the sole member of the Garden City Hospital Obligated Group (the Obligated Group). The Bonds are secured by a security interest in certain tangible and intangible property of the Corporation.

In March, 2007 the Obligated Group issued Garden City Hospital Finance Authority Hospital Revenue and Refunding Series 2007A, subject to redemption in amounts ranging from \$1,325,000 to \$3,475,000 in 2038. The bonds bear interest at rates ranging from 4.875% to 5%. The proceeds from the Series 2007A Bonds were used to refund the Series 1996 Bonds, advance refund a portion of the Series 1998 Bonds, and provide funding for the hospital's capital projects.

In 1998, the Obligated Group issued Garden City Hospital Finance Authority Hospital Revenue and Refunding Bonds, Series 1998A. The bonds bear interest at rates ranging from 5.62% to 5.75%. During 2007, the Obligated Group advance refunded \$9,135,000 of the Series 1998A Bonds. The remaining redemption amounts range from \$755,000 to \$1,225,000 in 2017. The Obligated Group has been released as primary obligor of the refunded bonds, and for financial reporting purposes has derecognized the liability.

The Corporation has a \$300,000 Letter of Credit outstanding through April 30, 2011, related to workers' compensation claims.

**GARDEN CITY HOSPITAL, OSTEOPATHIC
6245 INKSTER ROAD
GARDEN CITY, MI 48135**

**MANAGEMENT'S COMMENTS
RELATING TO THE QUARTERLY PERIOD ENDED JUNE 30, 2010 (FY2010Q3)**

DATED AUGUST 17, 2010

These Management's Comments are delivered pursuant to Section 5.10(d)(iv) of the Loan Agreement between Garden City Hospital (the Corporation) and the Garden City Hospital Finance authority (the Issuer), dated as of February 15, 2007. All capitalized terms used herein are as defined in the Loan Agreement, in the Official Statement relating to the Series 2007A Bonds dated March 7, 2007 (the OS), in the Trust Indenture between the Issuer and Wells Fargo Bank, N.A., as Bond Trustee, dated as of February 15, 2007, or in the Amended and Restated Master Indenture and Security Agreement between the Corporation and Wells Fargo Bank, N.A., as Master Trustee, dated as of February 15, 2007.

SUMMARY OF PERFORMANCE

The Corporation reported a Net Loss of (\$763,000) for FY2009Q3 as a result of lower than expected patient volume. Expenses in total were favorable to budget, in part due to a large favorable adjustment to malpractice expense due to favorable claims experience. In addition to insurance, bad debt, wages, and supplies were favorable to budget but were offset by unfavorable variances in purchased services and other expenses. For the nine months ended June 30, 2010, the Corporation reported a Net Loss of (\$1,257,000) as a result of lower than expected patient volume, though offset somewhat by favorable patient acuity the first nine months of the year. Insurance, bad debt, depreciation, employee benefits and supplies are all favorable to budget but were offset by unfavorable variances in purchased services and wages.

PATIENT SERVICE VOLUMES

Inpatient discharges were unfavorable to budget (311) for FY2010Q3. Average Length of Stay for Medical/Surgical patients was 5.08 days, 0.4 percent favorable to budget of 5.10. YTD Average Length of Stay for Medical/Surgical patients was 5.20 vs. a budget of 5.10 due to the level of patient acuity experienced in the first nine months of the year. Medicare Case Mix Index for the quarter was 1.4474, 3.6 percent favorable to budget. YTD Medicare Case Mix Index was 1.4450 vs. a budget of 1.3972.

Outpatient revenue volume was unfavorable to budget by 6.2 percent for the quarter and 4.1 percent for the nine months YTD. Emergency visits were unfavorable by 48 for the quarter. For the nine months YTD, Emergency visits were unfavorable 1.0 percent. YTD Outpatient surgical cases were unfavorable by 297, or 17 percent. YTD Outpatient CT volume was unfavorable by 969, or 9%. Outpatient lab volume was unfavorable to budget by 2 percent for the nine months ended YTD.

RESULTS OF OPERATIONS

The volume trends discussed above, despite higher levels of patient acuity for the first nine months of the year, caused unfavorable net revenue of (\$3,501,000) for the quarter and (\$5,579,000) for the nine months YTD. Investment income for the quarter of \$166,000 was unfavorable to budget by (\$87,000). YTD Investment income of \$1,168,000 was favorable to budget by \$409,000.

Labor costs for the quarter were favorable by \$431,000 primarily due to the reduction of staff hours. Employee benefits were favorable by \$150,000 due to lower employee health costs. YTD employee benefits are favorable by \$456,000 due to favorable experience in health claims.

Supplies expense was \$423,000 favorable in FY2010Q3, primarily due to the unfavorable variance in patient volume.

Purchased services for the quarter were unfavorable (\$268,000), primarily due to consulting fees related to revenue cycle initiatives and increased outsourced lab costs for the growing Outreach lab business.

Insurance is favorable to budget \$997,000 for the quarter. The insurance captive reported a reduction in excess of \$1,000,000 for required claims liability for tail coverage.

Bad Debt expense was favorable to budget by \$489,000 for the quarter and \$841,000 for the nine months YTD. On a year to date basis, Bad debt expense (8.4 percent) remains below the 12.2 percent of total revenue projected by management (OS page A-59).

Depreciation is favorable by \$527,000 for the nine months YTD due to the timing of capital purchases.

BALANCE SHEET ACTIVITY

Cash increased during FY2010Q3 by \$2.2 million due to a \$2.3 million distribution from the offshore captive insurance company. Days cash on hand at June 30, 2010 stood at 72 days, which is higher than the cash position at September 30, 2009 of 69 days. Days in Accounts Payable at June 30, 2010 stood at 56.8 days, which is close to the position at September 30, 2009 of 56.1.

NEW CHIEF FINANCIAL OFFICER

Timothy M. Jodway, CPA, assumed the position of Vice President of Finance and Chief Financial Officer in June 2010. Mr. Jodway had been employed most recently as the Vice President of Finance and Chief Financial Officer of Northern Michigan Regional Health System (NMRHS), Petoskey, a position he had held since February 2005. Mr. Jodway had originally joined NMRHS in 2004 as Director of Finance. During his tenure at NMRHS, Mr. Jodway's accomplishments included the renegotiation of payor contracts, the redesign of coding and case management processes, the development of a captive insurance company, the improvement of budgeting and cash management processes and the implementation of new productivity measures. Prior to joining NMRHS, Mr. Jodway held financial management positions for the McLaren Health Care Corporation, Flint, Michigan, including Chief Financial Officer of its Lapeer Regional Hospital operating unit. He began his career in public accounting, specializing in auditing and consulting functions for health care organizations.

Mr. Jodway was conferred his Bachelors degree in accounting by Michigan State University, East Lansing. He is a Certified Public Accountant licensed in Michigan.

CONFERENCE CALL WITH BENEFICIAL OWNERS OF THE RELATED BONDS

Corporation management has scheduled a conference call for Friday, August 20, at 1:00 P.M. Eastern Daylight Time. Access instructions will be provided separately to such Beneficial Owners by First River Advisory L.L.C., the Corporation's Financial Advisor. The conference call will be recorded, and the playback access instructions will be posted on EMMA.