

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):

\$17,860,000

Gaylord Hospital Finance Authority

Hospital Revenue and Refunding Bonds, Series 2004

Otsego Memorial Hospital Association Obligated Group

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

368177AB7

368177AC5

368177AD3

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) 30 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: January – December 2005 (FY2005)

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

Fiscal Period Covered: January – December 2005 (FY2005)

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

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

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

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

Period Covered: _____

F. Other Secondary Market Information (Specify): _____

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

Issuer Contact:

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

Dissemination Agent Contact, if any:

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Address 2640 Override Drive City Ann Arbor State MI Zip Code 48104
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Email Address aronson@firstriver.com Relationship to Issuer Dissemination Agent

Obligor Contact, if any:

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Employer Otsego Memorial Hospital
Address 825 North Center Street City Gaylord State MI Zip Code 49735
Telephone (989) 731-2215 Fax (989) 731-2217
Email Address T.Lemon@gaylordhospital.org Obligor Web Site Address www.gaylordhospital.org

Investor Relations Contact, if any:

Name _____ Title _____
Telephone _____ Email Address _____

OTSEGO MEMORIAL HOSPITAL ASSOCIATION
825 NORTH CENTER STREET
GAYLORD, MI 49735

OFFICER'S CERTIFICATE

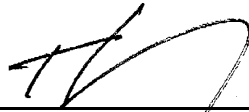
DATED: May 1, 2006

This Officer's Certificate is delivered pursuant to the Loan Agreement between Otsego Memorial Hospital Association (on behalf of Itself and as Obligated Group Agent on behalf of the Obligated Group) (the Corporation) and Gaylord Hospital Finance Authority (the Issuer), dated as of November 1, 2004, the Continuing Disclosure Undertaking delivered by the Corporation in connection with the Series 2004 Bonds (the CDU), and the Indenture and Loan Agreement among the Issuer, the Corporation and Fifth Third Bank (Northern Michigan) dated as of February 1, 2005 relating to the Series 2005 Bonds. All capitalized terms used herein are as defined in the Loan Agreement or in the Master Trust Indenture between the Issuer and Wells Fargo Bank N.A., as Master Trustee, dated as of November 1, 2004.

Attached are audited financial statements for the Fiscal Year ended December 31, 2005 as required by Section 5.10(a) of the Loan Agreement, Section 4(a) of the CDU, and Section 605(a)(i) of the Indenture and Loan Agreement, the financial and statistical information required by Section 4(b) of the CDU, and the Management's Report required by Section 4(c) of the CDU. The undersigned certifies that:

1. I am the Chief Executive Officer of the Corporation and duly authorized to deliver this Officer's Certificate on behalf of the Corporation and the Obligated Group;
2. The Obligated Group's Debt Service Coverage Ratio for FY2005 is 1.55 times Maximum Annual Debt Service (MADS), which complies with the requirement of at least 1.50 times MADS as required by Section 804 of Supplemental Indenture No. 1 between the Corporation and the Master Trustee dated as of November 1, 2004, and by Paragraph (b) of Exhibit D to the Indenture and Loan Agreement;
3. The Obligated Group's average age of its trade accounts payable for FY2005 is 45 days, which complies with the requirement of no greater than 75 days, as required by Section 501(d) of the Master Indenture;
4. The Obligated Group's Days Cash on Hand at FYE2005 is 55.6 (calculated without deducting interest expense, which, although permitted by the Master Indenture, differs from the conventional definition, including that used in the Official Statement relating to the Series 2004 Bonds) which complies with the FY2005 requirement of at least 40 days, as required by Section 501(e) of the Master Indenture;

5. The Obligated Group's Unrestricted Net Assets as of FYE2005 is \$17,879,948, which complies with the requirement of at least \$13,500,000, as required by Paragraph (i) of Exhibit D to the Indenture and Loan Agreement; and
6. As required by Section 605(b)(i) of the Indenture and Loan Agreement, to the best of my knowledge, neither has any Event of Default occurred under the Indenture and Loan Agreement, nor has any event occurred which, with notice and/or the passage of time, would constitute such as Event of Default thereunder.



Thomas R. Lemon, Chief Executive Officer

OTSEGO MEMORIAL HOSPITAL ASSOCIATION

ANNUAL REPORT FOR THE FISCAL YEAR ENDED DECEMBER 31, 2005 (FY2005)

Unless otherwise noted, all data apply to the Fiscal Year Ended December 31, 2005, or are accurate as of December 31, 2005, as appropriate. OS pages refer to the Official Statement relating to the Securities, dated November 11, 2004. The source of all data is the Corporation's records.

| <i>Hospital Market Shares among Market Area Residents for Secondary Inpatient Admissions, Outpatient Invasive Procedures and Selected Specialties</i> | | | | | |
|---|---------------------|-----------|-------|-------|-------|
| | Calendar Years | | | | |
| | First Six Months | Full Year | | | |
| | 2005 | 2004 | 2003 | 2002 | 2001 |
| Cardiology | 52.3% | 50.9% | 55.9% | 51.7% | 52.4% |
| Gastroenterology | 51.0% | 47.3% | 39.0% | 46.8% | 46.9% |
| General Surgery | 39.4% | 47.3% | 49.6% | 47.3% | 48.2% |
| Pulmonology | 57.4% | 56.8% | 61.7% | 53.4% | 54.2% |
| Obstetrics | 60.8% | 61.3% | 57.8% | 60.1% | 59.3% |
| Orthopedics | 66.8% | 67.1% | 70.5% | 65.6% | 66.0% |
| All Secondary Inpatient Admissions | 53.4% | 52.8% | 52.7% | 50.7% | 51.7% |
| Gastroenterology | 46.4% | 49.4% | 54.0% | 52.4% | 44.9% |
| General Medicine | 71.7% | 74.2% | 77.3% | 69.7% | 58.4% |
| General Surgery | 60.4% | 64.6% | 69.8% | 70.3% | 69.6% |
| Neurosurgery | 57.8% | 56.7% | 61.6% | 40.2% | 57.7% |
| Obstetrics | 88.9% | 92.8% | 93.1% | 95.4% | 87.0% |
| Ophthalmology | 59.9% | 58.1% | 57.1% | 56.4% | 56.5% |
| Orthopedics | 78.0% | 77.2% | 77.7% | 73.1% | 73.4% |
| All Outpatient Invasive Procedures | 59.3% | 59.6% | 62.5% | 58.8% | 57.0% |
| Source: MHA | | | | | |
| Shaded cells indicate information not available; data on invasive outpatient procedures were not compiled prior to 2001 | | | | | |

MUNICIPAL SECONDARY MARKET DISCLOSURE
Gaylord Hospital Finance Authority / Otsego Memorial Hospital Association
Fiscal Year Ended December 31, 2005
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| <i>Historical Acute Care Utilization (excludes newborns)</i> | | | | | | |
|--|---------------------------------------|-------------|------------------|---------------|-------------|-------------|
| | <i>Fiscal Years Ended December 31</i> | | | | | |
| | <i>2005</i> | <i>2004</i> | <i>2003</i> | <i>2003</i> | <i>2002</i> | <i>2001</i> |
| | | | <i>Corrected</i> | <i>Per OS</i> | | |
| Days in Period | 365 | 366 | 365 | 365 | 365 | 365 |
| Licensed Beds | 53 | 53 | 53 | 53 | 53 | 53 |
| Staffed Beds | 39 | 39 | 39 | 39 | 39 | 39 |
| Admissions | 2,009 | 2,069 | 2,109 | 2,146 | 1,807 | 1,709 |
| Change over Previous Period | (4.7)% | (3.6)% | 16.7% | | 5.7% | 3.7% |
| Patient Days | 5,873 | 5,699 | 6,100 | 6,100 | 5,282 | 4,925 |
| Births | 315 | 291 | 296 | 296 | 285 | 278 |
| Average Daily Census | 16.1 | 15.6 | 16.7 | 16.7 | 14.5 | 13.5 |
| Average Length of Stay | 2.9 | 2.8 | 2.9 | 2.8 | 2.9 | 2.9 |
| Occupancy Rate ¹ (%) | 41.3 | 39.9 | 42.9 | 42.9 | 37.1 | 34.6 |

¹ Based on Staffed Beds

| <i>McReynolds Hall (Skilled Nursing) Utilization</i> | | | | | |
|--|---------------------------------------|-------------|-------------|-------------|-------------|
| | <i>Fiscal Years Ended December 31</i> | | | | |
| | <i>2005</i> | <i>2004</i> | <i>2003</i> | <i>2002</i> | <i>2001</i> |
| Days in Period | 365 | 366 | 365 | 365 | 365 |
| Licensed and Staffed Beds | 34 | 34 | 34 | 34 | 34 |
| Patient Days | 11,159 | 10,874 | 10,514 | 10,969 | 11,144 |
| Average Daily Census | 30.6 | 29.7 | 28.8 | 30.1 | 30.5 |
| Occupancy Rate | 89.9 | 87.4 | 84.7 | 88.4 | 89.8 |

MUNICIPAL SECONDARY MARKET DISCLOSURE
Gaylord Hospital Finance Authority / Otsego Memorial Hospital Association
Fiscal Year Ended December 31, 2005
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| <i>Emergency Department and MedCare Volumes</i> | | | | | | |
|---|---------------------------------------|-------------|-------------|-------------|-------------|-------------|
| | <i>Fiscal Years Ended December 31</i> | | | | | |
| | <i>2005</i> | <i>2004</i> | <i>2003</i> | <i>2002</i> | <i>2001</i> | <i>2000</i> |
| ED Visits | 12,666 | 12,155 | 12,635 | 12,869 | 12,221 | 11,661 |
| Change over Previous Period | 4.2% | (3.8)% | (1.8)% | 5.3% | 4.8% | 1.3% |
| MedCare Visits | 15,074 | 13,468 | 15,204 | 15,589 | 15,320 | 13,630 |
| Change over Previous Period | 11.9% | (11.4)% | (2.5)% | 1.8% | 12.4% | 0.0% |

| <i>Surgical and Other Procedures</i> | | | | | | |
|---|---------------------------------------|-------------|-------------|-------------|-------------|-------|
| | <i>Fiscal Years Ended December 31</i> | | | | | |
| | <i>2005</i> | <i>2004</i> | <i>2003</i> | <i>2002</i> | <i>2001</i> | |
| Inpatient Surgeries | 922 | 985 | 527 | 667 | 738 | |
| Outpatient | Surgeries | 3,501 | 3,728 | 4,210 | 3,240 | 2,671 |
| | Other Procedures ¹ | 4,023 | 4,309 | 4,380 | 3,774 | 3,303 |
| | Total Outpatient | 7,524 | 8,037 | 8,590 | 7,014 | 5,974 |
| Grand Total | 8,446 | 9,022 | 9,117 | 7,681 | 6,712 | |
| Change over Previous Period | (6.4)% | (1.0)% | 18.7% | 14.4% | 7.9% | |
| Percent Outpatient | 89.1% | 89.1% | 94.2% | 91.3% | 89.0% | |
| ¹ Reflects corrected data from prior FYs | | | | | | |

MUNICIPAL SECONDARY MARKET DISCLOSURE
Gaylord Hospital Finance Authority / Otsego Memorial Hospital Association
Fiscal Year Ended December 31, 2005
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| <i>Ancillary Services Provided to Inpatients</i> | | | | | |
|--|---------------------------------------|-------------|-------------|-------------|-------------|
| | <i>Fiscal Years Ended December 31</i> | | | | |
| | <i>2005</i> | <i>2004</i> | <i>2003</i> | <i>2002</i> | <i>2001</i> |
| Laboratory | 147,102 | 124,075 | 108,585 | 90,629 | 85,048 |
| Electrocardiology | 2,079 | 1,962 | 2,132 | 1,686 | 1,527 |
| Radiology | 4,506 | 4,249 | 4,087 | 3,654 | 3,195 |
| Cardio-Pulmonary | 13,818 | 13,205 | 11,253 | 8,421 | 7,688 |
| Physical Therapy | 5,946 | 5,627 | 5,153 | 3,724 | 3,168 |
| Occupational Therapy | 2,624 | 2,515 | N/A | N/A | N/A |

| <i>Ancillary Services Provided to Outpatients</i> | | | | | |
|---|---------------------------------------|-------------|-------------|-------------|-------------|
| | <i>Fiscal Years Ended December 31</i> | | | | |
| | <i>2005</i> | <i>2004</i> | <i>2003</i> | <i>2002</i> | <i>2001</i> |
| Laboratory | 1,043,392 | 930,189 | 849,157 | 786,482 | 648,182 |
| Electrocardiology | 6,943 | 6,327 | 6,187 | 5,610 | 4,766 |
| Electroencephalography | 179 | 169 | 188 | 173 | 147 |
| Radiology | 38,978 | 38,627 | 36,322 | 33,592 | 32,135 |
| Cardio-Pulmonary | 6,489 | 7,027 | 6,041 | 5,828 | 6,025 |
| Physical Therapy | 13,524 | 12,945 | 10,779 | 10,470 | 9,965 |
| Occupational Therapy | 4,899 | 4,809 | 6,214 | 3,855 | 3,643 |
| Cardiac Rehabilitation | 5,622 | 4,437 | 5,358 | 3,853 | N/A |

MUNICIPAL SECONDARY MARKET DISCLOSURE
Gaylord Hospital Finance Authority / Otsego Memorial Hospital Association
Fiscal Year Ended December 31, 2005
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| <i>Payor Mix by Gross Revenue (excludes physician revenue)</i> | | | | | |
|--|---------------------------------------|-------------|-------------|-------------|-------------|
| | <i>Fiscal Years Ended December 31</i> | | | | |
| | <i>2005</i> | <i>2004</i> | <i>2003</i> | <i>2002</i> | <i>2001</i> |
| Medicare | 44.3% | 42.2% | 41.1% | 39.4% | 37.0% |
| Medicaid | 11.4% | 11.8% | 11.3% | 11.5% | 10.6% |
| Blue Cross | 28.1% | 30.1% | 31.2% | 30.3% | 32.0% |
| Self-Pay | 4.4% | 3.9% | 4.4% | 5.6% | 5.2% |
| Other | 11.8% | 12.0% | 12.0% | 13.2% | 15.2% |
| Total | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |

| <i>Percentage of Gross Patient Service Revenue</i> | | | | | |
|--|---------------------------------------|-------------|-------------|-------------|-------------|
| | <i>Fiscal Years Ended December 31</i> | | | | |
| | <i>2005</i> | <i>2004</i> | <i>2003</i> | <i>2002</i> | <i>2001</i> |
| Inpatient | 24.3% | 34.7% | 30.4% | 25.7% | 24.3% |
| Outpatient | 71.4% | 60.4% | 65.2% | 69.4% | 70.6% |
| Skilled Nursing | 4.3% | 4.9% | 4.4% | 4.9% | 5.1% |

| <i>Debt Service Coverage Ratio Calculations (\$000s omitted, except for Debt Service Coverage Ratios)</i> | |
|--|---|
| | <i>Fiscal Years Ended December 31</i> |
| | <i>2005</i> |
| Net Income Available for Debt Service | 3,525,143 |
| Maximum Annual Debt Service ¹ | 2,268,556 |
| Debt Service Coverage Ratio (x) ² | 1.55 |
| ¹ Calculated in accordance with the Master Indenture based on data available as of the end of the FY | |
| ² As defined in 2003 U.S. Not-For-Profit Median Health Care Ratios published by Standard & Poor's on September 22, 2003 | |

OTSEGO MEMORIAL HOSPITAL ASSOCIATION
MANAGEMENT'S REPORT
FY2005

This Management's Report is delivered pursuant to Section 5.10(b) of the Loan Agreement between Otsego Memorial Hospital Association (on behalf of Itself and as Obligated Group Agent on behalf of the Obligated Group) (the Corporation) and Gaylord Hospital Finance Authority (the Issuer), dated as of November 1, 2004, relating to the Issuer's \$17,860,000 Hospital Revenue and Refunding Bonds, Series 2004, issued on behalf of the Corporation (the Series 2004 Bonds), and Section 605(a)(i) of the Indenture and Loan Agreement among the Corporation, the Issuer and Fifth Third Bank (Northern Michigan), dated as of February 1, 2005, relating to the Issuer's \$9,000,000 Hospital Revenue Bonds, Series 2005, issued on behalf of the Corporation (the Series 2005 Bonds). All capitalized terms used herein are as defined in the Loan Agreement, in the Indenture and Loan Agreement, in the Master Trust Indenture between the Issuer and Wells Fargo Bank, N.A., as Master Trustee, dated as of November 1, 2004, or in the Official Statement relating to the Series 2004 Bonds dated November 11, 2004 (the OS).

This Management's Report should be read in conjunction with the most recent Management's Report which related to FY2005Q4.

PHYSICIAN COMPLEMENT

The Corporation has recruited an additional General Surgeon who is expected to begin employment on July 1, 2006. One of the four physicians who had been associated with the independent orthopedic surgery group practice discontinued his association, but has remained in practice locally and a member of the Hospital's medical staff. The group practice has recruited a new orthopedic surgeon who is expected to commence practice on July 1, 2006.

NEW CHIEF FINANCIAL OFFICER

Timothy G. Eckert has been engaged as the Corporation's new Vice President of Finance. He will commence his employment on Monday, May 1. Mr. Eckert has held chief financial officer positions at four hospital, most recently at Rochelle Community Hospital, Rochelle, Illinois, where he also held the position of Chief Operating Officer. Prior to his employment at Rochelle Community Hospital, Mr. Eckert served as Chief Financial Officer for Fairmont Community Hospital, Fairmont, Minnesota, St. Luke's Hospital, Duluth, Minnesota, and Goshen General Hospital, Goshen, Indiana. Among Mr. Eckert's accomplishments in these positions are improvements in financial condition and cash flow, and the implementation of information systems. At the beginning of his career, Mr. Eckert held accounting and internal auditing positions at William

MUNICIPAL SECONDARY MARKET DISCLOSURE
Gaylord Hospital Finance Authority / Otsego Memorial Hospital Association
Fiscal Year Ended December 31, 2005
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Beaumont Hospitals, Royal Oak, Michigan. He is a 1972 graduate of Eastern Michigan University, Ypsilanti, with a Bachelor's degree in Finance and Accounting.

STATUS OF THE IMPROVEMENT PROJECT

The Improvement Project continues to remain on schedule for a mid- to late-June completion date. On February 28, 2006, the Corporation was granted approval to occupy the Intensive Care Unit, the four procedure rooms within the surgical suite, the cardiopulmonary department, and the renovated space within the radiology department.

The remainder of the Improvement Project, which is scheduled to be complete in mid- to late-June, encompasses the completion of the laboratory and the pharmacy, the completion of site work (a new 40-stall parking lot on the north side of the Hospital Facility), and the installation of the rehabilitation services and cardiac rehabilitation departments in their new and expanded areas. These areas had been utilized as the temporary locations for the other departments while their spaces were in the process of construction or renovation.

To supplement this report, photographs of the Improvement Project's construction are available on the Corporation's website at www.gaylordhospital.org.

Otsego Memorial Hospital and Subsidiaries

**Consolidated Financial Report
with Additional Information
December 31, 2005**

Otsego Memorial Hospital and Subsidiaries

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Plante & Moran, PLLC

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Traverse City, MI 49686
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Independent Auditor's Report

To the Board of Directors
Otsego Memorial Hospital and Subsidiaries

We have audited the accompanying consolidated balance sheet of Otsego Memorial Hospital and Subsidiaries as of December 31, 2005 and 2004 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 Organization's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Otsego Memorial Hospital and Subsidiaries at December 31, 2005 and 2004 and the consolidated results of their 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

March 1, 2006

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Otsego Memorial Hospital and Subsidiaries

Consolidated Balance Sheet

| | December 31, 2005 | December 31, 2004 |
|--|-----------------------------|-----------------------------|
| Assets | | |
| Current Assets | | |
| Cash and cash equivalents | \$ 3,151,257 | \$ 2,981,464 |
| Accounts receivable (Note 2) | 7,340,643 | 5,231,842 |
| Estimated third-party payor settlements (Note 3) | 1,085,499 | 635,500 |
| Prepaid expenses and other | 550,887 | 549,107 |
| Inventory | 864,857 | 857,826 |
| Pledges receivable (Note 4) | 248,148 | 257,191 |
| Total current assets | <u>13,241,291</u> | <u>10,512,930</u> |
| Assets Limited as to Use (Note 5) | 9,763,037 | 9,060,556 |
| Property and Equipment (Note 6) | 27,763,667 | 18,511,884 |
| Other Assets | | |
| Pledges receivable - Long-term (Note 4) | 149,190 | 415,441 |
| Investment in joint venture | 552,674 | 475,214 |
| Cash surrender value of life insurance | 476,939 | 450,674 |
| Bond issue costs | 421,850 | 327,835 |
| Total assets | <u>\$ 52,368,648</u> | <u>\$ 39,754,534</u> |
| Liabilities and Net Assets | | |
| Current Liabilities | | |
| Current portion of long-term debt (Note 7) | \$ 767,478 | \$ - |
| Accounts payable | 4,105,069 | 2,040,604 |
| Estimated third-party payor settlements | 1,241,767 | 907,200 |
| Accrued liabilities and other: | | |
| Accrued compensation | 1,147,515 | 920,218 |
| Accrued compensated absences | 709,821 | 578,281 |
| Accrued professional and other liability claims (Note 8) | 300,000 | 300,000 |
| Accrued interest | 605,078 | 120,871 |
| Other accrued liabilities | 167,242 | 287,250 |
| Total current liabilities | <u>9,043,970</u> | <u>5,154,424</u> |
| Long-term Debt - Net of current portion (Note 7) | <u>25,047,392</u> | <u>17,395,585</u> |
| Total liabilities | 34,091,362 | 22,550,009 |
| Net Assets | | |
| Unrestricted | 17,879,948 | 15,805,313 |
| Temporarily restricted | 397,338 | 1,399,212 |
| Total net assets | <u>18,277,286</u> | <u>17,204,525</u> |
| Total liabilities and net assets | <u>\$ 52,368,648</u> | <u>\$ 39,754,534</u> |

Otsego Memorial Hospital and Subsidiaries

Consolidated Statement of Operations

| | Year Ended | |
|---|----------------------|----------------------|
| | December 31, 2005 | December 31, 2004 |
| Unrestricted Revenue, Gains, and Other Support | | |
| Net patient service revenue | \$ 50,841,270 | \$ 47,629,368 |
| Other | 863,999 | 671,104 |
| Total unrestricted revenue, gains, and other support | 51,705,269 | 48,300,472 |
| Expenses | | |
| Salaries and wages | 21,711,284 | 19,883,781 |
| Employee benefits and payroll taxes | 5,823,684 | 5,648,591 |
| Operating supplies and expenses | 7,341,843 | 7,336,132 |
| Medical supplies and drugs | 2,586,111 | 2,177,657 |
| Professional services and consultant fees | 3,282,029 | 2,642,470 |
| Purchased services | 1,149,382 | 1,192,919 |
| Insurance | 735,295 | 1,012,577 |
| Utilities | 847,979 | 683,976 |
| Depreciation and amortization | 1,744,641 | 1,914,589 |
| Provision for bad debts | 2,003,283 | 1,620,984 |
| Interest expense | 911,159 | 698,629 |
| Other | 3,241,572 | 3,165,745 |
| Total expenses | 51,378,262 | 47,978,050 |
| Operating Income | 327,007 | 322,422 |
| Other Income | 542,336 | 367,633 |
| Excess of Revenue Over Expenses | 869,343 | 690,055 |
| Change in Unrealized Gains and Losses on Investments | 30,666 | 131,713 |
| Loss on Advance Refunding | - | (382,893) |
| Net Assets Released from Restriction | 1,174,626 | - |
| Increase in Unrestricted Net Assets | \$ 2,074,635 | \$ 438,875 |

Otsego Memorial Hospital and Subsidiaries

Consolidated Statement of Changes in Net Assets

| | Unrestricted | Temporarily Restricted | Total |
|---|----------------------|---------------------------|----------------------|
| Net Assets - January 1, 2004 | \$ 15,366,438 | \$ - | \$ 15,366,438 |
| Excess of revenue over expenses | 690,055 | - | 690,055 |
| Restricted contributions | - | 1,399,212 | 1,399,212 |
| Change in unrealized gains on investments | 131,713 | - | 131,713 |
| Loss on advance refunding | (382,893) | - | (382,893) |
| Increase in net assets | <u>438,875</u> | <u>1,399,212</u> | <u>1,838,087</u> |
| Net Assets - December 31, 2004 | 15,805,313 | 1,399,212 | 17,204,525 |
| Excess of revenue over expenses | 869,343 | - | 869,343 |
| Restricted contributions | - | 172,752 | 172,752 |
| Change in unrealized gains on investments | 30,666 | - | 30,666 |
| Net assets released from restriction | <u>1,174,626</u> | <u>(1,174,626)</u> | <u>-</u> |
| Increase (decrease) in net assets | <u>2,074,635</u> | <u>(1,001,874)</u> | <u>1,072,761</u> |
| Net Assets - December 31, 2005 | <u>\$ 17,879,948</u> | <u>\$ 397,338</u> | <u>\$ 18,277,286</u> |

Otsego Memorial Hospital and Subsidiaries

Consolidated Statement of Cash Flows

| | Year Ended | |
|--|----------------------|----------------------|
| | December 31, 2005 | December 31, 2004 |
| Cash Flows from Operating Activities | | |
| Cash received from patients and third-party payors | \$ 46,613,754 | \$ 45,033,999 |
| Cash paid to suppliers and employees | (44,424,696) | (42,565,439) |
| Investment income received | 239,727 | 120,352 |
| Interest paid | (389,273) | (674,990) |
| Other cash receipts | 1,151,177 | 1,237,814 |
| Net cash provided by operating activities | 3,190,689 | 3,151,736 |
| Cash Flows from Investing Activities | | |
| Purchase of property and equipment | (10,996,424) | (3,975,495) |
| Purchase of investments | (11,644,751) | (6,168,525) |
| Proceeds from sale and maturities of investments | 10,884,642 | 300,000 |
| Net cash used in investing activities | (11,756,533) | (9,844,020) |
| Cash Flows from Financing Activities | | |
| Proceeds from issuance of debt obligations | 9,000,000 | 17,395,585 |
| Principal payments of debt obligations | (593,204) | (9,903,498) |
| Proceeds from restricted contributions | 448,046 | 726,580 |
| Increase in deferred charges | (119,205) | (327,835) |
| Net cash provided by financing activities | 8,735,637 | 7,890,832 |
| Net Increase in Cash and Cash Equivalents | 169,793 | 1,198,548 |
| Cash and Cash Equivalents - Beginning of year | 2,981,464 | 1,782,916 |
| Cash and Cash Equivalents - End of year | \$ 3,151,257 | \$ 2,981,464 |

Otsego Memorial Hospital and Subsidiaries

Notes to Consolidated Financial Statements December 31, 2005 and 2004

Note I - Nature of Business and Significant Accounting Policies

Reporting Entity and Corporate Structure - Otsego Memorial Hospital (the "Hospital") and Subsidiaries, located in Gaylord, Michigan, is a not-for-profit hospital. The Hospital provides acute and long-term health care services to residents of Otsego County, Michigan and surrounding communities.

Basis of Consolidation - The accompanying consolidated financial statements include the accounts of Otsego Memorial Hospital and its subsidiary, Otsego Memorial Hospital Foundation (collectively, the "Organization"). All significant intercompany transactions and balances have been eliminated in consolidation.

Otsego Memorial Hospital Foundation (the "Foundation") is a 501(c)(3) nonprofit organization whose sole member is Otsego Memorial Hospital. The Foundation's purpose is to provide, sponsor, and carry out activities and endeavors to obtain funds to be directed toward supporting the operating and capital needs of the Hospital.

The 2004 balances included another subsidiary, Shared Care, LLC ("Shared Care") a Michigan limited liability company whose sole member was Otsego Memorial Hospital. Shared Care provided durable medical equipment to residents of Otsego County, Michigan and the surrounding area. This entity was sold in 2005.

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 cash and investments in highly liquid investments purchased with an original maturity of three months or less, excluding those amounts included in assets limited as to use.

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 Organization'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.

Otsego Memorial Hospital and Subsidiaries

Notes to Consolidated Financial Statements December 31, 2005 and 2004

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

Pledges Receivable - Pledges of cash and other assets, including unconditional promises to give in the future, are reported as revenue when granted or received, measured at fair value. Contributions with donor-imposed time or purpose restrictions are reported as restricted support. Contributions without donor-imposed restrictions and contributions with donor-imposed time or purpose restrictions that are met in the same period as the gift are both reported as unrestricted support. Other restricted gifts are reported as restricted support and temporarily or permanently restricted net assets.

Assets Limited as to Use - Assets limited as to use include primarily assets held by trustees under bond indenture agreements and assets designated by the board of directors for future capital improvement. The board retains control, and may, at its discretion, subsequently use these assets for other purposes.

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 income from operations unless the income or loss is restricted by donor or law. Unrealized gains or losses on investments are excluded from excess of revenue over expenses.

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

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.

Contributions - The Organization 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 Organization 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 Organization reports the expiration of donor restrictions when the assets are placed in service.

Otsego Memorial Hospital and Subsidiaries

Notes to Consolidated Financial Statements December 31, 2005 and 2004

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

Bond Issue Costs - Bond issue costs represent financing costs that are being amortized over the period the related debt is outstanding.

Net Patient Service Revenue - The Organization has agreements with third-party payors that provide for payments to the Organization 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 with such laws and regulations is subject to future government review and interpretation. Violations may result in significant regulatory action including fines, penalties, and exclusions from the Medicare and Medicaid programs.

Excess of Revenue Over Expenses - The consolidated statement of operations includes excess of revenue over expenses. Changes in unrestricted net assets, which are excluded from excess of revenue over expenses, consistent with industry practice, include net assets released from restrictions for the acquisition of long-lived assets, permanent transfers of assets to and from affiliates for other than goods and services, changes in unrealized gains and losses on investments, and loss on advance refunding.

Classification of Net Assets - Net assets of the Organization are classified as temporarily restricted or unrestricted depending on the presence and characteristics of donor-imposed restrictions limiting the Organization's ability to use or dispose of contributed assets or the 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.

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

Otsego Memorial Hospital and Subsidiaries

Notes to Consolidated Financial Statements December 31, 2005 and 2004

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

Tax Status - The Hospital and the Foundation are nonprofit, tax-exempt organizations; accordingly, no tax provision is reflected in the consolidated financial statements.

Reclassifications - Certain prior year amounts have been reclassified to conform to the current year presentation.

Note 2 - Patient Accounts Receivable

The details of patient accounts receivable are set forth below:

| | <u>2005</u> | <u>2004</u> |
|---------------------------------------|---------------------|---------------------|
| Patient accounts receivable | \$ 11,143,356 | \$ 9,525,688 |
| Less: | | |
| Allowance for uncollectible accounts | (590,000) | (675,837) |
| Allowance for contractual adjustments | <u>(3,584,138)</u> | <u>(3,853,488)</u> |
| Net patient accounts receivable | 6,969,218 | 4,996,363 |
| Other | <u>371,425</u> | <u>235,479</u> |
| Total accounts receivable | <u>\$ 7,340,643</u> | <u>\$ 5,231,842</u> |

The Organization 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 follows:

| | <u>Percent</u> | |
|------------------------------------|----------------|-------------|
| | <u>2005</u> | <u>2004</u> |
| Medicare | 33 | 31 |
| Blue Cross/Blue Shield of Michigan | 21 | 22 |
| Medicaid | 10 | 11 |
| Commercial insurance and HMOs | 18 | 18 |
| Self-pay | <u>18</u> | <u>18</u> |
| Total | <u>100</u> | <u>100</u> |

Otsego Memorial Hospital and Subsidiaries

Notes to Consolidated Financial Statements December 31, 2005 and 2004

Note 3 - Cost Report Settlements

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Approximately 82 percent of the Organization'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 Otsego Memorial Hospital is as follows:

- **Medicare** - Inpatient acute-care and outpatient 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 services are subject to hold-harmless provisions. Long-term care services are reimbursed on a prospectively determined rate per day.
- **Medicaid** - Inpatient, acute-care services rendered to Medicaid program beneficiaries are also paid at prospectively determined rates per discharge. 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. Long-term care services are reimbursed at established per diem rates plus cost for allowable ancillary services.
- **Blue Cross/Blue Shield of Michigan** - Services to Blue Cross/Blue Shield of Michigan subscribers are reimbursed on the basis of controlled charges. Annual allowable increases are determined prospectively.

Note 4 - Pledges Receivable

In 2004, the Organization began a capital campaign for new construction and renovation of the Organization's existing facilities. As of December 31, 2005, the Organization had raised \$1,571,964, of which \$1,114,195 had been collected. A 5 percent discount rate has been applied to discount the gross receivable to present value. The details of donations receivable at December 31, 2005 and 2004 are set forth below:

| | 2005 | 2004 |
|--|------------|------------|
| Donations due within one year | \$ 248,148 | \$ 257,191 |
| Donations due in one to five years | 209,621 | 535,138 |
| Gross donations receivable | 457,769 | 792,329 |
| Less allowance for uncollectible accounts and discount for present value | (60,431) | (119,697) |
| Net | \$ 397,338 | \$ 672,632 |

Otsego Memorial Hospital and Subsidiaries

Notes to Consolidated Financial Statements December 31, 2005 and 2004

Note 5 - Assets Limited as to Use

The composition of assets limited as to use at December 31, 2005 and 2004 is summarized in the following schedule:

| | <u>2005</u> | <u>2004</u> |
|---|---------------------|---------------------|
| Designated by the board of directors for replacement, improvement, and expansion of property and equipment: | | |
| Certificate of deposits | \$ 281,579 | \$ 470,000 |
| Cash and cash equivalents | 220,464 | 358,790 |
| Common stock | 2,093,255 | 1,828,005 |
| Mutual funds | 550,921 | 306,590 |
| Corporate bonds | 381,068 | 218,530 |
| U.S. government obligations | 893,167 | 810,653 |
| Accrued interest income | 18,423 | 18,725 |
| | <u>4,438,877</u> | <u>4,011,293</u> |
| Total assets limited as to use - Designated by board of directors | | |
| | 4,438,877 | 4,011,293 |
| Bond indenture assets held by bank trust department - U.S. Treasury obligations (see Note 7) | <u>5,324,160</u> | <u>5,049,263</u> |
| Total assets limited as to use | <u>\$ 9,763,037</u> | <u>\$ 9,060,556</u> |

Bond indenture assets include approximately \$1,550,000 of debt service reserve funds with any remaining balance to be used to fund construction costs (see Note 6).

Investment income and gains for assets limited as to use, cash equivalents, and other investments are comprised of the following for the years ended December 31, 2005 and 2004:

| | <u>2005</u> | <u>2004</u> |
|---|-------------------|-------------------|
| Income: | | |
| Interest and dividend income | \$ 239,425 | \$ 139,077 |
| Realized losses on sales of securities | (61,727) | (21,295) |
| Change in net unrealized gains on investments | 30,666 | 131,713 |
| | <u>208,364</u> | <u>249,495</u> |
| Total | <u>\$ 208,364</u> | <u>\$ 249,495</u> |

Otsego Memorial Hospital and Subsidiaries

Notes to Consolidated Financial Statements December 31, 2005 and 2004

Note 6 - Property and Equipment

Cost of property and equipment and depreciable lives are summarized as follows.

| | 2005 | 2004 | Depreciable Life - Years |
|------------------------------|----------------------|----------------------|-----------------------------|
| Land | \$ 784,666 | \$ 784,666 | - |
| Buildings | 25,181,965 | 16,822,501 | 10-50 |
| Equipment | 14,036,626 | 13,335,342 | 5-20 |
| Construction in progress | 4,783,127 | 2,906,712 | |
| Total cost | 44,786,384 | 33,849,221 | |
| Accumulated depreciation | (17,022,717) | (15,337,337) | |
| Total property and equipment | <u>\$ 27,763,667</u> | <u>\$ 18,511,884</u> | |

Construction in progress at December 31, 2005 is composed of costs associated with a major expansion and renovation project for the Hospital campus including \$510,236 of capitalized interest. The estimated total cost of the project is approximately \$15,000,000. This project is being financed with proceeds of the Series 2004 and 2005 bond issues and internal funds (see Note 7).

Note 7 - Long-term Debt

Long-term debt at December 31, 2005 and 2004 is as follows:

| | 2005 | 2004 |
|--|----------------------|----------------------|
| Revenue bonds: | | |
| Series 2004 Revenue and Refunding Bonds | \$ 17,860,000 | \$ 17,860,000 |
| Series 2005 Revenue and Refunding Bonds | 8,406,796 | - |
| Total revenue bonds | 26,266,796 | 17,860,000 |
| Less unamortized bond discount - Series 2004 | (451,926) | (464,415) |
| Total | 25,814,870 | 17,395,585 |
| Less current portion | 767,478 | - |
| Long-term portion | <u>\$ 25,047,392</u> | <u>\$ 17,395,585</u> |

Otsego Memorial Hospital and Subsidiaries

Notes to Consolidated Financial Statements December 31, 2005 and 2004

Note 7 - Long-term Debt (Continued)

The Series 2004 Revenue and Refunding Bonds represent a note payable to the Gaylord Hospital Finance Authority, issued in connection with the Revenue and Refunding Bonds, Series 2004. This note is the joint and several obligation of the Otsego Memorial Obligated Group (the "Obligated Group"), comprised of Otsego Memorial Hospital and Otsego Memorial Hospital Foundation. This note is collateralized by a mortgage on the Obligated Group's real estate and a security interest in the Obligated Group's gross revenues and property. The note bears interest at rates ranging from 6.2 percent to 6.5 percent and requires interest-only payments until January 2016. Thereafter, annual principal payments range from \$395,000 to \$1,450,000.

The Series 2005 Revenue and Refunding Bonds represent a note payable to Fifth Third Bank, issued in connection with the Revenue and Refunding Bonds, Series 2005. This note is the joint and several obligation of the Otsego Memorial Obligated Group, comprised of Otsego Memorial Hospital and Otsego Memorial Hospital Foundation. This note is collateralized by a mortgage on the Obligated Group's real estate and a security interest in the Obligated Group's gross revenues and property. Monthly payments include principal payments that range from \$59,644 to \$93,464, plus interest at a variable rate equaling the lesser of 67 percent of the bank's prime or 67 percent of LIBOR plus 275 basis points. On December 31, 2005, the interest rate was 4.7 percent. The Series 2005 issue fully matures on January 1, 2015.

In connection with the revenue bonds, the Organization has agreed to various covenants. These covenants include various business and property requirements and maintenance of certain financial ratios.

Minimum principal payments on long-term debt to maturity as of December 31, 2005 are as follows:

| | | |
|---------------------------|----------|----------------------|
| 2006 | \$ | 767,478 |
| 2007 | | 804,572 |
| 2008 | | 839,843 |
| 2009 | | 878,535 |
| 2010 | | 918,173 |
| Thereafter | | <u>22,058,195</u> |
| | Subtotal | 26,266,796 |
| Less unamortized discount | | <u>(451,926)</u> |
| | Total | <u>\$ 25,814,870</u> |

Otsego Memorial Hospital and Subsidiaries

Notes to Consolidated Financial Statements December 31, 2005 and 2004

Note 7 - Long-term Debt (Continued)

During the year ended December 31, 2004, the Organization advance refunded the Series 2001 and 1995 bond issues and paid off the bank note with proceeds from the Series 2004 bonds. This transaction resulted in an advance refunding charge of \$382,893. Approximately \$1,500,000 of the remaining proceeds were used to fund a debt service reserve account with the remainder used to finance the construction project outlined in Note 6.

Note 8 - Medical Malpractice Claims

Based on the nature of its operations, the Organization is at times subject to pending or threatened legal actions, which arise in the normal course of its activities.

The Organization is insured against medical malpractice claims under a claims-based policy, whereby only the claims reported to the insurance carrier during the policy period are covered regardless of when the incident giving rise to the claim occurred. Under the terms of the policy, the Organization bears the risk of the ultimate costs of any individual claims exceeding \$1,000,000, or aggregate claims exceeding \$3,000,000, for claims asserted in the policy year.

Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during the claims-made term, but reported subsequently, will be uninsured.

The Organization is not aware of any medical malpractice claims, either asserted or unasserted, that would exceed the policy limits. No claims have been settled during the past three years that have exceeded policy coverage limits. The cost of this insurance policy represents the Organization's cost for such claims for the year, and it has been charged to operations as a current expense.

Note 9 - Pension Plan

The Organization has a defined contribution plan for employees who meet certain requirements as to age and length of service. The Hospital is required to contribute a uniform percentage of eligible employee compensation. The uniform contribution percentage for both 2005 and 2004 was 2 percent. The Hospital also matches the employee contribution up to 2 percent of compensation. Pension expense included in the consolidated statement of operations was \$671,168 and \$620,342 in 2005 and 2004, respectively.

Otsego Memorial Hospital and Subsidiaries

Notes to Consolidated Financial Statements December 31, 2005 and 2004

Note 10 - Functional Expenses

The Organization is a general acute care facility that provides inpatient and outpatient health care services to patients in Otsego County and the surrounding communities. Expenses related to providing these services for the years ended December 31, 2005 and 2004 as follows:

| | <u>2005</u> | <u>2004</u> |
|----------------------------|----------------------|----------------------|
| Health care services | \$ 35,595,443 | \$ 32,596,402 |
| General and administrative | 15,301,297 | 14,767,731 |
| Fund-raising | 481,522 | 613,917 |
| Total | <u>\$ 51,378,262</u> | <u>\$ 47,978,050</u> |

Note 11 - Cash Flows

A reconciliation of the increase in net assets to net cash flows from operating activities is as follows:

| | <u>2005</u> | <u>2004</u> |
|--|---------------------|---------------------|
| Increase in net assets | \$ 1,072,761 | \$ 1,838,087 |
| Adjustments to reconcile increase in net assets to net cash from operating activities: | | |
| Depreciation and amortization | 1,782,320 | 1,938,228 |
| Restricted contributions | (172,752) | (1,399,212) |
| Provision for uncollectible accounts | 2,003,283 | 1,620,984 |
| Realized and unrealized net (gains) loss on investments | 31,061 | (110,418) |
| Undistributed gain on equity investments | (77,460) | (109,095) |
| Loss on advance refunding | - | 382,893 |
| (Increase) decrease in assets: | | |
| Accounts receivable | (4,112,084) | (1,600,325) |
| Cost report settlements receivable | (449,999) | (500,000) |
| Prepaid expenses and other current assets | (8,811) | 285,010 |
| Accrued interest income | 302 | (18,725) |
| Increase in liabilities: | | |
| Accounts payable | 2,064,465 | 694,864 |
| Accrued liabilities | 723,036 | 95,945 |
| Cost report settlements payable | 334,567 | 33,500 |
| Net cash provided by operating activities | <u>\$ 3,190,689</u> | <u>\$ 3,151,736</u> |

There were no significant noncash financing and investing activities for the years ended December 31, 2005 and 2004.

Additional Information



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To the Board of Directors
Otsego Memorial Hospital and Subsidiaries

We have audited the consolidated financial statements of Otsego Memorial Hospital and Subsidiaries as of December 31, 2005 and 2004. Our audits were made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information in the accompanying schedules is presented for the purpose of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and cash flows of the individual entities and is not a required part of the basic consolidated financial statements. The consolidating information has been subjected to the procedures applied in the audits of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Plante & Moran, PLLC

March 1, 2006

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Otsego Memorial Hospital and Subsidiaries

Consolidating Balance Sheet December 31, 2005

| | Otsego Memorial Hospital | Otsego Memorial Hospital Foundation | Eliminating Entries | Total |
|---|--------------------------------|--|------------------------|----------------------|
| Assets | | | | |
| Current Assets | | | | |
| Cash and cash equivalents | \$ 2,918,155 | \$ 233,102 | \$ - | \$ 3,151,257 |
| Accounts receivable | 7,340,643 | - | - | 7,340,643 |
| Estimated third-party payor settlements | 1,085,499 | - | - | 1,085,499 |
| Prepaid expenses and other | 550,887 | - | - | 550,887 |
| Inventory | 864,857 | - | - | 864,857 |
| Pledges receivable | - | 248,148 | - | 248,148 |
| Total current assets | 12,760,041 | 481,250 | - | 13,241,291 |
| Assets Limited as to Use | 8,612,184 | 1,150,853 | - | 9,763,037 |
| Property and Equipment | 27,763,667 | - | - | 27,763,667 |
| Other Assets | | | | |
| Pledges receivable - Long-term | - | 149,190 | - | 149,190 |
| Investment in joint venture | 552,674 | - | - | 552,674 |
| Cash surrender value of life insurance | 476,939 | - | - | 476,939 |
| Bond issue costs | 421,850 | - | - | 421,850 |
| Total assets | \$ 50,587,355 | \$ 1,781,293 | \$ - | \$ 52,368,648 |
| Liabilities and Net Assets | | | | |
| Current Liabilities | | | | |
| Current portion of long-term debt | \$ 767,478 | \$ - | \$ - | \$ 767,478 |
| Accounts payable | 4,105,069 | - | - | 4,105,069 |
| Estimated third-party payor settlements | 1,241,767 | - | - | 1,241,767 |
| Accrued liabilities and other: | | | | |
| Accrued compensation | 1,147,515 | - | - | 1,147,515 |
| Accrued compensated absences | 709,821 | - | - | 709,821 |
| Accrued professional and other liability claims | 300,000 | - | - | 300,000 |
| Accrued interest | 605,078 | - | - | 605,078 |
| Other accrued liabilities | 167,242 | - | - | 167,242 |
| Total current liabilities | 9,043,970 | - | - | 9,043,970 |
| Long-term Debt - Net of current portion | 25,047,392 | - | - | 25,047,392 |
| Total liabilities | 34,091,362 | - | - | 34,091,362 |
| Net Assets | | | | |
| Unrestricted | 16,495,993 | 1,383,955 | - | 17,879,948 |
| Temporarily restricted | - | 397,338 | - | 397,338 |
| Total net assets | 16,495,993 | 1,781,293 | - | 18,277,286 |
| Total liabilities and net assets | \$ 50,587,355 | \$ 1,781,293 | \$ - | \$ 52,368,648 |

Otsego Memorial Hospital and Subsidiaries

Consolidating Statement of Operations Year Ended December 31, 2005

| | Otsego Memorial Hospital | Shared Care, LLC | Otsego Memorial Hospital Foundation | Eliminations | Total |
|---|--------------------------------|---------------------|--|-------------------|---------------------|
| Unrestricted Revenue, Gains, and Other Support | | | | | |
| Net patient service revenue | \$ 50,612,042 | \$ 229,228 | \$ - | \$ - | \$ 50,841,270 |
| Other | 808,809 | - | 89,190 | (34,000) | 863,999 |
| Total unrestricted revenue, gains, and other support | 51,420,851 | 229,228 | 89,190 | (34,000) | 51,705,269 |
| Expenses | | | | | |
| Salaries and wages | 21,519,659 | 121,325 | 70,300 | - | 21,711,284 |
| Employee benefits and payroll taxes | 5,779,799 | 43,885 | - | - | 5,823,684 |
| Operating supplies and expenses | 7,334,670 | 7,173 | - | - | 7,341,843 |
| Medical supplies and drugs | 2,496,582 | 89,529 | - | - | 2,586,111 |
| Professional services and consultant fees | 3,282,029 | - | - | - | 3,282,029 |
| Purchased services | 1,149,382 | 20,000 | - | (20,000) | 1,149,382 |
| Insurance | 735,295 | - | - | - | 735,295 |
| Utilities | 841,910 | 6,069 | - | - | 847,979 |
| Depreciation and amortization | 1,744,641 | - | - | - | 1,744,641 |
| Provision for bad debts | 2,003,283 | - | - | - | 2,003,283 |
| Interest expense | 911,159 | - | - | - | 911,159 |
| Other | 3,156,977 | 35,082 | 63,513 | (14,000) | 3,241,572 |
| Total expenses | 50,955,386 | 323,063 | 133,813 | (34,000) | 51,378,262 |
| Operating Income (Loss) | 465,465 | (93,835) | (44,623) | - | 327,007 |
| Other Income | 409,754 | 100,000 | 38,747 | (6,165) | 542,336 |
| Excess of Revenue Over (Under) Expenses | 875,219 | 6,165 | (5,876) | (6,165) | 869,343 |
| Transfers (to) from Affiliates | 500,000 | (347,503) | (500,000) | 347,503 | - |
| Change in Unrealized Gains and Losses on Investments | 31,041 | - | (375) | - | 30,666 |
| Net Assets Released from Restriction | - | - | 1,174,626 | - | 1,174,626 |
| Increase (Decrease) in Unrestricted Net Assets | \$ 1,406,260 | \$ (341,338) | \$ 668,375 | \$ 341,338 | \$ 2,074,635 |