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Somerset Medical Center

Financial Statements

December 31, 2011 and 2010

Somerset Medical Center

Balance Sheet
December 31, 2011 and 2010

Assets

	2011	2010
Current Assets		
Cash and cash equivalents	$ 5,838,133	$ 6,877,259
Investments	4,116,609	5,657,597
Assets whose use is limited	3,578,149	2,890,663
Accounts receivable, patients, net of estimated allowance for doubtful collections of approximately $11,930,000 in 2011 and $12,822,000 in 2010	28,137,568	33,809,000
Due from affiliates	82,025	2,558,786
Inventories of supplies	3,578,760	3,560,792
Prepaid expenses and other current assets	2,548,160	2,106,638
Total current assets	47,879,404	57,460,735
Assets Whose Use is Limited	10,787,181	13,970,820
Investments	27,723,326	26,765,200
Due from Affiliates	2,377,886	2,607,318
Property and Equipment, Net	133,232,088	135,293,616
Interest in Net Assets of Foundation	2,909,397	2,122,127
Goodwill	1,860,000	-
Other Assets	2,771,923	2,495,626
Total assets	$ 229,541,205	$ 240,715,442

Liabilities and Net Assets

	2011	2010
Current Liabilities		
Current maturities of long-term debt	$ 3,648,640	$ 3,795,224
Accounts payable and accrued expenses	21,115,410	23,307,436
Accrued salaries and related benefits	10,576,358	11,063,269
Accrued interest payable	2,253,225	2,253,225
Other current liabilities	984,922	894,456
Total current liabilities	38,578,555	41,313,610
Long-Term Debt	103,925,430	106,533,008
Deferred Gain on Sale of Property	4,949,946	5,290,774
Accrued Pension and Other Liabilities	36,298,798	29,255,846
Total liabilities	183,752,729	182,393,238
Net Assets		
Unrestricted	41,009,801	54,643,137
Temporarily restricted	3,638,808	2,539,200
Permanently restricted	1,139,867	1,139,867
Total net assets	45,788,476	58,322,204
Total liabilities and net assets	$ 229,541,205	$ 240,715,442

See notes to financial statements

Somerset Medical Center

Statement of Operations
Years Ended December 31, 2011 and 2010

	2011	2010
Unrestricted Revenues, Gains, and Other Support		
Net patient service revenues	$ 249,318,394	$ 252,373,296
Other revenues	10,631,814	8,918,156
Net assets released from restrictions used for operations	440,831	1,184,937
Total unrestricted revenues, gains, and other support	260,391,039	262,476,389
Expenses		
Salaries and wages	112,558,820	110,166,576
Employee benefits	23,587,583	25,855,704
Supplies and other	95,200,643	90,256,848
Professional fees	4,164,040	4,606,177
Depreciation and amortization	13,009,821	11,855,458
Provision for doubtful collections	11,511,671	13,553,179
Interest	4,879,316	5,010,260
Total expenses	264,911,894	261,304,202
Revenues (less than) in excess of expenses	(4,520,855)	1,172,187
Change in Net Unrealized Gains and Losses on Investments Other than Trading Securities	(147,601)	(741,497)
Pension Liability Adjustment	(9,181,264)	(3,569,088)
Net Assets Released from Restrictions Used for Property and Equipment	216,384	102,000
Decrease in unrestricted net assets	$ (13,633,336)	$ (3,036,398)

See notes to financial statements

Somerset Medical Center

Statement of Changes in Net Assets
Years Ended December 31, 2011 and 2010

	2011	2010
Unrestricted Net Assets		
Revenues (less than) in excess of expenses	$ (4,520,855)	$ 1,172,187
Change in net unrealized gains and losses on investments other than trading securities	(147,601)	(741,497)
Pension liability adjustment	(9,181,264)	(3,569,088)
Net assets released from restrictions used for property and equipment	216,384	102,000
Decrease in unrestricted net assets	(13,633,336)	(3,036,398)
Temporarily Restricted Net Assets		
Change in interest in net assets of Foundation	787,270	(920,605)
Contributions	969,553	1,798,795
Net assets released from restrictions for use in operations	(440,831)	(1,184,937)
Net assets released from restrictions for property and equipment	(216,384)	(102,000)
Increase (decrease) in temporarily restricted net assets	1,099,608	(408,747)
Decrease in net assets	(12,533,728)	(3,445,145)
Net Assets, Beginning	58,322,204	61,767,349
Net Assets, Ending	$ 45,788,476	$ 58,322,204

See notes to financial statements

Somerset Medical Center

Statements of Cash Flows
Years Ended December 31, 2011 and 2010

	2011	2010
Cash Flows from Operating Activities		
Decrease in net assets	$ (12,533,728)	$ (3,445,145)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:		
Depreciation and amortization	13,009,821	11,855,458
Provision for doubtful collections	11,511,671	13,553,179
Amortization of deferred gain on sale of property	(340,828)	(340,475)
Amortization of bond discount	82,489	83,001
Pension liability adjustment	9,181,264	3,569,088
Net realized and unrealized gains on investments other than trading securities	133,380	(1,197,543)
Contributions used for property and equipment	(216,384)	(102,000)
Net change in interest in net assets of Foundation	(787,270)	920,605
Changes in operating assets and liabilities:		
Accounts receivable, patients	(5,840,239)	(11,027,804)
Due from affiliates	2,706,193	(517,882)
Inventories of supplies	(17,968)	24,052
Prepaid expenses and other current assets	(441,522)	354,680
Other assets	(393,079)	(658,640)
Accounts payable and accrued expenses	(2,192,026)	(5,159,655)
Accrued salaries and related benefits	(486,911)	1,067,180
Other current liabilities	90,466	559,533
Accrued pension and other liabilities	(2,138,312)	2,108,730
Net cash provided by operating activities	11,327,017	11,646,362
Cash Flows from Investing Activities		
Purchases of property and equipment	(10,431,511)	(11,581,743)
Purchase of physical therapy practices	(1,301,427)	-
Change in assets whose use is limited and investments	2,945,635	4,126,765
Net cash used in investing activities	(8,787,303)	(7,454,978)
Cash Flows from Financing Activities		
Contributions used for property and equipment	216,384	102,000
Repayment of long-term debt	(3,795,224)	(5,047,373)
Net cash used in investing activities	(3,578,840)	(4,945,373)
Net decrease in cash and cash equivalents	(1,039,126)	(753,989)
Cash and Cash Equivalents, Beginning	6,877,259	7,631,248
Cash and Cash Equivalents, Ending	$ 5,838,133	$ 6,877,259.00
Supplemental Disclosure of Cash Flow Information		
Interest paid	$ 4,879,316	$ 5,010,260
Promissory note issued in connection with purchase of the physical therapy practices	$ 958,573	$ -

See notes to financial statements

1. Organization and Summary of Significant Accounting Policies

Somerset Medical Center (the "Medical Center") is a 355-bed acute care hospital established and operated for the promotion of health and to serve the public rather than private interests. The Medical Center provides a wide range of inpatient and outpatient services and is located in Somerville, New Jersey. Somerset Health Care Corporation (the "Corporation") is the sole member of the Medical Center and is also the controlling entity of the following affiliated entities: Somerset Staffing Corporation ("Staffing Corporation"); Somerset Health Care Affiliates, Inc. ("Affiliates"); Somerset Community Care Corporation, Inc.; New Jersey Health, Inc. and subsidiaries; Somerset Medical Center Foundation, Inc. (the "Foundation"); and SHC Enterprises, Inc. and subsidiaries ("Enterprises"). Only the financial statements of the Medical Center are presented herein.

A summary of the Medical Center's significant accounting policies follows:

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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Medical Center considers highly liquid financial instruments purchased with original maturities of three months or less, excluding those held in its investment portfolio and assets whose use is limited, to be cash equivalents.

The Medical Center has balances in these financial institutions that exceed federal depository insurance limits. Management does not believe the credit risk related to these deposits to be significant.

Accounts Receivable, Patients

Patient accounts receivable result from the health care services provided by the Medical Center. Additions to the allowance for doubtful collections result from the provision for doubtful collections. Accounts written off as uncollectible are deducted from the allowance for doubtful collections.

The amount of the allowance for doubtful collections is based upon management's assessment of historical and expected net collections, business and economic conditions, trends in Medicare and Medicaid health care coverage and other collection indicators. See Note 5 for additional information relative to third party payor programs.

Inventories of Supplies

Inventories of supplies are stated at the lower of cost or market using the FIFO (first-in, first-out) method.

Investments and Investment Risks

Investments in mutual funds and debt securities are measured at fair value in the balance sheet. Investment income or loss (primarily interest and dividends) is included in the determination of revenues (less than) in excess of expenses unless the income or loss is restricted by donor or law. Unrealized gains and losses on investments are excluded from the determination of revenues (less than) in excess of expenses unless the investments are trading securities. Donor-restricted investment income is reported as an increase in temporarily restricted net assets.

The Medical Center's investments are comprised of a variety of financial instruments and are managed by investment advisors. The fair values reported in the balance sheet are exposed to various risks including changes in the equity markets, the interest rate environment and general economic conditions. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the fair value of investment securities, it is reasonably possible that the amounts reported in the accompanying financial statements could change materially in the near term.

Assets Whose Use is Limited

Assets whose use is limited include assets held by bond trustees under trust indentures, assets held under a self-insurance trust, and board designated funds. Amounts available to meet current liabilities have been reclassified as current assets in the accompanying balance sheet.

Assets limited as to use consist of cash and cash equivalents, U.S. Government obligations and corporate bonds and are carried at fair value.

Goodwill and Intangible Assets

The Medical Center adopted Financial Accounting Standards Board ("FASB") authoritative guidance regarding goodwill. Under FASB authoritative guidance, goodwill and other intangible assets with indefinite lives are reviewed annually or more frequently if impairment indicators arise. The review requires the Medical Center to estimate the fair value of its identified reporting units and compare those estimates against the related carrying values.

Property and Equipment

Property and equipment acquisitions are recorded at cost. Donated property and equipment are recorded at fair market value at the date of receipt. Depreciation is computed using the straight-line method based on estimated useful lives. Annual provisions for depreciation and amortization are made based upon the straight-line method over the assets' estimated useful lives ranging from three to forty years. Depreciation expense for the years ended December 31, 2011 and 2010 was $12,893,039 and $11,731,148, respectively.

Gifts of long-lived assets such as land, buildings or equipment are reported as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and 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, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Deferred Financing Costs

Deferred financing costs represent costs incurred to obtain long-term financing and are being amortized over the term of the debt using the effective interest method. Amortization expense amounted to $116,782 in 2011 and $124,310 in 2010 . The carrying amounts of deferred financing costs at December 31, 2011 and 2010 are $1,329,525 and $1,446,307, respectively. Accumulated amortization of deferred financing costs at December 31, 2011 and 2010 totaled $1,195,239 and $1,078,457, respectively.

Revenues (Less Than) in Excess of Expenses

The statement of operations include the determination of revenues (less than) in excess of expenses. Changes in unrestricted net assets which are excluded from the determination of revenues (less than) in excess of expenses, consistent with industry practice, include change in net unrealized gains and losses on investments other than trading securities, pension liability adjustment, permanent transfers of assets to and from subsidiaries for other than goods and services, and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets).

Charity Care

The Medical Center provides care to patients who meet certain criteria under its patient financial assistance policy without charge or at amounts less than its established rates. Because the Medical Center does not pursue collections of amounts determined to qualify as charity care, they are not reported as patient service revenues.

Donor-Restricted Gifts

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as either temporarily or permanently 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 as unrestricted net assets and reported in the statement of operations as net assets released from restrictions. Donor restricted contributions whose restrictions are met within the same year as received are reflected as unrestricted contributions in the accompanying financial statements.

Estimated Malpractice Costs

The provision for estimated medical malpractice claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported, including costs associated with litigation or settling claims. Anticipated insurance recoveries associated with reported claims are reported separately in the Medical Center's balance sheet at net realizable value.

Financial Instruments

The carrying amounts of cash and cash equivalents approximate fair value at December 31, 2011 and 2010.

Investments and assets whose use is limited are stated at fair value, which are the amounts reported in the balance sheet. The fair value of investments and assets whose use is limited is based on quoted market prices, if available, or estimated using quoted market prices of similar securities.

Long-term debt fair value is calculated based on quoted market prices, if available, or estimated using quoted market prices of similar securities.

	2011		2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalent	$ 5,838,133	$ 5,838,133	$ 6,877,259	$ 6,877,259
Investments	31,839,935	31,839,935	32,422,797	32,422,797
Assets whose use is limited	14,365,330	14,365,330	16,861,483	16,861,483
Long-term debt	107,574,070	100,830,657	110,328,232	99,795,726

Advertising Costs

Advertising costs are expensed as incurred. Such costs amounted to approximately $1,871,000 in 2011 and $1,468,000 in 2010.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Medical Center has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Medical Center in perpetuity. See Note 13 for additional information relative to temporarily and permanently restricted net assets.

The Medical Center recognizes its interest in the Foundation's temporarily and permanently restricted net assets in accordance with authoritative guidance. At December 31, 2011 and 2010, the Medical Center's interest in the net assets of the Foundation was $2,909,397 and $2,122,127, respectively.

Income Taxes

The Medical Center is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code (the "Code") and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. The Medical Center is also exempt from state and local taxes.

The Medical Center follows the provisions of the authoritative guidance on accounting for uncertainty in income taxes. The guidance clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements and prescribes a recognition threshold of more-likely-than-not to be sustained upon examination by the appropriate taxing authority. Measurement of the tax uncertainty occurs if the recognition threshold has been met. The guidance also provides guidance on de-recognition, classification, interest and penalties, accounting in interim periods, and disclosure. Management has determined that the adoption of the guidance did not have a material impact on the financial statements.

The Medical Center's policy is to recognize interest related to unrecognized tax benefits in interest expense and penalties in operating expenses.

The Medical Center's federal tax-exempt organization business income tax returns are no longer subject to examination by the Internal Revenue Service for years before 2008.

Subsequent Events

The Medical Center evaluated subsequent events for recognition or disclosure through May __, 2011 the date the financial statements were issued.

Reclassification

Certain 2010 amounts have been reclassed to conform to the 2011 presentation.

2. New Accounting Standards

Charity Care

In August 2010, the FASB issued amended disclosure guidance relating to the measurement of charity care provided. The guidance requires that direct and indirect costs be used as the basis of measurement for charity care disclosure purposes. The guidance also requires disclosure of the method used to identify or determine such costs. The adoption of the amended guidance revised the disclosure in the notes to the Medical Center's financial statements but did not impact amounts reported in the primary financial statements.

Insurance Claims

In August 2010, the FASB issued Accounting Standards Update 2010-24, Presentation of Insurance Claims and Related Insurance Recoveries which amended guidance relating to the presentation of insurance claims and related insurance recoveries. The guidance clarifies that health care entities may not net insurance recoveries against a related claim liability. In addition, the amount of the claim liability should be determined without consideration of insurance recoveries, if any, should be measured and presented separately within the balance sheet. The adoption of the amended guidance did not impact the amounts reported in the balance sheet as of December 31, 2011.

Provision of Doubtful Collections

The Medical Center will be required to adopt amended guidance related to health care entities which requires a change in reporting the provision for bad debts associated with net service revenues. As a result of this guidance, the provision, which is currently reported as an operating expense in the Medical Center's statement of operations and changes in net assets, will be reported as a deduction from service revenues, net of contractual allowances and discounts. The guidance also enhances required disclosures regarding the policies for recognizing net service revenues and assessing bad debts. In addition, the guidance requires disclosure of net service revenues and qualitative and quantitative information about changes in the allowance for doubtful accounts, both by major payor sources. The amended guidance is effective for the fiscal years ending after December 15, 2012. Adoption of the amended guidance will require retrospective restatement of the statement of operations and changes in net assets and prospective financial statement disclosures.

3. Acquisitions

In November, 2011, the Medical Center acquired membership interests in three physical therapy practices to expand its operations in Somerville, New Jersey and surrounding areas. The results from operations are included in the Medical Center's financial statements subsequent to the acquisition date.

The purchase price was $2,260,000 based upon the agreed-upon sale price between the Medical Center and the sellers.

In accordance with the authoritative guidance, the assets and liabilities of the acquired physical therapy practices were recorded at the fair market value as of the date of the acquisition as follows:

Purchase price	$ 2,260,000
Less property and equipment, net	(400,000)
Goodwill	$ 1,860,000

The acquired business had operating revenue of approximately $3.0 million for the years ended December 31, 2011 and 2010.

4. Charity Care

The Medical Center maintains records to identify and monitor the level of charity care it provides. The estimated costs of providing charity care are based upon the direct and indirect costs identified with the specific charity care services provided. The level of charity care provided by the Medical Center amounted to approximately $9,168,000 in 2011 and $11,286,000 in 2010.

The New Jersey Health Care Subsidy Fund was established for various purposes, including the distribution of charity care payments to hospitals statewide. Net patient service revenues include subsidy amounts of approximately $3,520,000 in 2011 and $2,598,000 in 2010.

5. Net Patient Service Revenues

The Medical Center has agreements with third-party payors that provide for payments to the Medical Center 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 revenues are 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. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as tentative and final settlements are determined. It is reasonably possible that the estimates used could change in the near term. A significant portion of the Medical Center's net patient service revenues is derived from these third-party payor programs.

A summary of the principal payment arrangements with major third-party payors follows:

- Medicare: Inpatient acute care and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to patient classification systems that are based on clinical, diagnostic, and other factors. Reimbursements for cost reimbursable items are received at tentative interim rates, with final settlement determined after submission of annual cost reports by the Medical Center and audits thereof by the Medicare fiscal intermediary. The Medical Center's Medicare cost reports have been settled by the Medicare fiscal intermediary through December 31, 2004.

- Medicaid: Inpatient acute care services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Outpatient services are reimbursed based on tentative interim rates, with final settlement determined after submission of annual cost reports by the Medical Center. The Medicaid cost reports have been settled through December 31, 2006.

Revenues received under third-party arrangements are subject to audit and retroactive adjustments. Net patient service revenues include negative adjustments of approximately $4,100,000 and $-0- in 2011 and 2010, respectively. The adjustments relate to tentative settlements of prior year cost reports and other settlement adjustments of a positive $1,000,000 offset by negative settlements of approximately $5,100,000 from changes in prior year assessments for allowances based on historical and expected net collections, business and economic conditions, trends in Medicare and Medicaid health care coverage and other collection indicators from original estimates.

The Medical Center has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, and preferred provider organizations. The basis for payment to the Medical Center under these agreements includes prospectively determined rates per discharge, discounts from established charges, prospectively determined daily rates, and various other prospectively determined rates.

The Medical Center grants credit without collateral to its patients, some of whom are insured under third-party payor agreements, primarily with Medicaid, Medicare, and various commercial insurance companies.

6. Assets Whose Use is Limited and Investments

The composition of assets whose use is limited and investments at December 31, 2011 and 2010 is set forth in the following table:

	2011	2010
Assets whose use is limited		
By terms of indenture agreements:		
Cash and cash equivalents	$ 11,327,829	$ 10,637,468
By self-insurance trust:		
Cash and cash equivalents	115,394	119,395
U.S. government obligations	2,068,491	1,905,365
Corporate bonds	853,307	2,109,693
	3,037,192	4,134,453
Board designated:		
Cash and cash equivalents	309	2,089,562
Total assets whose use is limited	14,365,330	16,861,483
Less current portion	3,578,149	2,890,663
Assets whose use is limited, noncurrent	$ 10,787,181	$ 13,970,820

A summary of assets whose use is limited by indenture agreements and investments are as follows at December 31:

	2011	2010
Series 2003 Bonds:		
Debt service principal fund	$ 655,000	$ -
Debt service reserve fund	7,746,534	7,743,659
Debt service interest fund	2,257,486	2,253,228
	10,659,020	9,996,887
Series 2008 Bonds:		
Debt service principal fund	630,097	601,869
Debt service interest fund	35,566	35,567
	665,663	637,436
Construction loan,		
Construction fund	3,146	3,145
Total	$ 11,327,829	$ 10,637,468

	2011	2010
Investments:		
Cash and cash equivalents	$ 3,755,113	$ 5,251,471
U.S. government obligations	101,279	101,449
Corporate bonds	260,216	304,677
Mutual funds - fixed income:		
Short-term bond	6,799,628	6,596,713
PIMCO fund - all asset	20,923,699	20,168,487
Total investments	31,839,935	32,422,797
Less current portion	4,116,609	5,657,597
Total	$ 27,723,326	$ 26,765,200

Investment income, which is included in other revenues at December 31, 2011 and 2010, is as follows:

	2011	2010
Interest and dividend income	$ 1,250,449	$ 1,267,600
Realized gains and losses, net	14,221	1,939,040
Total	$ 1,264,670	$ 3,206,640

7. Fair Value Measurements

The Medical Center measures its investments at fair value on a recurring basis in accordance with accounting principles generally accepted in the United States of America. Fair value is defined as the price that would be received to sell an asset or the price that would be paid to transfer a liability in an orderly transaction between market participants at the measurement date. The framework that the guidance establishes for measuring fair value includes a hierarchy used to classify the inputs used in measuring fair value. The hierarchy prioritizes the inputs used in determining valuations into three levels. The level in the fair value hierarchy within which the fair value measurement falls is determined based on the lowest level input that is significant to the fair value measurement. The levels of the fair value hierarchy are as follows:

Level 1 - Fair value is based on unadjusted quoted prices in active markets that are accessible to the Medical Center for identical assets. These generally provide the most reliable evidence and are used to measure fair value whenever available.

Level 2 - Fair value is based on significant inputs, other than Level 1 inputs, that are observable either directly or indirectly for substantially the full term of the asset through corroboration with observable market data. Level 2 inputs include quoted market prices in active markets for similar assets, quoted market prices in markets that are not active for identical or similar assets, and other observable inputs.

Level 3 - Fair value would be based on significant unobservable inputs. Examples of valuation methodologies that would result in Level 3 classification include option pricing models, discounted cash flows, and other similar techniques.

The Medical Center measures its assets whose use is limited and investments on a recurring basis in accordance with authoritative guidance for fair value measurements. The securities were measured with the following inputs at December 31:

	2011		
	Total	**Quoted Prices in Active Markets (Level 1)**	**Other Observable Inputs (Level 2)**
Cash and cash equivalents	$ 15,198,645	$ 15,198,645	$ -
Mutual funds - fixed income:			
Short-term bond	6,799,628	6,799,628	-
PIMCO fund - all asset	20,923,699	20,923,699	-
Corporate bonds	1,113,523	-	1,113,523
U.S. government obligations	2,169,770	2,169,770	-
Total	$ 46,205,265	$ 45,091,742	$ 1,113,523

	2010		
	Total	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)
Cash and cash equivalents	$ 18,097,896	$ 18,097,896	$ -
Mutual funds - fixed income:			
Short-term bond	6,596,713	6,596,713	-
PIMCO fund - all asset	20,168,487	20,168,487	-
Corporate bonds	2,414,370	-	2,414,370
U.S. government obligations	2,006,814	2,006,814	-
Total	$ 49,284,280	$ 46,869,910	$ 2,414,370

At December 31, 2011 and 2010, the Medical Center did not have any assets or liabilities whose fair values were measured using Level 3 inputs.

8. Related Party Transactions

Included in other revenues in 2011 and 2010 is $281,873 and $176,863, respectively, for various administrative services provided to the Corporation, Foundation, and Enterprises.

The amounts due from (to) affiliates for management fees, payroll, legal fees, and other services at December 31, 2011 and 2010 are as follows:

	2011	2010
Corporation	$ 2,312,055	$ 2,774,354
Enterprises	65,537	59,409
Staffing Corporation	294	(226,445)
Foundation	82,025	2,558,786
	2,459,911	5,166,104
Less current portion	82,025	2,558,786
Noncurrent portion	$ 2,377,886	$ 2,607,318

Interest is not charged on these balances and there are no formal repayment terms. The amounts due from affiliates are valued at management's estimate and net realizable value, however, because of inherent uncertainties in the affiliates' operating results, it is at least reasonably possible that the estimates used may change within the near term.

9. Property and Equipment and Accumulated Depreciation

Property and equipment and accumulated depreciation at December 31, 2011 and 2010 are as follows:

	2011	2010
Land	$ 1,347,062	$ 1,347,062
Land improvements	1,140,036	2,508,704
Buildings and improvements	146,437,183	145,386,575
Fixed equipment	27,475,807	42,614,355
Major movable equipment	96,559,720	122,969,035
Total	272,959,808	314,825,731
Less accumulated depreciation	143,742,351	182,442,551
	129,217,457	132,383,180
Construction in progress	4,014,631	2,910,436
Property and equipment, net	$ 133,232,088	$ 135,293,616

On July 11, 2008, the Medical Center entered into an 18-year sale-leaseback transaction related to its Steeplechase Cancer Center building, whose net book value on the sale date was $18,865,000. The sale price of the property was $25,000,000. In accordance with authoritative guidance on accounting for leases, a gain on sale of property, where a leaseback provision is included, is required to be amortized over the life of the lease. As such, the Medical Center has included in its balance sheet at December 31, 2011 and 2010 a deferred gain on real estate of approximately $4,950,000 and $5,291,000, respectively. Additionally, the Medical Center has included approximately $341,000 and $340,000 in other revenues in the statement of operations related to this gain for the year ending December 31, 2011 and 2010, respectively.

10. Accrued Salaries and Related Benefits

Accrued salaries and related benefits at December 31, 2011 and 2010 are as follows:

	2011	2010
Salaries and wages	$ 4,670,664	$ 5,771,281
Paid time off	2,639,257	2,289,385
Payroll taxes and other related expenses	2,095,384	1,828,716
Healthcare benefits	1,011,716	1,003,760
Other	159,337	170,127
Total	$ 10,576,358	$ 11,063,269

11. Long-Term Debt

Long-term debt at December 31, 2011 and 2010 are as follows:

	2011	2010
GE Equipment Revenue Note	$ 4,083,320	$ 4,802,260
Note Payable	958,573	-
New Jersey Health Care Facilities Financing Authority bonds:		
Series 2008 Bonds	22,355,000	23,555,000
Series 2003 Bonds	81,390,000	81,390,000
New Jersey Health Care Facilities Financing Authority Capital Asset Program Loans:		
The 2001 Capital Asset Program Loan	-	1,576,940
The 1997 Capital Asset Program Loan	-	299,344
Total	108,786,893	111,623,544
Less:		
Current portion	3,648,640	3,795,224
Unamortized bond discount	1,212,823	1,295,312
Long-term debt excluding current portion	$ 103,925,430	$ 106,533,008

GE Equipment Revenue Note

In 2009, the New Jersey Health Care Facilities Financing Authority (the "Authority") approved a $5,585,500 Equipment Revenue Note (the "Note") from GE Government Finance, Inc. to the Medical Center for the costs associated with a new information technology network system, renovation and equipment for the cardiac catheterization lab, new operating room monitors and a new digital x-ray machine. The Note bears a fixed interest rate of 5.45%. The Note matures on October 1, 2016 and is payable in monthly installments of principal and interest.

Note Payable

In November, 2011, the Medical Center executed a promissory note in the amount of $958,573 in connection with the acquisition of the physical therapy practices (Note 3). The note does not bear interest and is payable in three annual installments of $319,524 beginning in November, 2012. The second installment is due in November, 2013, and the final installment is due in November, 2014.

Series 2008 Bonds

In August 2008, the Authority issued $25,930,000 of revenue bonds as Somerset Medical Center Issue, Series 2008 (the "Series 2008 Bonds") less bond discount of $116,685. The proceeds of the Series 2008 Bonds have been or will be used for i) the current refunding of the Authority's 1994 Series A Bonds (see below), (ii) to acquire various equipment for use in the Medical Center's facility, (iii) the payment of the costs of issuance of the Series 2008 Bonds. The Series 2008 Bonds mature on July 1, 2024 and are paid semiannually and bear interest at a variable interest, which is reset on a weekly basis and was 0.08% at December 31, 2011. The payment of principal and interest on the Series 2008 Bonds is supported by a five-year direct pay letter of credit issued by a bank, which expires on August 7, 2013.

Series 2003 Bonds

In May 2003, the Authority issued $81,390,000 of bonds as the Somerset Medical Center Issue, Series 2003 (the "Series 2003 Bonds"). The Series 2003 Bonds bear interest ranging from 5.5% to 5.75% due in varying maturities from July 1, 2013 through July 1, 2033 with sinking fund payments required beginning July 1, 2012.

The proceeds of the Series 2003 Bonds have been or will be used for (i) the construction of a new parking garage, additions to the existing parking garage, a new emergency room, two new inpatient bed units, ambulatory care space, together with extensive renovations and modernization to the hospital facility; (ii) reimbursement to the Medical Center for costs of various construction and renovation projects and the acquisition of various capital equipment; (iii) the acquisition and installation of certain capital equipment for use in the hospital facility; (iv) the provision of working capital for the Medical Center; (v) the making of an additional deposit into the debt service reserve fund securing the Series 2003 Bonds; (vi) the payment of capitalized interest on a portion of the Series 2003 Bonds; and (vii) the payment of the costs of issuance of the Series 2003 Bonds. The bonds are secured by substantially all the Medical Center's property and equipment; gross receipts and deposits maintained in the trustee funds.

Capital Asset Program Loans

In 2001, the Authority approved a $17,000,000 Capital Asset Program Loan to the Medical Center for the reimbursement of costs previously paid from Medical Center funds related to the construction of a new lobby and renovation of patient access areas, financing portions of the capital equipment budgets and financing the purchase of a clinical information system. The 2001 Capital Asset Program Loan matured on July 1, 2011.

In 1997, the Authority approved a $6,500,000 Capital Asset Program Loan to the Medical Center for the financing of the construction of a parking garage, walkway, and related minor equipment purchases. The loan is secured by the parking garage. The 1997 Capital Asset Program Loan matured on July 1, 2011.

Under the terms of the Series 2008 Bonds, Series 2003 Bonds, and as required under the GE Equipment Revenue Note, the Medical Center is required to maintain certain financial ratios and to be in compliance with restrictive covenants as described in the respective agreements. The Medical Center was in compliance with these covenants at December 31, 2011.

The Medical Center's scheduled principal payments on long-term debt obligations are as follows:

Years ending June 30:	
2012	$ 3,648,640
2013	3,856,061
2014	4,030,853
2015	3,908,623
2016	3,957,716
Thereafter	89,385,000
Total	$ 108,786,893

12. Pension Plans

Defined Benefit Pension Plan

The Medical Center has a noncontributory defined benefit pension plan (the "Plan") covering all eligible employees. The Medical Center's policy is to make contributions sufficient to meet the minimum funding requirements of the Employee Retirement Income Security Act of 1974. Effective January 1, 2002, the Board of Trustees approved the freezing of all benefit accruals under the defined benefit pension plan.

The following table includes the effect of the Plan amendment, and provides a reconciliation of benefit obligations, Plan assets, funding status, amounts recognized in the Medical Center's financial statements for the years ended December 31, 2011 and 2010, as follows:

	2011	2010
Change in benefit obligation:		
Benefit obligation – beginning of year	$ 77,909,344	$ 69,983,796
Interest cost	3,982,524	3,927,808
Actuarial loss	10,144,251	7,351,919
Benefits paid	(3,597,541)	(3,354,179)
Benefit obligation – end of year	88,438,578	77,909,344
Change in Plan assets:		
Fair value of Plan assets – beginning of year	57,386,263	54,003,896
Actual return on Plan assets	2,893,090	5,791,849
Employer contributions	3,879,369	1,299,694
Expenses	(338,123)	(354,997)
Benefits paid and actual expenses	(3,597,541)	(3,354,179)
Fair value of plan assets – end of year	60,223,058	57,386,263
Benefit obligation – end of year	88,438,578	77,909,344
Funded status	(28,215,520)	(20,523,081)
Accumulated benefit obligation	$ 88,438,578	$ 77,909,344

Components of net periodic pension cost (credit):

	2011	2010
Interest cost	$ 3,982,524	$ 3,927,808
Service cost	373,638	363,780
Expected return on plan assets	(4,240,237)	(3,923,901)
Amortization of unrecognized net loss	2,274,619	1,906,465
Total net periodic pension cost	$ 2,390,544	$ 2,274,152

The contribution to the Plan in 2012 is expected to be approximately $3,710,000.

At December 31, 2011 and 2010, $28,215,520 and $20,523,081, respectively, of accrued pension cost were recorded in accrued pension and other liabilities in the balance sheet.

A net loss of $34,197,166 and $25,015,902 represents the unrecognized component of net periodic benefit cost included in unrestricted net assets at December 31, 2011 and 2010, respectively. Approximately $2,275,000 is expected to be amortized into net periodic pension cost in the next fiscal year.

The weighted-average assumptions used in computing the Plan's benefit obligation at December 31, 2011 and 2010 are as follows:

	2011	2010
Discount rate	4.25 %	5.25 %

The weighted-average assumptions used in the measurement of the Plan's net periodic pension cost (credit) for the years ended December 31, 2011 and 2010 are as follows:

	2011	2010
Discount rate	4.25 %	5.75 %
Expected long-term rate of return on Plan assets	7.00 %	7.50 %

The expected long-term rate of return on Plan assets assumption was developed based on historical returns for the major asset classes. This review also considered both current market conditions and projected future conditions. Adjustments are made to the expected long-term rate of return assumption when deemed necessary based upon revised expectations of future investment performance of the overall capital markets.

The following table sets forth the actual asset allocation and target asset allocation for Plan assets at December 31, 2011 and 2010:

	2011	2010	Target Asset Allocation
Asset category:			
Equity securities	32 %	34 %	15-40 %
Fixed income	59 %	64 %	35-90 %
Cash equivalents	9 %	2 %	0-20 %

The Plan assets are invested among and within various asset classes in order to achieve sufficient diversification in accordance with the Medical Center's risk tolerance. This is achieved through the utilization of asset managers and systemic allocation to investment management styles, providing a broad exposure to different segments of the fixed income and equity markets.

The following tables summarize instruments measured at fair value on a recurring basis:

	December 31, 2011		
	Level 1	**Level 2**	**Assets at Fair Value**
Short-Term Investments			
Money Market	$ 1,019,088	$ -	$ 1,019,088
Cash Equivalents	4,382,568	-	4,382,568
Assets held under separately managed trust accounts			
Fixed Income Acct:			
Cash and cash equivalents	4,811,546		4,811,546
U.S. Government obligations	-	5,384,907	5,384,907
Corporate bonds	-	5,244,962	5,244,962
Mortgage backed securities	-	4,117,055	4,117,055
Mutual Fund Account:			
Cash and cash equivalents	98,961	-	98,961
Fidelity investment diversified international fund	4,361,305	-	4,361,305
Vanguard total stock market index fund	14,715,192	-	14,715,192
Vanguard long term investment grade fund	6,929,020	-	6,929,020
PIMCO all asset fund	9,158,454	-	9,158,454
Total	$ 45,476,134	$ 14,746,924	$ 60,223,058

	December 31, 2010		
	Level 1	**Level 2**	**Assets at Fair Value**
Short-Term Investments			
Money Market	$ 695,333	$ -	$ 695,333
Cash Equivalents	277,185	-	277,185
Assets held under separately managed trust accounts			
Fixed Income Acct:			
Cash and cash equivalents	1,457,177	-	1,457,177
U.S. Government obligations	-	11,100,741	11,100,741
Corporate bonds	-	4,646,071	4,646,071
Mortgage backed securities	-	4,474,496	4,474,496
Mutual Fund Account:			
Cash and cash equivalents	7,356	-	7,356
Fidelity investment diversified international fund	5,058,238	-	5,058,238
Vanguard total stock market index fund	14,749,311	-	14,749,311
Vanguard long term investment grade fund	5,980,476	-	5,980,476
PIMCO all asset fund	8,939,879	-	8,939,879
Total	$ 37,164,955	$ 20,221,308	$ 57,386,263

The following benefit payments, which reflect expected future services, as appropriate, are expected to be paid:

Years ending	
2012	$ 4,522,902
2013	4,718,866
2014	4,917,384
2015	4,992,652
2016	5,062,559
2017-2021	26,941,926

Defined Contribution Pension Plan

Effective January 1, 2002, the Medical Center adopted a defined contribution pension plan (the "Retirement Plan"). The Retirement Plan provides for employer and employee contributions. Employer contributions to the Retirement Plan consist of a primary contribution and a matching contribution. The primary employer contribution is equal to two percent of participant's eligible compensation. The matching employer contribution is equal to 50 percent of the employees' elective contribution up to a maximum of two percent of a participant's contribution. Pension expense under the Retirement Plan was approximately $2,284,000 in 2011 and $2,215,000 in 2010.

13. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

	2011	2010
Property and equipment	$ 1,391,009	$ 1,248,886
Clinical programs	235,044	173,785
Education and other	2,012,755	1,116,529
Total	$ 3,638,808	$ 2,539,200

Permanently restricted net assets of $1,139,867 at December 31, 2011 and 2010 are restricted to investments to be held in perpetuity, the income from which is expendable to support healthcare services.

14. Functional Expenses

The Medical Center provides general healthcare and other related services to its patients. The classification of expenses related to providing these services are approximately as follows in 2011 and 2010:

	2011	2010
Healthcare services	$ 177,491,000	$ 175,074,000
General and administrative	87,421,000	86,230,000
Total	$ 264,912,000	$ 261,304,000

15. Professional and General Liability Insurance

The Medical Center maintains professional and general liability insurance coverage for all subsidiaries and their employees. Effective July 9, 2003, the Medical Center's professional and general liability coverage is provided by a combination of a self-insurance trust fund and commercial insurance policies.

- Primary coverage: Primary coverage is provided by the self-insurance program for claims up to an annual maximum of $3,000,000 per occurrence and $7,000,000 in the aggregate for professional liability and $1,000,000 per occurrence and $3,000,000 in the aggregate for general liability. Fifty-three employed physicians and twenty-one residents have professional liability coverage through commercially obtained policies that the Medical Center purchases. All other employees, volunteers and trustees are covered under the Somerset Medical Center Self Insurance Trust for professional and general liability.

- Excess coverage: The Medical Center has excess liability insurance coverage which insures against losses in excess of the above primary coverage under both professional and general liability insurance policies. Those commercial excess liability insurance policies have an individual occurrence limit of $15 million and an annual aggregate limit of $15 million.

The Medical Center's liability for the estimated future payments of its asserted and unasserted medical malpractice claims was approximately $3,533,000 and $6,536,000 at December 31, 2011 and 2010, respectively, and is recorded in accrued pension and other liabilities in the balance sheet, which has been discounted at a rate of 0.57% and 1.80% at December 31, 2011 and 2010, respectively. Included in the 2010 amount of $6,536,000 is $3,000,000 specific to one particular malpractice case, which met the maximum threshold of the self-insurance coverage. During 2010, $2.8 million was received on prior year case settlements which was recorded against insurance expense and included in supplies and others on the statement of operations. In connection with the self-insurance program, the Medical Center set aside assets in a trust based on funding recommendations determined periodically by an independent actuary group, specializing in professional and general liability risk. Under the trust agreement, the trust assets can be used only for the payment of the self-insurance program's covered liability losses and related expenses. The fair value of the trust assets totals approximately $3,037,000 and $4,134,000 at December 31, 2011 and 2010, respectively, and is included in noncurrent assets limited as to use in the balance sheet. In addition, the Medical Center has obtained a $1,500,000 standby letter of credit with a bank in connection with the self-insurance program. The letter of credit carries interest at the prime rate plus 3% and expires on October 10, 2012. In addition, in January 2010, the Medical Center obtained a second standby letter of credit for $2,000,000 with a separate bank in connection with the self-insurance program. This letter of credit expired on January 15, 2011. At December 31, 2011, no amounts are outstanding under the letter of credit. At the expiration of the second letter of credit approximately $2 million in board designated funds were moved into the self-insurance trust fund.

The estimates for professional liabilities under the self-insurance program are based upon extremely complex actuarial calculations which utilize factors such as historical claim experience for the Medical Center and related industry factors, trending models, estimates for the payment patterns of future claims, and present value discounting factors. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Revisions to estimated amounts resulting from actual experience differing from projected expectations are recorded in the period the information becomes known.

The Medical Center believes that it has adequate insurance coverage for all asserted claims and has no knowledge of unasserted claims which would exceed insurance coverage.

The Medical Center, which has an internal risk management program, carried a claims-made malpractice insurance coverage for individually named physicians under a Master Physician Policy through July 8, 2003. During 2003, the Medical Center purchased tail coverage from a commercial carrier, which covers all claims which would fall under the Master Physician policy, prior to July 9, 2003. Hospital professional liability was covered through July 8, 2003 by a claims-made policy and hospital general liability was covered through July 8, 2003 by an occurrence-based policy.

16. Health Insurance Benefits and Workers' Compensation

The Medical Center self-insures its employee health insurance coverage and accrues the estimated costs of incurred and reported and incurred but not reported claims, after consideration of their individual and aggregate stop-loss insurance coverage, based upon data provided by the third-party administrator of the programs and their historical claims experience. Approximately $1,012,000 and $1,004,000 are recorded in accrued salaries and related benefits in the balance sheet as of December 31, 2011 and 2010, respectively.

The Medical Center maintains a large deductible self-funded worker's compensation insurance plan. As of December 31, 2011, the deductible was $200,000 per occurrence with an annual aggregate deductible of $900,000. PMA Insurance Company provides catastrophic coverage in excess of these retained amounts. The Medical Center accrues the estimated cost of incurred and reported and incurred but not reported claims based upon historical claims experience and standard industry loss development factors. The Medical Center's estimated future payments of $1,300,000, its asserted worker's compensation claims are included in accrued salaries and related benefits in the balance sheet as of December 31, 2011. The Medical Center also maintains a $880,000 irrevocable stand-by letter of credit to secure its future obligations under the terms of this self-insurance program. The letter of credit was increased to $1,030,000 on January 15, 2012 and expires on May 30, 2012.

17. Contingencies

Various investigations, suits, and claims arising in the normal course of operations are pending or are on appeal against the Medical Center. Such suits and claims are either specifically covered by insurance, not material, or too early to determine if they are material. While the outcome of such actions cannot be determined at this time, legal counsel and management believe that any loss which may arise from these actions will not have a material effect on the financial position or results of operations of the Medical Center.

The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations is subject to government review and interpretation as well as regulatory actions unknown or unasserted at this time. Government activity continues to increase with respect to investigations and allegations concerning possible violations by healthcare providers of fraud and abuse statutes and regulations, which could result in the imposition of significant fines and penalties as well as significant repayments for patient services previously billed. Management is not aware of any material incidents of noncompliance that have not been provided for in the accompanying financial statements.

The Medical Center was served with a Subpoena Duces Tecum by the U.S. Department of Justice on February 25, 2010. The subpoena seeks various documents in connection primarily with the Medical Center's Sleep for Life program. The Medical Center is complying with the subpoena. This matter is still in review; therefore the possible future financial effects of this matter on the Medical Center, if any, are not presently determinable.

18. Commitments

The following is a schedule by year of future minimum lease payments required under operating leases that have initial or remaining non-cancellable lease terms in excess of one year as of December 31, 2011:

Years ending December 31:	
2012	$ 6,691,507
2013	5,806,926
2014	4,637,051
2015	4,096,207
2016	3,705,369
Thereafter	29,469,430
Total minimum future rentals	$ 54,406,490

Rent expense for operating leases was $8,212,000 in 2011 and $8,254,000 in 2010.

19. Concentrations of Credit Risk

The Medical Center is located in Somerville, New Jersey. The Medical Center grants credit without collateral to its patients, most of whom are insured under third-party payor agreements. The mix of receivables at December 31, 2011 and 2010 from patients and third-party payors is as follows:

	2011	2010
Medicare	19 %	19 %
Medicaid	3	3
Blue Cross	20	20
Commercial/HMO	41	41
Other third-party payors	5	5
Patients	12	12
Total	100 %	100 %

At the present time, the Medical Center participates in all dominant managed care plans' provider networks, including Aetna U.S. Healthcare and Horizon Blue Cross/HMO Blue.

20. Subsequent Event

Subsequent to year end, the Medical Center entered into non-binding terms to merge its operations with another New Jersey Hospital System.