

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) 35 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 2010 (FY2010)

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

Fiscal Period Covered: January – December 2010 (FY2010)

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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Email Address aronson@firstriver.com Relationship to Issuer Dissemination Agent

Obligor Contact, if any:

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Employer Otsego Memorial Hospital
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Email Address rcourtois@otsegohospital.org Obligor Web Site Address www.otsegohospital.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: APRIL 6, 2011

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, 2010 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 FY2010 is 1.56 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, 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, FY2010</i>		
Excess (Deficit) of Revenue over Expenses		\$519,162
Depreciation and Amortization Expense		1,998,393
Interest Expense		1,514,330
Unrealized (Gains) Losses on Investment Securities		(246,073)
(Gains) Losses on the Disposition of Capital Assets		(5,950)
(Gains) Losses on Extinguishment of Debt		0
Net Income Available for Debt Service	NIADS	3,779,862
Maximum Annual Debt Service Requirements	MADS	2,424,474
Debt Service Coverage Ratio	NIADS / MADS	1.56

3. The Obligated Group's average age of its trade accounts payable for FY2010 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:

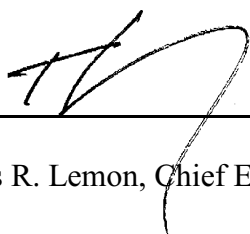
<i>Average Age of Trade Accounts Payable, FY2009</i>		
Trade Accounts Payable at FYE	AP	\$4,370,837
Average Daily Trade Accounts Payable	ADAP	\$89,191
Average Age of Trade Accounts Payable (days)	AP / ADAP	49.0

4. The Obligated Group's Days Cash on Hand at FYE2010 is 23 (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 FY2010 requirement of at least 54 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 FYE2010</i>		
a	Cash and Cash Equivalents	1,357,508
b	Board-Designated Investments	1,004,832
c	Investments	1,817,065
d	Outstanding Principal Balance of Short-Term Indebtedness	0
e = a + b + c - d	Financial Assets	4,179,405
f	Operating Expenses	67,301,149
g	Minus: Depreciation and Amortization Expense	(1,998,393)
h = f - g	Adjusted Operating Expenses	65,302,756
i = h / days	Daily Operating Expenses	178,912
e ÷ i	Days' Cash on Hand	23
	Requirement	54

5. The Obligated Group's Unrestricted Net Assets as of FYE2010 is \$12,655,066, 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 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 included this year.



Thomas R. Lemon, Chief Executive Officer

OTSEGO MEMORIAL HOSPITAL ASSOCIATION

UPDATE OF CERTAIN FINANCIAL INFORMATION AND OPERATING DATA (FY2010)

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, 2010, or are accurate as of December 31, 2010, 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			
	2010	2009	2008	2007	2006
Cardiology	44.6%	36.3%	42.6%	49.7%	47.4%
Gastroenterology	46.0%	49.2%	44.4%	44.6%	41.2%
General Surgery	33.8%	46.1%	39.4%	37.4%	38.2%
Pulmonology	58.2%	57.5%	58.3%	61.6%	60.5%
Obstetrics	50.2%	59.3%	64.6%	64.3%	63.2%
Orthopedics	56.5%	67.1%	68.6%	68.1%	65.4%
All Secondary Inpatient Admissions	48.6%	50.9%	51.6%	51.9%	50.5%
Gastroenterology	60.9%	69.9%	68.1%	61.1%	53.6%
General Medicine	64.5%	68.8%	72.4%	68.8%	70.8%
General Surgery	55.8%	55.6%	60.9%	61.0%	60.5%
Neurosurgery	45.6%	46.3%	43.6%	44.1%	42.3%
Obstetrics	81.7%	74.5%	89.5%	95.3%	92.1%
Ophthalmology	48.2%	53.7%	52.7%	52.5%	50.4%
Orthopedics	70.5%	73.2%	74.6%	76.0%	76.2%
All Outpatient Invasive Procedures	56.2%	60.4%	62.2%	59.9%	58.6%
Source: MHA					

MUNICIPAL SECONDARY MARKET DISCLOSURE
Gaylord Hospital Finance Authority / Otsego Memorial Hospital Association
Fiscal Year Ended December 31, 2010
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<i>Historical Acute Care Utilization (excludes newborns) [OS Page A-26]</i>					
	<i>Fiscal Years Ended December 31</i>				
	<i>2010</i>	<i>2009</i>	<i>2008</i>	<i>2007</i>	<i>2006</i>
Days in Period	365	365	366	365	365
Licensed Beds	46	46	46	53	53
Staffed Beds	39	39	39	39	39
Admissions	1,640	1,805	1,937	1,931	2,029
Change over Previous Period	(9.1)%	(6.8)%	0.3%	(4.8)%	1.0%
Patient Days	5,075	5,567	6,036	5,836	5,988
Births	231	250	274	291	309
Average Daily Census	13.9	15.3	16.5	16.0	16.4
Average Length of Stay	3.1	3.1	3.1	3.0	3.0
Occupancy Rate ¹ (%)	35.7	39.1	42.3	41.0	42.1
¹ Based on Staffed Beds					

<i>McReynolds Hall (Skilled Nursing) Utilization [OS Page A-27]</i>					
	<i>Fiscal Years Ended December 31</i>				
	<i>2010</i>	<i>2009</i>	<i>2008</i>	<i>2007</i>	<i>2006</i>
Days in Period	365	365	366	365	365
Licensed and Staffed Beds	34	34	34	34	34
Patient Days	10,857	11,134	11,426	11,680	11,050
Average Daily Census	29.7	30.5	31.2	32.0	30.3
Occupancy Rate	87.5	89.7	91.8	94.1	89.0

MUNICIPAL SECONDARY MARKET DISCLOSURE
Gaylord Hospital Finance Authority / Otsego Memorial Hospital Association
Fiscal Year Ended December 31, 2010
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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>2010</i>	<i>2009</i>	<i>2008</i>	<i>2007</i>	<i>2006</i>
ED Patients		12,205	12,072	11,874	12,821	12,369
Change over Previous Period		1.1%	1.7%	(7.4)%	3.7%	(2.3)%
MedCare Encounters		15,067	13,960	12,880	13,411	13,042
Change over Previous Period		7.9%	8.4%	(4.0)%	2.8%	(13.5)%
Employed Physician Encounters	OMH Medical Group	69,597	65,531	66,068		
	Montmorency Clinic	9,524	8,982	4,334		
	Orthopedic Surgeons	12,405	12,664	3,279		
	Total	91,526	87,177	73,681	64,551	60,815
	Change over Previous Period	5.0%	18.3%	14.1%	6.1%	
Outpatient Registrations		66,700	69,860	75,175		
Change over Previous Period		(4.5)%	(7.1)%			

MUNICIPAL SECONDARY MARKET DISCLOSURE
Gaylord Hospital Finance Authority / Otsego Memorial Hospital Association
Fiscal Year Ended December 31, 2010
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<i>Surgical and Other Procedures</i>						
<i>[OS Page A-28]</i>						
		<i>Fiscal Years Ended December 31</i>				
		<i>2010</i>	<i>2009</i>	<i>2008</i>	<i>2007</i>	<i>2006</i>
Inpatient Surgeries		654	745	868	838	974
Outpatient	Surgeries	3,671	4,155	4,167	4,137	3,803
	Other Procedures	4,050	4,491	4,650	5,652	4,398
	Total Outpatient	7,721	8,646	8,817	9,789	8,201
Grand Total		8,375	9,391	9,685	10,627	9,175
Change over Previous Period		(10.8)%	(3.0)%	(8.9)%	15.8%	8.6%
Percent Outpatient		92.2%	92.1%	91.0%	92.1%	89.4%

MUNICIPAL SECONDARY MARKET DISCLOSURE
Gaylord Hospital Finance Authority / Otsego Memorial Hospital Association
Fiscal Year Ended December 31, 2010
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<i>Ancillary Services</i> <i>(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>2010</i>	<i>2009</i>	<i>2008</i>
Laboratory Orders	272,379	250,054	219,133
Electrocardiology Procedures	7,446	8,092	8,887
General Radiology Examinations ¹	20,022	20,496	21,458
Ultrasound Examinations ¹	3,978	3,548	3,745
Mammography Examinations ¹	2,722	2,830	2,999
Nuclear Medicine Patients ²	2,190	2,206	2,995
CT Scan Examinations ³	6,638	6,662	8,565
MRI Examinations	2,912	2,770	3,002
Cardio-Pulmonary Procedures	26,253	28,155	27,014
Physical Therapy Procedures	26,525	30,627	25,274
Occupational Therapy Procedures	17,846	15,549	14,636
Cardiac Rehabilitation Visits	6,818	6,473	7,309
Infusion Services	6,558	6,162	N/A
¹ Corrects volumes reported in FY2009 disclosure report; conforms to FY2010Q4 disclosure report ² Counting methodology changed from "examinations" to "patients seen" ³ Reflects new counting methodology which eliminates double-counts			

MUNICIPAL SECONDARY MARKET DISCLOSURE
Gaylord Hospital Finance Authority / Otsego Memorial Hospital Association
Fiscal Year Ended December 31, 2010
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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>
Laboratory ¹	28,213	29,349
Electrocardiology ²	1,838	1,929
Radiology ²	4,179	4,382
Cardio-Pulmonary ²	18,031	17,878
Physical Therapy ²	6,041	6,209
Occupational Therapy ²	3,312	2,959
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>
Laboratory ¹	188,231	183,661
Electrocardiology ²	7,126	6,623
Electroencephalography ²	258	267
Radiology ²	42,963	40,854
Cardio-Pulmonary ²	8,431	7,326
Physical Therapy ²	13,096	13,321
Occupational Therapy ²	8,967	6,865
Cardiac Rehabilitation ²	9,663	7,354
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, 2010
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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>2010</i>	<i>2009</i>	<i>2008</i>	<i>2007</i>	<i>2006</i>
Medicare	45.7%	45.4%	42.4%	42.4%	43.4%
Medicaid	16.9%	16.2%	14.2%	13.4%	12.3%
Blue Cross	22.2%	26.2%	28.3%	26.5%	25.7%
Self-Pay	3.2%	3.0%	4.7%	6.4%	6.5%
Commercial and Other	12.0%	9.2%	10.3%	11.3%	12.1%
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>2010</i>	<i>2009</i>	<i>2008</i>	<i>2007</i>	<i>2006</i>
Inpatient	21.8%	22.2%	24.8%	25.7%	27.8%
Outpatient	75.1%	74.4%	72.3%	70.6%	68.6%
Skilled Nursing	3.1%	3.4%	3.0%	3.6%	3.6%
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, 2010
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<i>Debt Service Coverage Ratio Calculation</i> <i>[OS Page A-41]</i>	
	<i>Fiscal Year Ended December 31</i>
	<i>2010</i>
Net Income Available for Debt Service	3,779,862
Maximum Annual Debt Service Requirements ¹	2,424,474
Debt Service Coverage Ratio (x) ²	1.56
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

December 31, 2010

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, 2010 and 2009 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, 2010 and 2009 and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Plante & Moran, PLLC

March 22, 2011

Otsego Memorial Hospital and Subsidiary

Consolidated Balance Sheet

	December 31, 2010	December 31, 2009
Assets		
Current Assets		
Cash and cash equivalents	\$ 1,357,508	\$ 195,592
Accounts receivable (Note 2)	4,051,979	6,843,598
Estimated third-party payor settlements (Note 3)	3,287,731	559,621
Assets limited as to use (Note 4)	574,012	637,731
Other current assets	1,810,590	1,983,810
Total current assets	11,081,820	10,220,352
Assets Limited as to Use (Note 4)	3,562,819	7,168,732
Investments (Note 4)	1,817,065	-
Property and Equipment - Net (Note 6)	27,185,338	27,683,566
Other Assets	810,628	1,000,725
Total assets	<u>\$ 44,457,670</u>	<u>\$ 46,073,375</u>
Liabilities and Net Assets		
Current Liabilities		
Current portion of long-term debt (Note 9)	\$ 1,086,141	\$ 22,585,095
Note payable (Note 7)	-	1,000,000
Accounts payable	4,370,837	4,703,659
Estimated third-party payor settlements (Note 3)	1,783,051	-
Margin loan (Note 8)	-	2,384,395
Accrued payroll and other	2,283,893	2,694,756
Total current liabilities	9,523,922	33,367,905
Long-term Debt - Net of current portion (Note 9)	21,291,506	-
Other Liabilities - Deferred compensation	955,508	569,566
Total liabilities	31,770,936	33,937,471
Net Assets		
Unrestricted	12,655,066	12,120,233
Temporarily restricted	31,668	15,671
Total net assets	12,686,734	12,135,904
Total liabilities and net assets	<u>\$ 44,457,670</u>	<u>\$ 46,073,375</u>

Otsego Memorial Hospital and Subsidiary

Consolidated Statement of Operations

	Year Ended	
	December 31, 2010	December 31, 2009
Unrestricted Revenue, Gains, and Other Support		
Net patient service revenue	\$ 66,304,136	\$ 63,032,548
Other	1,185,754	1,089,468
Total unrestricted revenue, gains, and other support	67,489,890	64,122,016
Expenses		
Salaries and wages	28,598,570	29,042,803
Employee benefits and payroll taxes	7,576,476	8,163,368
Operating supplies and expenses	963,534	1,008,588
Medical supplies and drugs	9,450,130	9,558,365
Professional services and consultant fees	1,310,377	1,380,785
Purchased services	2,944,627	2,396,251
Insurance	692,874	762,086
Facilities expense	5,700,672	5,540,036
Restructuring expenses (Note 13)	-	1,576,723
Depreciation and amortization	1,998,393	2,005,264
Provision for bad debts	4,149,348	3,179,142
Interest expense	1,514,330	1,540,715
Other	2,401,818	2,427,160
Total expenses (Note 14)	67,301,149	68,581,286
Operating Income (Loss)	188,741	(4,459,270)
Other Income (Loss)		
Interest income (Note 4)	84,402	233,196
Other income (loss)	5,950	(10,924)
Realized (loss) gain on investments (Note 4)	(6,004)	1,115,438
Change in unrealized investment gain (Note 4)	246,073	623,554
Total other income	330,421	1,961,264
Excess of Revenue Over (Under) Expenses	519,162	(2,498,006)
Net Assets Released from Restriction	15,671	13,317
Increase (Decrease) in Unrestricted Net Assets	\$ 534,833	\$ (2,484,689)

Otsego Memorial Hospital and Subsidiary

Consolidated Statement of Changes in Net Assets

	Year Ended	
	December 31, 2010	December 31, 2009
Unrestricted Net Assets		
Excess of revenue over (under) expenses	\$ 519,162	\$ (2,498,006)
Net assets released from restriction	15,671	13,317
Increase (Decrease) in Unrestricted Net Assets	534,833	(2,484,689)
Temporarily Restricted Net Assets		
Restricted contributions	31,668	-
Net assets released from restriction	(15,671)	(13,317)
Increase (Decrease) in Temporarily Restricted Net Assets	15,997	(13,317)
Increase (Decrease) in Net Assets	550,830	(2,498,006)
Net Assets - Beginning of year	12,135,904	14,633,910
Net Assets - End of year	\$ 12,686,734	\$ 12,135,904

Otsego Memorial Hospital and Subsidiary

Consolidated Statement of Cash Flows

	Year Ended	
	December 31, 2010	December 31, 2009
Cash Flows from Operating Activities		
Increase (decrease) in net assets	\$ 550,830	\$ (2,498,006)
Adjustments to reconcile the increase (decrease) in net assets to net cash from operating activities:		
Depreciation and amortization	2,084,652	2,031,502
Net change in unrealized and realized gains and losses on investments	(240,069)	(1,738,992)
Undistributed gain on equity investments	(47,137)	(39,760)
(Gain) loss on disposal of equipment	(5,950)	10,924
Restricted contributions	(31,668)	-
Provision for bad debts	4,149,348	3,179,142
Changes in assets and liabilities which (used) provided cash:		
Accounts receivable	(1,357,729)	(3,550,139)
Other current assets	173,220	(333,993)
Cost report settlements receivable	(2,728,110)	110,491
Other assets	3,959	(26,974)
Accounts payable	(332,822)	(295,169)
Accrued liabilities	(410,863)	(513,566)
Cost report settlements payable	1,783,051	(456,168)
Other liabilities	385,942	99,984
Net cash provided by (used in) operating activities	3,976,654	(4,020,724)
Cash Flows from Investing Activities		
Purchase of property and equipment	(772,283)	(549,314)
Proceeds from sale of property and equipment	5,950	5,043
Purchase of investments	(3,131,317)	(2,382,610)
Proceeds from sale and maturities of investments	5,223,953	4,294,533
Net distribution from investment in affiliate	150,000	100,000
Net cash provided by investing activities	1,476,303	1,467,652
Cash Flows from Financing Activities		
Proceeds from issuance of debt obligations	-	3,595,677
Principal payment on long-term debt	(938,314)	(2,086,834)
Payments on line of credit and margin loan	(3,384,395)	-
Restricted contributions	31,668	-
Net cash (used in) provided by financing activities	(4,291,041)	1,508,843
Net Increase (Decrease) in Cash and Cash Equivalents	1,161,916	(1,044,229)
Cash and Cash Equivalents - Beginning of year	195,592	1,239,821
Cash and Cash Equivalents - End of year	<u>\$ 1,357,508</u>	<u>\$ 195,592</u>
Supplemental Cash Flow Information		
Cash paid for interest	\$ 1,546,873	\$ 1,540,715
Equipment obtained via capital lease	716,390	-

Otsego Memorial Hospital and Subsidiary

Notes to Consolidated Financial Statements December 31, 2010 and 2009

Note I - Nature of Business and Significant Accounting Policies

Reporting Entity and Corporate Structure - Otsego Memorial Hospital (the "Hospital"), 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 Organization's cash is only insured up to the federal depository insurance limit. Cash balances held in bank accounts exceed the federal depository insurance limit by approximately \$873,000 at December 31, 2010.

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, 2010 and 2009

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

Assets Limited as to Use - Assets limited as to use include assets held by trustees under bond indenture agreements, donor-restricted assets, charitable gift annuities, and assets held for the employee-deferred compensation plan. Assets limited as to use also include assets designated by the board of directors for future needs of the Hospital, over which the board retains control and may, at its discretion, subsequently use for other purposes.

During 2010, the Hospital board voted to remove the limitations on the use of assets designated by the board of directors for future capital improvement. These have been reclassified to investments.

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 changes in unrealized gains and losses on investments, interest, and dividends) is included in other income (loss) unless the income or loss is restricted by donor or law.

The Organization invests in various investment securities that 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 market rates of the Organization's bonds.

Investments - Equity Method - An investment in which the Organization has a 50 percent interest is carried at cost, adjusted for the Organization's proportionate share of its undistributed earnings or losses. The Hospital holds a 50 percent interest in a joint venture limited liability company formed to own and operate a dialysis center in Gaylord, Michigan.

Property and Equipment - Property and equipment purchases are recorded at cost. Depreciation is computed on the straight-line basis over the estimated useful lives of the assets. Costs of maintenance and repairs are charged to expense when incurred.

Otsego Memorial Hospital and Subsidiary

Notes to Consolidated Financial Statements December 31, 2010 and 2009

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

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 \$559,380 and \$531,371 at December 31, 2010 and 2009, respectively. There are loans outstanding against the policies in the amount of \$514,718 and \$487,266 at December 31, 2010 and 2009, 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.

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 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 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.

Otsego Memorial Hospital and Subsidiary

Notes to Consolidated Financial Statements December 31, 2010 and 2009

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

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

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 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 approximately 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 March 22, 2011, which is the date the consolidated financial statements were available to be issued.

Otsego Memorial Hospital and Subsidiary

Notes to Consolidated Financial Statements December 31, 2010 and 2009

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

New Accounting Pronouncements - During 2010, the Financial Accounting Standards Board (FASB) adopted new accounting guidance that will impact how healthcare organizations account for claims liabilities and charity care. The new guidance requires that the accrued liability for malpractice claims and similar liabilities and the related insurance recovery receivable be presented separately on the balance sheet on a gross basis. Prior guidance allowed the liability to be reported net of the estimated insurance recovery receivable. This new standard will be effective for the first annual period beginning after December 15, 2010 and interim periods within that first annual period. The Organization has elected to adopt this standard for the year ended December 31, 2010 and determined it has no effect on its consolidated financial statements.

New guidance has also been adopted on how to measure the amount of charity care provided to patients. The new guidance requires that cost be used as the measurement basis for charity care disclosure purposes and that the cost be identified as the direct and indirect costs of providing the charity care. No other measurement basis should be used. Prior guidance did not dictate how charity care should be measured. This new standard will be effective for the first annual period beginning after December 15, 2010 and should be applied retrospectively to all prior periods presented. The Organization has elected to adopt this standard for the year ended December 31, 2010 and determined it has no effect on its consolidated financial statements.

Note 2 - Patient Accounts Receivable

The details of patient accounts receivable are set forth below:

	<u>2010</u>	<u>2009</u>
Patient accounts receivable	\$ 12,612,916	\$ 12,106,504
Less allowance for uncollectible accounts	(1,122,378)	(451,124)
Less allowance for contractual adjustments	<u>(7,537,919)</u>	<u>(4,899,823)</u>
Net patient accounts receivable	3,952,619	6,755,557
Other	<u>99,360</u>	<u>88,041</u>
Net accounts receivable	<u>\$ 4,051,979</u>	<u>\$ 6,843,598</u>

Otsego Memorial Hospital and Subsidiary

Notes to Consolidated Financial Statements December 31, 2010 and 2009

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	
	2010	2009
Medicare	36	33
Blue Cross/Blue Shield of Michigan	25	26
Medicaid	12	16
Commercial insurance and HMOs	18	14
Self-pay	9	11
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 83 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, 2010 and 2009

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 are subject to review 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 Hospital is currently experiencing audits and, thus far, has not incurred any significant adverse adjustments. The potential exists for significant adverse determinations in future audits.

Otsego Memorial Hospital and Subsidiary

Notes to Consolidated Financial Statements December 31, 2010 and 2009

Note 4 - Investments and Assets Limited as to Use

The composition of investments and assets limited as to use at December 31, 2010 and 2009 is summarized in the following schedule:

	<u>2010</u>	<u>2009</u>
Designated by the board of directors for replacement, improvement, and expansion of property and equipment:		
Money market funds	\$ 13,403	\$ 19,224
Common stock	439,588	3,183,438
Mutual funds	153,695	237,441
Corporate bonds	398,146	733,481
U.S. government obligations	-	737,163
Accrued interest income	-	15,122
Total assets limited as to use - Designated by board of directors	<u>1,004,832</u>	<u>4,925,869</u>
Assets held by trustee for deferred compensation plan:		
Annuities	70,080	45,565
Mutual funds	885,428	524,001
Total assets limited as to use - Held by trustee for deferred compensation plan	<u>955,508</u>	<u>569,566</u>
Bond indenture assets held by bank trust department -		
Money market funds (Note 9)	2,118,859	2,295,357
Donor restricted - Money market funds	31,668	15,671
Beneficial interest in trust	25,964	-
Total assets limited as to use	<u>4,136,831</u>	<u>7,806,463</u>
Less current portion of assets limited as to use	<u>574,012</u>	<u>637,731</u>
Total long-term portion of assets limited as to use	<u>\$ 3,562,819</u>	<u>\$ 7,168,732</u>
Investments:		
Money market funds	\$ 184,349	\$ -
Common stock	999,756	-
Mutual funds	116,079	-
Corporate bonds	178,673	-
U.S. government obligations	338,208	-
Total investments	<u>\$ 1,817,065</u>	<u>\$ -</u>

Otsego Memorial Hospital and Subsidiary

Notes to Consolidated Financial Statements December 31, 2010 and 2009

Note 4 - Investments and Assets Limited as to Use (Continued)

Bond indentures represent debt service and interest reserve funds. The long-term portion to fund principal payments was \$1,544,847 and \$1,657,626 at December 31, 2010 and 2009, respectively. The current portion to fund interest payments was \$574,012 and \$637,731 at December 31, 2010 and 2009, 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, 2010 and 2009:

	2010	2009
Interest and dividend income	\$ 84,402	\$ 233,196
Realized (loss) gain on investments	(6,004)	1,115,438
Unrealized gain on investments	246,073	623,554
Total	<u>\$ 324,471</u>	<u>\$ 1,972,188</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 to 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, 2010 and 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, 2010 and 2009

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, 2010

	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, 2010
Investments:				
Common stock	\$ 999,756	\$ -	\$ -	\$ 999,756
Mutual funds	116,079	-	-	116,079
Corporate bonds	-	178,673	-	178,673
U.S. government obligations	-	338,208	-	338,208
Total investments	1,115,835	516,881	-	1,632,716
Assets limited as to use:				
Common stock	439,588	-	-	439,588
Mutual funds	1,039,123	-	-	1,039,123
Annuities	-	70,080	-	70,080
Corporate bonds	-	398,146	-	398,146
Total assets limited as to use	1,478,711	468,226	-	1,946,937
Total assets	\$ 2,594,546	\$ 985,107	\$ -	\$ 3,579,653

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	761,442	-	-	761,442
Annuities	-	45,565	-	45,565
Corporate bonds	-	733,481	-	733,481
U.S. government obligations	-	737,163	-	737,163
Total assets	\$ 3,944,880	\$ 1,516,209	\$ -	\$ 5,461,089

Otsego Memorial Hospital and Subsidiary

Notes to Consolidated Financial Statements December 31, 2010 and 2009

Note 5 - Fair Value Measurements (Continued)

The fair value of corporate and U.S. bonds, annuities, real estate investments, and alternative strategies at December 31, 2010 was determined primarily based on Level 2 inputs. The Organization estimates the fair value of these investments based upon the amortized value of bonds and the readily determinable fair value of the underlying investments in fixed-income investments, real estate investments, and alternative strategies.

Note 6 - Property and Equipment

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

	2010	2009	Depreciable Life - Years
Land	\$ 1,041,401	\$ 1,041,401	-
Land improvements	147,464	147,464	7-40
Buildings and improvements	31,809,112	31,779,289	10-50
Equipment	19,120,114	18,338,867	5-20
Equipment under capital lease obligations	716,390	-	5
Construction in progress	-	38,210	-
Total cost	52,834,481	51,345,231	
Accumulated depreciation	(25,649,143)	(23,661,665)	
Net property and equipment	<u>\$ 27,185,338</u>	<u>\$ 27,683,566</u>	

Depreciation expense on property and equipment is \$1,986,901 and \$1,993,772 for the years ended December 31, 2010 and 2009, respectively.

Lease amortization is included in depreciation expense. Accumulated amortization for equipment under capital lease obligations was \$23,944 at December 31, 2010.

Note 7 - Note Payable

The Organization had a secured line of credit with Fifth Third Bank in the amount of \$1,000,000 which expired in November 2009. The line was 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 was 300 basis points above the one-month LIBOR. The one-month LIBOR was .41 percent as of December 31, 2009. The line was the joint and several obligation of Otsego Memorial Obligated Group (the "Obligated Group"), comprised of Otsego Memorial Hospital and Otsego Memorial Hospital Foundation.

Otsego Memorial Hospital and Subsidiary

Notes to Consolidated Financial Statements December 31, 2010 and 2009

Note 7 - Note Payable (Continued)

At December 31, 2009, the Organization had borrowings of \$1,000,000 under this line. The line was paid in full on February 1, 2010 and was not renewed.

Note 8 - Margin Loan

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

During 2010, an additional \$1,600,000 had been borrowed under this arrangement and later, the full balance was paid back using cash from operations and the sale of approximately \$3 million of investments.

Note 9 - Long-term Debt

Long-term debt at December 31, 2010 and 2009 is as follows:

	2010	2009
Series 2004 Revenue and Refunding Bonds	\$ 17,860,000	\$ 17,860,000
Series 2005 Revenue and Refunding Bonds	4,197,868	5,115,928
Capital equipment lease payable	696,136	-
Total	22,754,004	22,975,928
Less unamortized bond discount - Series 2004	(376,357)	(390,833)
Net	22,377,647	22,585,095
Less current portion	(1,086,141)	(22,585,095)
Long-term portion	\$ 21,291,506	\$ -

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 revenue 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.

Otsego Memorial Hospital and Subsidiary

Notes to Consolidated Financial Statements December 31, 2010 and 2009

Note 9 - Long-term Debt (Continued)

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 revenue 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 2.02 and 2.00 percent on December 31, 2010 and 2009, 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.

The capital equipment lease payable is related to the lease of a CT scanner in 2010. The present value of the lease was capitalized at an original cost of \$716,390. The lease agreement calls for 60 monthly payments of \$14,017, which includes interest at an imputed rate of 6.50 percent.

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. Beginning in 2008, the Hospital failed to meet two financial bond covenants that, if not remedied, could ultimately result in the demand for repayment by the bond holders. During 2009, the Hospital proactively hired a consultant to develop and implement action plans that would eventually bring the Hospital back into compliance with the applicable financial covenant(s) as provided for in the Hospital's agreement with the bond holders. Pursuant to the consultant's recommendations, those plans were developed and implemented by the Hospital in 2009 and 2010. Since then, significant progress toward the resolution of covenant deficiencies has been achieved and no further actions or requests have been made by the bond holders. Consequently, based on the actions taken over the past several years combined with the improved financial performance which results in the debt service coverage ratio being above the required level, management believes it is now in compliance with the bond covenants and no longer subject to accelerated redemption; accordingly, the Hospital's bond debts are split between current and long term in the consolidated balance sheet according to the original repayment schedule listed in the official statement for each issue.

The fair market value of debt was estimated to be \$20,220,000 and \$20,748,000 at December 31, 2010 and 2009, respectively. The fair value of debt is based on current market rates of the Organization's bonds.

Otsego Memorial Hospital and Subsidiary

Notes to Consolidated Financial Statements December 31, 2010 and 2009

Note 9 - Long-term Debt (Continued)

The following table represents future minimum payments, by year and in the aggregate, as of December 31, 2010:

Years Endint December 31	Series 2004	Series 2005	Capital Equipment Lease	Total
2011	\$ -	\$ 959,468	\$ 168,201	\$ 1,127,669
2012	-	1,002,298	168,201	1,170,499
2013	-	1,047,747	168,201	1,215,948
2014	-	1,094,931	168,201	1,263,132
2015	-	93,424	140,260	233,684
Thereafter	17,860,000	-	-	17,860,000
Total minimum payments	17,860,000	4,197,868	813,064	22,870,932
Less amount representing discount on bond	(376,357)	-	-	(376,357)
Less amount representing interest	-	-	(116,928)	(116,928)
Net minimum payments	<u>\$ 17,483,643</u>	<u>\$ 4,197,868</u>	<u>\$ 696,136</u>	<u>\$ 22,377,647</u>

Note 10 - Operating Leases

The Hospital is obligated under certain noncancelable operating leases, primarily for medical equipment. Total rent expense under these leases was \$2,966,798 and \$2,721,892 for the years ended December 31, 2010 and 2009, 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:

Years Ending December 31	Amount
2011	\$ 1,789,839
2012	654,075
2013	455,250
2014	97,724
2015	57,744
Thereafter	115,488
Total	<u>\$ 3,170,120</u>

Otsego Memorial Hospital and Subsidiary

Notes to Consolidated Financial Statements December 31, 2010 and 2009

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. The policy provides an additional \$1,000,000 umbrella that effectively increases coverage from \$2,000,000 per individual claim and to \$4,000,000 in the aggregate.

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 2010 and 2009 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 \$851,363 and \$850,279 in 2010 and 2009, respectively.

Note 13 - Management's Plan

In February 2009, Otsego Memorial Hospital engaged Wellspring Partners to complete an assessment of potential operational improvements for 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, many of which were implemented over the course of 2009 and 2010. Costs paid to Wellspring Partners for these services are included in the consolidated statement of operations as restructuring expense.

Otsego Memorial Hospital and Subsidiary

Notes to Consolidated Financial Statements December 31, 2010 and 2009

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, 2010 and 2009 were as follows:

	<u>2010</u>	<u>2009</u>
Healthcare services	\$ 48,884,556	\$ 49,119,061
General and administrative	17,926,521	18,963,402
Fundraising	<u>490,072</u>	<u>498,823</u>
Total	<u>\$ 67,301,149</u>	<u>\$ 68,581,286</u>

Note 15 - Uncompensated Care and Community Benefit

In support of its mission, the Hospital provides healthcare services to all patients regardless of their ability to pay. Consequently, the Hospital provides healthcare services free of charge or at amounts less than its full costs of providing care to the indigent and other residents in its service area. The unreimbursed cost of this uncompensated care at December 31, 2010 and 2009 was as follows:

	<u>2010</u>	<u>2009</u>
Medicare	\$ 3,340,032	\$ 3,172,136
Medicaid	1,237,279	1,881,249
Charity care	606,261	341,367
Other subsidized health services	1,480,833	2,149,387
Bad debts at cost	<u>2,213,077</u>	<u>1,730,916</u>
Total	<u>\$ 8,877,482</u>	<u>\$ 9,275,055</u>

The cost of uncompensated care was estimated by applying an overall ratio of cost to gross charges to the gross uncompensated charges associated with providing care to charity patients.

Otsego Memorial Hospital and Subsidiary

Notes to Consolidated Financial Statements December 31, 2010 and 2009

Note 15 - Uncompensated Care and Community Benefit (Continued)

Additionally, the Hospital provides resources and services, which support health screening, health promotion, patient transportation, donations, and other needs within the community. The unreimbursed cost of these activities at December 31, 2010 and 2009 was valued as follows:

	<u>2010</u>	<u>2009</u>
Community health education	\$ 17,013	\$ 149,891
Community programs	<u>69,469</u>	<u>81,055</u>
Total	<u>\$ 86,482</u>	<u>\$ 230,946</u>

The above uncompensated care and community benefit information is reported consistent with the American Hospital Association Guidance on Reporting of Community Benefits.