

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) 37 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 2009 (FY2009)

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

Fiscal Period Covered: January – December 2009 (FY2009)

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

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

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

Period Covered: _____

F. Other Secondary Market Information (Specify): _____

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

Issuer Contact:

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

Dissemination Agent Contact, if any:

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

Obligor Contact, if any:

Name Thomas R. Lemon Title Chief Executive Officer
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 Tlemon@otsegomemorialhospital.org Obligor Web Site Address www.otsegomemorialhospital.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: JUNE 1, 2010

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 2004 Loan Agreement), the Continuing Disclosure Undertaking delivered by the Corporation in connection with the Series 2004 Bonds (the CDU), 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 as amended by the First Amendment to the Indenture and Loan Agreement dated January 2008 (together, the 2005 Indenture and Loan Agreement), and Supplemental Indenture Number 6 between the Corporation and Wells Fargo Bank N.A. (the Master Trustee) dated as of December 1, 2007 (Supplemental Indenture Number 6). All capitalized terms used herein are as defined in the Master Trust Indenture between the Issuer and the Master Trustee, dated as of November 1, 2004, in Supplemental Indenture Number 6 or in the 2004 Loan Agreement.

Attached are audited financial statements for the Fiscal Year ended December 31, 2009 as required by Section 5.10(a) of the 2004 Loan Agreement, Section 4(a) of the CDU, Section 605(a)(i) of the 2005 Indenture and Loan Agreement and Section 201(a)(ii) of Supplemental Indenture Number 6, 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 FY2009 is 0.19 times Maximum Annual Debt Service (MADS), which fails to comply 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, as amended by Section 202 of Supplemental Indenture Number 6, and by Paragraph (b) of Exhibit D to the 2005 Indenture and Loan Agreement, as amended:

<i>Debt Service Coverage Ratio, FY2009</i>		
Excess (Deficit) of Revenue over Expenses		(2,498,006)
Depreciation and Amortization Expense		2,005,264
Interest Expense		1,540,715
Unrealized (Gains) Losses on Investment Securities		(623,554)
(Gains) Losses on the Disposition of Capital Assets		10,924
(Gains) Losses on Extinguishment of Debt		0
Net Income Available for Debt Service	NIADS	435,343
Maximum Annual Debt Service Requirements	MADS	2,256,503
Debt Service Coverage Ratio	NIADS / MADS	0.19

3. The Obligated Group's average age of its trade accounts payable for FY2009 is 50.0 days, which complies with the requirement of no greater than 75 days, as required by Section 501(d) of the Master Indenture:

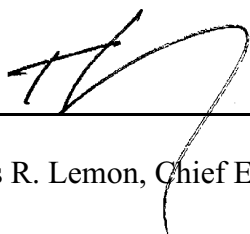
<i>Average Age of Trade Accounts Payable, FY2009</i>		
Trade Accounts Payable at FYE	AP	\$4,703,659
Average Daily Trade Accounts Payable	ADAP	\$94,141
Average Age of Trade Accounts Payable (days)	AP / ADAP	50.0

4. The Obligated Group's Days Cash on Hand at FYE2009 is 10 (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 fails to comply with the FY2009 requirement of at least 52 days, as required by Section 501(e) of the Master Indenture, Section 305 of Supplemental Indenture Number 6 and with Paragraph (d) of Exhibit D to the 2005 Indenture and Loan Agreement, as amended:

<i>Days' Cash on Hand Calculation at FYE2009</i>		
a	Cash and Cash Equivalents	195,592
b	Short-Term Investments	0
c	Board-Designated Investments	4,941,540
d	Outstanding Principal Balance of Short-Term Indebtedness	3,384,395
e = a + b + c - d	Financial Assets	1,752,737
f	Operating Expenses	68,581,286
g	Minus: Depreciation and Amortization Expense	(2,005,264)
h = f - g	Adjusted Operating Expenses	66,576,022
i = h / days	Daily Operating Expenses	182,400
e ÷ i	Days' Cash on Hand	10
	Requirement	52

5. The Obligated Group's Unrestricted Net Assets as of FYE2009 is \$12,135,904, which fails to comply 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 2005 Indenture and Loan Agreement, to the best of my knowledge, except as disclosed in Paragraphs 2, 4 and 5 above, neither any other Event of Default has occurred under the 2005 Indenture and Loan Agreement, nor has any other event occurred which, with notice and/or the passage of time, would constitute such as an Event of Default thereunder.

The triennial report of an Insurance Consultant pursuant to Section 503(a)(vi) of the Master Indenture is not required this year.



Thomas R. Lemon, Chief Executive Officer

OTSEGO MEMORIAL HOSPITAL ASSOCIATION

UPDATE OF CERTAIN FINANCIAL INFORMATION AND OPERATING DATA (FY2009)

This Annual Report represents an update of certain financial information and operating data contained in Appendix A to the Official Statement relating to the Securities dated November 11, 2004 (the OS), as required by Section 4(b) of the Continuing Disclosure Agreement relating to the Securities. Unless otherwise noted, all data apply to the Fiscal Year Ended December 31, 2009, or are accurate as of December 31, 2009, as appropriate. "OS pages" in the table headings refer to the OS. Unless otherwise noted, 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 [OS Page A-24]</i>					
	January- June	Calendar Years			
	2009	2008	2007	2006	2005
Cardiology	41.9%	42.6%	49.7%	47.4%	49.4%
Gastroenterology	44.7%	44.4%	44.6%	41.2%	50.2%
General Surgery	43.4%	39.4%	37.4%	38.2%	36.3%
Pulmonology	56.1%	58.3%	61.6%	60.5%	55.2%
Obstetrics	63.3%	64.6%	64.3%	63.2%	62.1%
Orthopedics	68.3%	68.6%	68.1%	65.4%	67.3%
All Secondary Inpatient Admissions	51.2%	51.6%	51.9%	50.5%	52.9%
Gastroenterology	68.4%	68.1%	61.1%	53.6%	48.9%
General Medicine	69.8%	72.4%	68.8%	70.8%	69.3%
General Surgery	54.9%	60.9%	61.0%	60.5%	58.4%
Neurosurgery	47.7%	43.6%	44.1%	42.3%	48.8%
Obstetrics	83.7%	89.5%	95.3%	92.1%	93.1%
Ophthalmology	53.7%	52.7%	52.5%	50.4%	58.0%
Orthopedics	73.4%	74.6%	76.0%	76.2%	77.5%
All Outpatient Invasive Procedures	60.6%	62.2%	59.9%	58.6%	58.8%
Source: MHA					

MUNICIPAL SECONDARY MARKET DISCLOSURE
Gaylord Hospital Finance Authority / Otsego Memorial Hospital Association
Fiscal Year Ended December 31, 2009
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<i>Historical Acute Care Utilization (excludes newborns) [OS Page A-26]</i>					
	<i>Fiscal Years Ended December 31</i>				
	<i>2009</i>	<i>2008</i>	<i>2007</i>	<i>2006</i>	<i>2005</i>
Days in Period	365	366	365	365	365
Licensed Beds	46	46	53	53	53
Staffed Beds	39	39	39	39	39
Admissions	1,805	1,937	1,931	2,029	2,009
Change over Previous Period	(6.8)%	0.3%	(4.8)%	1.0%	(2.9)%
Patient Days	5,567	6,036	5,836	5,988	5,873
Births	250	274	291	309	315
Average Daily Census	15.3	16.5	16.0	16.4	16.1
Average Length of Stay	3.1	3.1	3.0	3.0	2.9
Occupancy Rate ¹ (%)	39.1	42.3	41.0	42.1	41.3
¹ Based on Staffed Beds					

<i>McReynolds Hall (Skilled Nursing) Utilization [OS Page A-27]</i>					
	<i>Fiscal Years Ended December 31</i>				
	<i>2009</i>	<i>2008</i>	<i>2007</i>	<i>2006</i>	<i>2005</i>
Days in Period	365	366	365	365	365
Licensed and Staffed Beds	34	34	34	34	34
Patient Days	11,134	11,426	11,680	11,050	11,159
Average Daily Census	30.5	31.2	32.0	30.3	30.6
Occupancy Rate	89.7	91.8	94.1	89.0	89.9

MUNICIPAL SECONDARY MARKET DISCLOSURE

Gaylord Hospital Finance Authority / Otsego Memorial Hospital Association

Fiscal Year Ended December 31, 2009

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<i>Emergency Department, MedCare and Employed Physicians Volumes</i>						
<i>[OS Page A-27]</i>						
		<i>Fiscal Years Ended December 31</i>				
		<i>2009</i>	<i>2008</i>	<i>2007</i>	<i>2006</i>	<i>2005</i>
ED Patients		12,072	11,874	12,821	12,369	12,666
Change over Previous Period		1.7%	(7.4)%	3.7%	(2.3)%	4.2%
MedCare Encounters		13,960	12,880	13,411	13,042	15,074
Change over Previous Period		8.4%	(4.0)%	2.8%	(13.5)%	11.9%
Employed Physician Encounters	OMH Medical Group	65,531	66,068			
	Montmorency Clinic	8,982	4,334			
	Orthopedic Surgeons	12,664	3,279			
	Total	87,177	73,681	64,551	60,815	
	Change over Previous Period	18.3%	14.1%	6.1%		
Outpatient Registrations		69,860	75,175			
Change over Previous Period		(7.1)%				

MUNICIPAL SECONDARY MARKET DISCLOSURE
Gaylord Hospital Finance Authority / Otsego Memorial Hospital Association
Fiscal Year Ended December 31, 2009
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<i>Surgical and Other Procedures</i>						
<i>[OS Page A-28]</i>						
		<i>Fiscal Years Ended December 31</i>				
		<i>2009</i>	<i>2008</i>	<i>2007</i>	<i>2006</i>	<i>2005</i>
Inpatient Surgeries		745	868	838	974	922
Outpatient	Surgeries	4,155	4,167	4,137	3,803	3,501
	Other Procedures	4,491	4,650	5,652	4,398	4,023
	Total Outpatient	8,646	8,817	9,789	8,201	7,524
Grand Total		9,391	9,685	10,627	9,175	8,446
Change over Previous Period		(3.0)%	(8.9)%	15.8%	8.6%	(6.4)%
Percent Outpatient		92.1%	91.0%	92.1%	89.4%	89.1%

MUNICIPAL SECONDARY MARKET DISCLOSURE

**Gaylord Hospital Finance Authority / Otsego Memorial Hospital Association
Fiscal Year Ended December 31, 2009**

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<i>Ancillary Services (the Corporation no longer distinguishes between ancillary services provided to inpatients and outpatients in its record-keeping)</i>		
	<i>Twelve Months Ended December 31</i>	
	<i>2009</i>	<i>2008</i>
Laboratory Orders	250,054	219,133
Electrocardiology Procedures	8,092	8,887
General Radiology Examinations	20,794	21,458
Ultrasound Examinations	3,648	3,745
Mammography Examinations	2,902	2,999
Nuclear Medicine Examinations	4,008	5,476
CT Scan Examinations	8,328	10,768
MRI Examinations	2,770	3,002
Cardio-Pulmonary Procedures	28,155	27,014
Physical Therapy Procedures	30,627	25,274
Occupational Therapy Procedures	15,549	14,636
Cardiac Rehabilitation Visits	6,473	7,309

MUNICIPAL SECONDARY MARKET DISCLOSURE
Gaylord Hospital Finance Authority / Otsego Memorial Hospital Association
Fiscal Year Ended December 31, 2009
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<i>Ancillary Services Provided to Inpatients</i> <i>[OS Page A-28]</i>			
	<i>Fiscal Years Ended December 31</i>		
	<i>2007</i>	<i>2006</i>	<i>2005</i>
Laboratory ¹	28,213	29,349	147,102
Electrocardiology ²	1,838	1,929	2,079
Radiology ²	4,179	4,382	4,506
Cardio-Pulmonary ²	18,031	17,878	13,818
Physical Therapy ²	6,041	6,209	5,946
Occupational Therapy ²	3,312	2,959	2,624
¹ FY2007 and FY2006 figures reflect a change in statistical basis to conform to newly-implemented productivity standards ² FY2007 figures reflect a change in statistical basis to conform to newly-implemented productivity standards; FY2006 figures may not be comparable			

<i>Ancillary Services Provided to Outpatients</i> <i>[OS Page A-29]</i>			
	<i>Fiscal Years Ended December 31</i>		
	<i>2007</i>	<i>2006</i>	<i>2005</i>
Laboratory ¹	188,231	183,661	1,043,392
Electrocardiology ²	7,126	6,623	6,943
Electroencephalography ²	258	267	179
Radiology ²	42,963	40,854	38,978
Cardio-Pulmonary ²	8,431	7,326	6,489
Physical Therapy ²	13,096	13,321	13,524
Occupational Therapy ²	8,967	6,865	4,899
Cardiac Rehabilitation ²	9,663	7,354	5,622
¹ FY2007 and FY2006 figures reflect a change in statistical basis to conform to newly-implemented productivity standards ² FY2007 figures reflect a change in statistical basis to conform to newly-implemented productivity standards; FY2006 figures may not be comparable			

MUNICIPAL SECONDARY MARKET DISCLOSURE

Gaylord Hospital Finance Authority / Otsego Memorial Hospital Association

Fiscal Year Ended December 31, 2009

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<i>Payor Mix by Gross Revenue (excludes physician revenue) [OS Page A-34]</i>					
	<i>Fiscal Years Ended December 31</i>				
	<i>2009</i>	<i>2008</i>	<i>2007</i>	<i>2006</i>	<i>2005</i>
Medicare	45.4%	42.4%	42.4%	43.4%	44.3%
Medicaid	16.2%	14.2%	13.4%	12.3%	11.4%
Blue Cross	26.2%	28.3%	26.5%	25.7%	28.1%
Self-Pay	3.0%	4.7%	6.4%	6.5%	4.4%
Commercial and Other	9.2%	10.3%	11.3%	12.1%	11.8%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

<i>Percentage of Gross Patient Service Revenue [OS Page A-35]</i>					
	<i>Fiscal Years Ended December 31</i>				
	<i>2009</i>	<i>2008</i>	<i>2007</i>	<i>2006</i>	<i>2005</i>
Inpatient	22.2%	24.8%	25.7%	27.8%	24.3%
Outpatient	74.4%	72.3%	70.6%	68.6%	71.4%
Skilled Nursing	3.4%	3.0%	3.6%	3.6%	4.3%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

MUNICIPAL SECONDARY MARKET DISCLOSURE
Gaylord Hospital Finance Authority / Otsego Memorial Hospital Association
Fiscal Year Ended December 31, 2009
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<i>Debt Service Coverage Ratio Calculation</i> <i>(\$000s omitted, except for Debt Service Coverage Ratio)</i> <i>[OS Page A-41]</i>	
	<i>Fiscal Year Ended December 31</i>
	2009
Net Income Available for Debt Service	435
Maximum Annual Debt Service Requirements ¹	2,257
Debt Service Coverage Ratio (x) ²	0.19
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 and Subsidiary

**Consolidated Financial Report
with Additional Information
December 31, 2009**

Otsego Memorial Hospital and Subsidiary

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Independent Auditor's Report

To the Board of Directors
Otsego Memorial Hospital
and Subsidiary

We have audited the accompanying consolidated balance sheet of Otsego Memorial Hospital and Subsidiary (the "Organization") as of December 31, 2009 and 2008 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 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, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Otsego Memorial Hospital and Subsidiary at December 31, 2009 and 2008 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.

The accompanying consolidated financial statements have been prepared assuming that the Organization will continue as a going concern. As discussed in Note 13 to the consolidated financial statements, the Organization has suffered recurring losses from operations and is in violation of various debt covenants that result in the Organization's debt being subject to repayment upon demand by the debt holders. These factors raise substantial doubt about the Organization's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 13. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Plante & Moran, PLLC

May 13, 2010

Otsego Memorial Hospital and Subsidiary

Consolidated Balance Sheet

	December 31, 2009	December 31, 2008
Assets		
Current Assets		
Cash and cash equivalents	\$ 195,592	\$ 1,239,821
Accounts receivable (Note 2)	6,843,598	6,472,601
Estimated third-party payor settlements (Note 3)	559,621	670,112
Assets limited as to use (Note 4)	637,731	605,204
Other current assets	1,983,810	1,649,817
Total current assets	10,220,352	10,637,555
Assets Limited as to Use (Note 4)	6,599,166	6,804,624
Property and Equipment - Net (Note 6)	27,683,566	29,143,991
Other Assets	1,570,291	1,629,795
Total assets	\$ 46,073,375	\$ 48,215,965
Liabilities and Net Assets		
Current Liabilities		
Current portion of long-term debt (Note 9)	\$ 22,585,095	\$ 23,449,155
Note payable (Note 7)	1,000,000	1,000,000
Accounts payable	4,703,659	4,998,828
Estimated third-party payor settlements (Note 3)	-	456,168
Margin loan (Note 8)	2,384,395	-
Accrued liabilities and other	2,694,756	3,208,322
Total current liabilities	33,367,905	33,112,473
Other Liabilities - Deferred compensation	569,566	469,582
Total liabilities	33,937,471	33,582,055
Net Assets		
Unrestricted	12,120,233	14,604,922
Temporarily restricted	15,671	28,988
Total net assets	12,135,904	14,633,910
Total liabilities and net assets	\$ 46,073,375	\$ 48,215,965

Otsego Memorial Hospital and Subsidiary

Consolidated Statement of Operations

	Year Ended	
	December 31, 2009	December 31, 2008
Unrestricted Revenue, Gains, and Other Support		
Net patient service revenue	\$ 63,032,548	\$ 61,279,729
Other	1,028,888	952,324
Total unrestricted revenue, gains, and other support	64,061,436	62,232,053
Expenses		
Salaries and wages	29,042,803	28,319,400
Employee benefits and payroll taxes	8,163,368	7,642,988
Operating supplies and expenses	1,008,588	757,448
Medical supplies and drugs	9,558,365	10,356,072
Professional services and consultant fees	1,380,785	2,183,232
Purchased services	2,396,251	2,689,026
Insurance	762,086	897,952
Facilities expense	5,540,036	3,533,714
Restructuring expenses (Note 13)	1,576,723	-
Depreciation and amortization	2,005,264	1,975,622
Provision for bad debts	3,179,142	2,497,788
Interest expense	1,540,715	1,566,980
Other	2,427,160	2,939,218
Total expenses (Note 14)	68,581,286	65,359,440
Operating Loss	(4,519,850)	(3,127,387)
Other Income (Loss)		
Interest income (Note 4)	233,196	273,882
Loss on sale of property and equipment	(10,924)	(88,121)
Contributions	20,820	47,126
Equity in earnings of unconsolidated investees	39,760	109,688
Realized gain (loss) on investments (Note 4)	1,115,438	(238,470)
Other income	-	5,605
Change in unrealized investment gain (loss)(Note 4)	623,554	(1,012,082)
Total other income (loss)	2,021,844	(902,372)
Excess of Revenue Under Expenses	(2,498,006)	(4,029,759)
Net Assets Released from Restriction	13,317	88,978
Decrease in Unrestricted Net Assets	\$ (2,484,689)	\$ (3,940,781)

Otsego Memorial Hospital and Subsidiary

Consolidated Statement of Changes in Net Assets

	Year Ended	
	December 31, 2009	December 31, 2008
Unrestricted Net Assets		
Excess of revenue under expenses	\$ (2,498,006)	\$ (4,029,759)
Net assets released from restriction	13,317	88,978
Decrease in Unrestricted Net Assets	(2,484,689)	(3,940,781)
Temporarily Restricted Net Assets		
Restricted contributions	-	17,690
Net assets released from restriction	(13,317)	(88,978)
Decrease in Temporarily Restricted Net Assets	(13,317)	(71,288)
Decrease in Net Assets	(2,498,006)	(4,012,069)
Net Assets - Beginning of year	14,633,910	18,645,979
Net Assets - End of year	\$ 12,135,904	\$ 14,633,910

Otsego Memorial Hospital and Subsidiary

Consolidated Statement of Cash Flows

	Year Ended	
	December 31, 2009	December 31, 2008
Cash Flows from Operating Activities		
Cash received from patients and third-party payors	\$ 62,315,874	\$ 59,161,522
Cash paid to suppliers and employees	(66,094,766)	(57,068,226)
Investment income received	249,175	267,258
Interest paid	(1,540,715)	(1,706,613)
Other operating receipts	1,049,708	1,005,055
Net cash (used in) provided by operating activities (Note 15)	(4,020,724)	1,658,996
Cash Flows from Investing Activities		
Purchase of property and equipment	(549,314)	(1,349,957)
Proceeds from sale of property and equipment	5,043	-
Purchase of investments	(2,382,610)	(2,297,945)
Proceeds from sales and maturities of investments	4,294,533	1,738,278
Proceeds from life insurance contracts	-	440,306
Net distribution from investments joint ventures	100,000	75,000
Net cash provided by (used in) investing activities	1,467,652	(1,394,318)
Cash Flows from Financing Activities		
Proceeds from issuance of debt obligations	3,595,677	1,000,000
Principal payments on debt obligations	(2,086,834)	(1,338,597)
Proceeds from restricted contributions	-	17,690
Net cash provided by (used in) financing activities	1,508,843	(320,907)
Net Decrease in Cash and Cash Equivalents	(1,044,229)	(56,229)
Cash and Cash Equivalents - Beginning of year	1,239,821	1,296,050
Cash and Cash Equivalents - End of year	\$ 195,592	\$ 1,239,821

Otsego Memorial Hospital and Subsidiary

Notes to Consolidated Financial Statements December 31, 2009 and 2008

Note I - Nature of Business and Significant Accounting Policies

Reporting Entity and Corporate Structure - Otsego Memorial Hospital (the "Hospital") and Subsidiary, located in Gaylord, Michigan, is a not-for-profit hospital. The Hospital provides acute and long-term healthcare 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.

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.

The Hospital maintains cash and investment balances with a local bank. Accounts are insured in full under the Transaction Account Guarantee Program which is provided by the Federal Deposit Insurance Corporation through December 31, 2009 since they bear an interest rate of less than .50 percent per year.

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 Subsidiary

Notes to Consolidated Financial Statements December 31, 2009 and 2008

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

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 and unrealized 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.

The Organization invests in various investment securities. Investment securities are exposed to various risk 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.

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

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.

Cash Surrender Value of Life Insurance - The Organization is the owner and beneficiary of key-man life insurance policies carried on three individuals bearing face value amounts totaling \$531,371 and \$508,178 at December 31, 2009 and 2008, respectively. There are loans outstanding against the policies in the amount of \$487,266 and \$453,353 at December 31, 2009 and 2008, respectively. The Organization has no intention to repay the loans during the ensuing operating cycle of the business; therefore, the net cash surrender value of the life insurance policies is reported as other long-term assets.

Otsego Memorial Hospital and Subsidiary

Notes to Consolidated Financial Statements December 31, 2009 and 2008

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

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 treats donor-restricted contributions where the restrictions are met in the year of donation as unrestricted contributions.

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.

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 of such laws and regulations is subject to future government review and interpretation. Violations may result in significant regulatory action including fines, penalties, and exclusions from the Medicare and Medicaid programs.

Excess of Revenue Under Expenses - The consolidated statement of operations includes excess of revenue under expenses. Changes in unrestricted net assets, which are excluded from excess of revenue under expenses, consistent with industry practice, include net assets released from restrictions for the acquisition of long-lived assets.

Otsego Memorial Hospital and Subsidiary

Notes to Consolidated Financial Statements December 31, 2009 and 2008

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

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. Charity care amounts represent less than 1 percent of gross revenue.

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

Subsequent Events - The consolidated financial statements and related disclosures include evaluation of events up through and including May 13, 2010, which is the date the consolidated financial statements were available to be issued.

Reclassification - Certain 2008 amounts have been reclassified to conform with the 2009 presentation. Due to a computer system conversion during the year, significant changes were made to the classification of expenses on the consolidated statement of operations.

Note 2 - Patient Accounts Receivable

The details of patient accounts receivable are set forth below:

	2009	2008
Patient accounts receivable	\$ 12,106,504	\$ 10,118,577
Less allowance for uncollectible accounts	(451,124)	(468,659)
Less allowance for contractual adjustments	(4,899,823)	(3,325,954)
Net patient accounts receivable	6,755,557	6,323,964
Other	88,041	148,637
Net accounts receivable	<u>\$ 6,843,598</u>	<u>\$ 6,472,601</u>

Otsego Memorial Hospital and Subsidiary

Notes to Consolidated Financial Statements December 31, 2009 and 2008

Note 2 - Patient Accounts Receivable (Continued)

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 was as follows:

	Percentage	
	2009	2008
Medicare	33	28
Blue Cross/Blue Shield of Michigan	26	24
Medicaid	16	13
Commercial insurance and HMOs	14	13
Self-pay	11	22
Total	100	100

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 84 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.
- **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.

Otsego Memorial Hospital and Subsidiary

Notes to Consolidated Financial Statements December 31, 2009 and 2008

Note 3 - Cost Report Settlements (Continued)

Cost report settlements result from the adjustment of interim payments to final reimbursements under these programs and are subject to audit by the fiscal intermediaries. Although these audits may result in some changes in these amounts, they are not expected to have a material effect on the accompanying consolidated financial statements.

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 began for Michigan hospitals in 2009. The Hospital is unable to determine if it will be audited and if so, the extent of liability for overpayments, if any. If selected for audit, the potential exists for significant overpayment of claims liability for the Hospital at a future date.

Note 4 - Assets Limited as to Use

The composition of assets limited as to use at December 31, 2009 and 2008 is summarized in the following schedule:

	2009	2008
Designated by the board of directors for replacement, improvement, and expansion of property and equipment:		
Money market funds	\$ 34,895	\$ 296,072
Common stock	3,183,438	2,458,483
Mutual funds	237,441	507,811
Corporate bonds	733,481	639,563
U.S. government obligations	737,163	1,106,818
Accrued interest income	15,122	24,587
Total assets limited to use - Designated by board of directors	4,941,540	5,033,334
Bond indenture assets held by bank trust department (Note 9):		
Money market funds	637,731	605,204
U.S. Treasury obligations	1,657,626	1,771,290
Total assets limited as to use	7,236,897	7,409,828
Less current portion of assets limited as to use	637,731	605,204
Total long-term portion of assets limited as to use	\$ 6,599,166	\$ 6,804,624

Otsego Memorial Hospital and Subsidiary

Notes to Consolidated Financial Statements December 31, 2009 and 2008

Note 4 - Assets Limited as to Use (Continued)

Bond indentures represent debt service and interest reserve funds. The long-term portion to fund principal payments was \$1,657,626 and \$1,771,290 at December 31, 2009 and 2008, respectively. The current portion to fund interest payments was \$637,731 and \$605,204 at December 31, 2009 and 2008, respectively.

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, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Interest and dividend income	\$ 233,196	\$ 273,882
Realized gain (loss) on investments	1,115,438	(238,470)
Unrealized gain (loss) on investments	<u>623,554</u>	<u>(1,012,082)</u>
Total	<u>\$ 1,972,188</u>	<u>\$ (976,670)</u>

In 2009, the Organization recognized a gain of \$1,250,495 on the sale of FinCor Holdings, Inc. (FinCor) stock pursuant to the acquisition of FinCor by Medical Professional Mutual Insurance Company.

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 Organization's assets measured at fair value on a recurring basis at December 31, 2009, and the valuation techniques used by the Organization 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 Organization 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.

Otsego Memorial Hospital and Subsidiary

Notes to Consolidated Financial Statements December 31, 2009 and 2008

Note 5 - Fair Value Measurements (Continued)

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 Organization's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

Assets Measured at Fair Value on a Recurring Basis at December 31, 2009

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2009
Assets limited as to use:				
Common stock	\$ 3,183,438	\$ -	\$ -	\$ 3,183,438
Mutual funds	237,441	-	-	237,441
Corporate bonds	-	733,481	-	733,481
U.S. government obligations	-	737,163	-	737,163
Bond indenture	-	1,657,626	-	1,657,626
Total	<u>\$ 3,420,879</u>	<u>\$ 3,128,270</u>	<u>\$ -</u>	<u>\$ 6,549,149</u>

Assets Measured at Fair Value on a Recurring Basis at December 31, 2008

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2008
Assets limited as to use:				
Common stock	\$ 2,458,483	\$ -	\$ -	\$ 2,458,483
Mutual funds	507,811	-	-	507,811
Corporate bonds	-	639,563	-	639,563
U.S. government obligations	-	1,106,818	-	1,106,818
Bond indenture	-	1,771,290	-	1,771,290
Total	<u>\$ 2,966,294</u>	<u>\$ 3,517,671</u>	<u>\$ -</u>	<u>\$ 6,483,965</u>

Otsego Memorial Hospital and Subsidiary

Notes to Consolidated Financial Statements December 31, 2009 and 2008

Note 6 - Property and Equipment

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

	2009	2008	Depreciable Life - Years
Land	\$ 1,041,401	\$ 1,041,401	-
Land improvements	147,464	153,334	7-40
Buildings and improvements	31,779,289	31,792,929	10-50
Equipment	18,338,867	19,035,494	5-20
Construction in progress	38,210	-	-
Total cost	51,345,231	52,023,158	
Accumulated depreciation	(23,661,665)	(22,879,167)	
Net property and equipment	<u>\$ 27,683,566</u>	<u>\$ 29,143,991</u>	

Depreciation expense on property and equipment is \$1,993,772 and \$1,969,876 for the years ended December 31, 2009 and 2008, respectively.

Note 7 - Note Payable

The Organization has a secured line of credit with Fifth Third Bank in the amount of \$1,000,000. The line expired in November 2009 and the Organization is currently in negotiations for renewal of the line. The line is secured under the same terms as the Series 2004 and 2005 bond issues disclosed in Note 9. The interest rate on the line of credit is 300 basis points above the one-month LIBOR. The one-month LIBOR was .41 percent and 0.44 percent as of December 31, 2009 and 2008, respectively. The line is the joint and several obligation of Otsego Memorial Obligated Group (the "Obligated Group"), comprised of Otsego Memorial Hospital and Otsego Memorial Hospital Foundation.

At December 31, 2009 and 2008, the Organization had borrowings of \$1,000,000 under this line. The line was paid in full on February 1, 2010.

Note 8 - Margin Loan

The Organization has established a margin account in order to borrow funds against the value of investments held. The interest rate on the margin loan is 5.5 percent and the outstanding balance ranged from approximately \$241,000 to \$2,384,000 during the year ended December 31, 2009.

Subsequent to year end, an additional \$1,600,000 has been borrowed under this arrangement, and approximately \$3.5 million paid back, using cash from operations and the sale of approximately \$3 million of investments.

Otsego Memorial Hospital and Subsidiary

Notes to Consolidated Financial Statements December 31, 2009 and 2008

Note 9 - Long-term Debt

Long-term debt at December 31, 2009 and 2008 is as follows:

	<u>2009</u>	<u>2008</u>
Series 2004 Revenue and Refunding Bonds	\$ 17,860,000	\$ 17,860,000
Series 2005 Revenue and Refunding Bonds	<u>5,115,928</u>	<u>5,994,463</u>
Total	22,975,928	23,854,463
Less unamortized bond discount - Series 2004	<u>(390,833)</u>	<u>(405,308)</u>
Net	22,585,095	23,449,155
Less current portion	<u>(22,585,095)</u>	<u>(23,449,155)</u>
Long-term portion	<u>\$ -</u>	<u>\$ -</u>

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, 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 payment schedule is based upon the scheduled terms at the inception of the bonds. When debt covenant violations occur, bond holders have the right to change the payment schedule as described below.

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 monthly security interest in the Obligated Group's gross revenues and property. Monthly payments include principal payments that range from \$74,965 to \$93,424, plus interest at a variable rate equaling the lesser of 67 percent of the bank's prime rate or 67 percent of LIBOR plus 275 basis points. The interest rates were 2.00 percent and 3.25 percent on December 31, 2009 and 2008, respectively. The Series 2005 issue fully matures on January 1, 2015. The payment schedule is based upon the scheduled terms at the inception of the bonds. When debt covenant violations occur, bond holders have the right to change the payment schedule as described below.

Otsego Memorial Hospital and Subsidiary

Notes to Consolidated Financial Statements December 31, 2009 and 2008

Note 9 - Long-term Debt (Continued)

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. The Organization did not meet the required debt service coverage ratio of 1.50 to 1 and days cash on hand greater than 48 days as described in the trust indenture related to the bonds payable. As proscribed by the bond indenture, the Organization has hired a consultant to provide recommendations to increase net income available for debt service. Additionally, the bond holders have the right to immediately demand repayment of the principal.

The fair market value of long-term debt was estimated to be \$20,748,000 and \$18,386,000 at December 31, 2009 and 2008, respectively. The fair market value was determined using discounted cash flow analyses based on the Organization's incremental borrowing rate for similar financing arrangements.

Note 10 - Operating Leases

The Hospital is obligated under certain operating leases, primarily for medical equipment. Total rent expense under these leases was \$2,721,892 and \$1,256,604 for the years ended December 31, 2009 and 2008, respectively.

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

<u>Years Ending December 31</u>	<u>Amount</u>
2010	\$ 2,469,656
2011	2,089,711
2012	782,673
2013	310,380
2014	10,945
Total	<u>\$ 5,663,365</u>

Note 11 - 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 insured, 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.

Otsego Memorial Hospital and Subsidiary

Notes to Consolidated Financial Statements December 31, 2009 and 2008

Note 11 - Medical Malpractice Claims (Continued)

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 four 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 12 - 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 2009 and 2008 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 \$850,279 and \$890,834 in 2009 and 2008, respectively.

Note 13 - Management's Plan

In February 2009, Otsego Memorial Hospital engaged Wellspring Partners to complete an assessment of the Hospital. The assessment report was delivered to the Otsego Memorial Hospital board of directors on April 28, 2009. Wellspring Partners identified potential operational improvement opportunities ranging between \$5,090,000 to \$6,755,000.

The Otsego Memorial Hospital board of directors approved the engagement of Wellspring Partners to assist with the implementation and monitoring of the operational opportunities. Wellspring Partners delivered the Implementation Engagement Completion letter on December 9, 2009, which outlined the scope of opportunities implemented with a value of \$5,347,737. Costs paid to Wellspring Partners for these services is included in the consolidated statement of operations as restructuring expense.

Otsego Memorial Hospital and Subsidiary

Notes to Consolidated Financial Statements December 31, 2009 and 2008

Note 13 - Management's Plan (Continued)

The table below identifies the scope of the opportunities implemented with the amount of annualized and one-time benefits that Otsego Memorial Hospital has received and agreed as implemented.

	<u>Low</u>	<u>High</u>	<u>Implemented</u>
Nonlabor	\$ 600,000	\$ 840,000	\$ 736,734
Revenue cycle	300,000	500,000	900,000
Physician services	490,000	840,000	956,000
Labor	<u>1,700,000</u>	<u>2,100,000</u>	<u>2,755,000</u>
Total	<u>\$ 3,090,000</u>	<u>\$ 4,280,000</u>	<u>\$ 5,347,734</u>

Wellspring Partners provided the management of Otsego Memorial Hospital with monitoring tools to measure the ongoing compliance with the identified, implemented, and monitored initiatives.

The \$5,347,734 of implemented opportunities has been verified and this savings will come through for 2010.

Potential Opportunities

Otsego Memorial Hospital has an opportunity to eliminate six lease agreements prior to year end with monthly lease payments totaling \$39,196.

In addition, the Hospital is assessing the opportunity to participate in the Health Resources and Services Administration 340B drug-pricing program.

The Hospital reduced the number of paid FTEs from the 2008 baseline period of 513 to 456 as of April 2010, yielding a reduction of 57 paid FTEs. The elimination of the paid lunch and 5 percent salary reduction remains in effect.

Note 14 - Functional Expenses

The Organization is a general acute-care facility that provides inpatient, outpatient, and long-term healthcare services to patients in Otsego County and the surrounding communities. Expenses related to providing these services for the years ended December 31, 2009 and 2008 are as follows:

	<u>2009</u>	<u>2008</u>
Healthcare services	\$ 49,119,061	\$ 44,651,259
General and administrative	18,963,402	20,075,239
Fundraising	<u>498,823</u>	<u>632,942</u>
Total	<u>\$ 68,581,286</u>	<u>\$ 65,359,440</u>

Otsego Memorial Hospital and Subsidiary

Notes to Consolidated Financial Statements December 31, 2009 and 2008

Note 15 - Cash Flows

A reconciliation of decrease in net assets to net cash from operating activities is as follows:

	<u>2009</u>	<u>2008</u>
Decrease in net assets	\$ (2,498,006)	\$ (4,012,069)
Adjustments to reconcile decrease in net assets to net cash from operating activities:		
Depreciation and amortization	2,005,264	2,062,055
Restricted contributions	-	(17,690)
Provision for uncollectible accounts	3,179,142	2,497,775
Realized and unrealized net (gains) losses on investments	(1,738,992)	1,250,552
Undistributed gain on equity investments	(39,760)	(109,688)
Loss on sale of property and equipment	10,924	88,121
(Increase) decrease in assets:		
Accounts receivable	(3,550,139)	(3,183,095)
Other assets	(334,729)	241,652
Cost report settlements receivable	110,491	1,064,888
Increase (decrease) in liabilities:		
Accounts payable	(295,169)	944,121
Cost report settlements payable	(456,168)	456,168
Accrued liabilities	(413,582)	376,206
Net cash (used in) provided by operating activities	<u>\$ (4,020,724)</u>	<u>\$ 1,658,996</u>

Additional Information

To the Board of Directors
Otsego Memorial Hospital
and Subsidiary

We have audited the consolidated financial statements of Otsego Memorial Hospital and Subsidiary as of December 31, 2009 and 2008. 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

May 13, 2010

Otsego Memorial Hospital and Subsidiary

Consolidating Balance Sheet December 31, 2009

	Otsego Memorial Hospital	Otsego Memorial Hospital Foundation	Eliminating Entries	Total
Assets				
Current Assets				
Cash and cash equivalents	\$ 96,730	\$ 98,862	\$ -	\$ 195,592
Accounts receivable	6,814,319	29,279	-	6,843,598
Estimated third-party payor settlements	559,621	-	-	559,621
Assets limited as to use	637,731	-	-	637,731
Other current assets	1,983,810	-	-	1,983,810
Total current assets	10,092,211	128,141	-	10,220,352
Assets Limited as to Use	5,667,777	931,389	-	6,599,166
Property and Equipment - Net	27,683,566	-	-	27,683,566
Interest in Net Assets of Charitable Foundation	1,059,500	-	(1,059,500)	-
Other Assets	1,570,291	-	-	1,570,291
Total assets	\$ 46,073,345	\$ 1,059,530	\$ (1,059,500)	\$ 46,073,375
Liabilities and Net Assets				
Current Liabilities				
Current portion of long-term debt	\$ 22,585,095	\$ -	\$ -	\$ 22,585,095
Note payable	1,000,000	-	-	1,000,000
Accounts payable	4,703,629	30	-	4,703,659
Margin loan	2,384,395	-	-	2,384,395
Accrued liabilities and other	2,694,756	-	-	2,694,756
Total current liabilities	33,367,875	30	-	33,367,905
Other Liabilities - Deferred compensation	569,566	-	-	569,566
Total liabilities	33,937,441	30	-	33,937,471
Net Assets				
Unrestricted	11,076,404	1,043,829	-	12,120,233
Temporarily restricted	1,059,500	15,671	(1,059,500)	15,671
Total net assets	12,135,904	1,059,500	(1,059,500)	12,135,904
Total liabilities and net assets	\$ 46,073,345	\$ 1,059,530	\$ (1,059,500)	\$ 46,073,375

Otsego Memorial Hospital and Subsidiary

Consolidating Statement of Operations Year Ended December 31, 2009

	Otsego Memorial Hospital	Otsego Memorial Hospital Foundation	Eliminating Entries	Totals
Unrestricted Revenue, Gains, and Other Support				
Net patient service revenue	\$ 63,032,548	\$ -	\$ -	\$ 63,032,548
Other	693,134	497,093	(161,339)	1,028,888
Total unrestricted revenue, gains, and other support	63,725,682	497,093	(161,339)	64,061,436
Expenses				
Salaries and wages	29,042,803	87,772	(87,772)	29,042,803
Employee benefits and payroll taxes	8,163,368	24,407	(24,407)	8,163,368
Operating supplies and expenses	1,008,588	2,158	(2,158)	1,008,588
Medical supplies and drugs	9,558,365	-	-	9,558,365
Professional services and consultant fees	1,380,785	-	-	1,380,785
Purchased services	2,396,251	631	(631)	2,396,251
Insurance	762,086	-	-	762,086
Facilities expense	5,540,036	803	(803)	5,540,036
Restructuring expenses	1,576,723	-	-	1,576,723
Depreciation and amortization	2,005,264	-	-	2,005,264
Provision for bad debts	3,179,142	-	-	3,179,142
Interest expense	1,540,715	-	-	1,540,715
Contributions	-	323,355	(323,355)	-
Other	2,416,193	56,535	(45,568)	2,427,160
Total expenses	68,570,319	495,661	(484,694)	68,581,286
Operating (Loss) Income	(4,844,637)	1,432	323,355	(4,519,850)
Other Income	1,872,699	149,145	-	2,021,844
Excess of Revenue (Under) Over Expenses	(2,971,938)	150,577	323,355	(2,498,006)
Net Assets Released from Restriction	323,355	13,317	(323,355)	13,317
(Decrease) Increase in Unrestricted Net Assets	<u>\$ (2,648,583)</u>	<u>\$ 163,894</u>	<u>\$ -</u>	<u>\$ (2,484,689)</u>

Otsego Memorial Hospital and Subsidiary

Consolidating Statement of Changes in Net Assets Year Ended December 31, 2009

	Otsego Memorial Hospital	Otsego Memorial Hospital Foundation	Eliminating Entries	Total
Unrestricted Net Assets				
Excess of revenue (under) over expenses	\$ (2,971,938)	\$ 150,577	\$ 323,355	\$ (2,498,006)
Net assets released from restriction	<u>323,355</u>	<u>13,317</u>	<u>(323,355)</u>	<u>13,317</u>
(Decrease) Increase in Unrestricted Net Assets	(2,648,583)	163,894	-	(2,484,689)
Temporarily Restricted Net Assets				
Change in interest of net assets of charitable foundation	473,932	-	(473,932)	-
Net assets released from restriction	<u>(323,355)</u>	<u>(13,317)</u>	<u>323,355</u>	<u>(13,317)</u>
Increase (Decrease) in Temporarily Restricted Net Assets	<u>150,577</u>	<u>(13,317)</u>	<u>(150,577)</u>	<u>(13,317)</u>
(Decrease) Increase in Net Assets	(2,498,006)	150,577	(150,577)	(2,498,006)
Net Assets - Beginning of year	<u>14,633,910</u>	<u>908,923</u>	<u>(908,923)</u>	<u>14,633,910</u>
Net Assets - End of year	<u>\$12,135,904</u>	<u>\$ 1,059,500</u>	<u>\$(1,059,500)</u>	<u>\$12,135,904</u>