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Form 990
Department of the Treasury
Internal Revenue Service

Return of Organization Exempt From Income Tax

Under section 501(c), 527, or 4947(a)(1) of the Internal Revenue Code (except black lung benefit trust or private foundation)

The organization may have to use a copy of this return to satisfy state reporting requirements

OMB No 1545-0047

2010

Open to Public Inspection

A For the 2010 calendar year, or tax year beginning 07-01-2010 and ending 06-30-2011

- B Check if applicable
Address change
Name change
Initial return
Terminated
Amended return
Application pending

C Name of organization
SOMERSET COMMUNITY HOSPITAL
Doing Business As
Number and street (or P O box if mail is not delivered to street address)
225 SOUTH CENTER AVENUE
Room/suite
City or town, state or country, and ZIP + 4
SOMERSET, PA 15501

D Employer identification number
25-0965570
E Telephone number
(814) 443-5221
G Gross receipts \$ 69,882,062

F Name and address of principal officer
MICHAEL J FARRELL
225 SOUTH CENTER AVENUE
SOMERSET, PA 15501

H(a) Is this a group return for affiliates?
H(b) Are all affiliates included?
H(c) Group exemption number

I Tax-exempt status
501(c)(3)
501(c) ( ) (insert no )
4947(a)(1) or
527

J Website: WWW.SOMERSETHOSPITAL.COM

K Form of organization
Corporation
Trust
Association
Other
L Year of formation 1921
M State of legal domicile PA

Part I Summary

1 Briefly describe the organization's mission or most significant activities
SOMERSET HOSPITAL IS A NOT-FOR-PROFIT COMMUNITY ASSET COMMITTED TO PROVIDING CARE TO THE SICK AND INJURED, PRESERVING AND SUSTAINING LIFE, AND PROMOTING HEALTH AND WELL BEING, TO THE PROMOTION AND DEVELOPMENT OF COMPLEMENTARY PROGRAMS AND SERVICES, MANPOWER AND FACILITIES, TO THE CONTINUOUS IMPROVEMENT OF QUALITY, ACCESSIBILITY AND CONTINUITY OF PATIENT CARE, TO THE WELFARE AND LIVELIHOOD OF ITS EMPLOYEES, TO ENSURING THE HOSPITAL'S FINANCIAL VIABILITY NECESSARY TO MEET THE HEALTHCARE NEEDS OF THE COMMUNITY AND REGION TODAY AND IN THE FUTURE

Activities & Governance

Table with 2 columns: Description, Amount. Rows include: 2 Check this box if the organization discontinued its operations or disposed of more than 25% of its net assets; 3 Number of voting members of the governing body; 4 Number of independent voting members of the governing body; 5 Total number of individuals employed in calendar year 2010; 6 Total number of volunteers; 7a Total unrelated business revenue; 7b Net unrelated business taxable income.

Table with 3 columns: Description, Prior Year, Current Year. Rows include: 8 Contributions and grants; 9 Program service revenue; 10 Investment income; 11 Other revenue; 12 Total revenue.

Table with 3 columns: Description, Prior Year, Current Year. Rows include: 13 Grants and similar amounts paid; 14 Benefits paid to or for members; 15 Salaries, other compensation, employee benefits; 16a Professional fundraising fees; 16b Total fundraising expenses; 17 Other expenses; 18 Total expenses; 19 Revenue less expenses.

Table with 3 columns: Description, Beginning of Current Year, End of Year. Rows include: 20 Total assets; 21 Total liabilities; 22 Net assets or fund balances.

Part II Signature Block

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than officer) is based on all information of which preparer has any knowledge.

Sign Here
Signature of officer: \*\*\*\*\*
Date: 2012-04-25
Type or print name and title: RONALD M PARK CFO

Paid Preparer Use Only
Print/Type preparer's name: JEFFREY J PETRELL CPA
Preparer's signature: JEFFREY J PETRELL CPA
Date: 2012-04-25
Check if self-employed
Firm's name: CARBIS WALKER LLP
Firm's EIN
Firm's address: 5700 CORPORATE DRIVE STE 650 PITTSBURGH, PA 15237
Phone no: (412) 635-6270

May the IRS discuss this return with the preparer shown above? (see instructions) Yes No

Part III Statement of Program Service Accomplishments

Check if Schedule O contains a response to any question in this Part III . . . . . [X]

1 Briefly describe the organization's mission
OUR MISSION AS AN ORGANIZATION IS TO PRESERVE AND IMPROVE LIFE BY PROVIDING ACCESS TO QUALITY, CUSTOMER-FRIENDLY HEALTHCARE SERVICES

2 Did the organization undertake any significant program services during the year which were not listed on the prior Form 990 or 990-EZ? [ ] Yes [X] No
If "Yes," describe these new services on Schedule O

3 Did the organization cease conducting, or make significant changes in how it conducts, any program services? [ ] Yes [X] No
If "Yes," describe these changes on Schedule O

4 Describe the exempt purpose achievements for each of the organization's three largest program services by expenses Section 501(c)(3) and 501(c)(4) organizations and section 4947(a)(1) trusts are required to report the amount of grants and allocations to others, the total expenses, and revenue, if any, for each program service reported

4a (Code ) (Expenses \$ 53,954,022 including grants of \$ ) (Revenue \$ 66,113,887 )
SOMERSET HOSPITAL IS A NOT-FOR-PROFIT COMMUNITY ASSET COMMITTED TO PROVIDING CARE TO THE SICK AND INJURED, PRESERVING AND SUSTAINING LIFE, AND PROMOTING HEALTH AND WELL BEING, TO THE PROMOTION AND DEVELOPMENT OF COMPLEMENTARY PROGRAMS AND SERVICES, MANPOWER AND FACILITIES, TO THE CONTINUOUS IMPROVEMENT OF QUALITY, ACCESSIBILITY AND CONTINUITY OF PATIENT CARE, TO THE WELFARE AND LIVELIHOOD OF ITS EMPLOYEES, TO ENSURING THE HOSPITAL'S FINANCIAL VIABILITY NECESSARY TO MEET THE HEALTHCARE NEEDS OF THE COMMUNITY AND REGION TODAY AND IN THE FUTURE SOMERSET HOSPITAL IS A 150-BED, NOT-FOR-PROFIT COMMUNITY HOSPITAL SERVING THE SOMERSET AREA THE HOSPITAL ALSO PROVIDES CARE FOR MANY PATIENTS NORTH OF SOMERSET TO ROUTE 30 AND SOUTH OF SOMERSET TO THE MARYLAND STATE LINE SOMERSET HOSPITAL, ONE OF THE TOP FIVE EMPLOYERS IN SOMERSET COUNTY, PROVIDES QUALITY HEALTH CARE IN A COMPASSIONATE MANNER REGARDLESS OF RACE, CREED, SEX, NATIONAL ORIGIN, HANDICAP, AGE OR THE PATIENT'S ABILITY TO PAY ALTHOUGH REIMBURSEMENT FOR SERVICES RENDERED IS CRITICAL TO THE OPERATION AND STABILITY OF SOMERSET HOSPITAL, THE HOSPITAL, UNDER ITS WRITTEN CHARITY CARE POLICY, IS COMMITTED TO PROVIDING NECESSARY HEALTH CARE SERVICES AT NO CHARGE OR AT A REDUCED CHARGE TO PATIENTS PUBLIC POLICIESTHROUGH SIGNAGE POSTED IN THE HOSPITAL'S INFORMATION CENTER, ADMISSIONS DEPARTMENT, EMERGENCY ROOM AND CREDIT OFFICE, THE PUBLIC IS PROVIDED WITH THE ORGANIZATION'S POLICY OF PROVIDING CARE REGARDLESS OF ABILITY TO PAY ADDITIONALLY, PUBLIC NOTICES ADVERTISED IN THE DAILY AMERICAN, TRIBUNE DEMOCRAT AND MEYERSDALE REPUBLIC CALL ATTENTION TO THE HOSPITAL'S HILL BURTON OBLIGATIONS AND OPEN ADMISSIONS POLICY SOMERSET HOSPITAL GENERALLY DESIGNATES SERVICES AS "CHARITY CARE" AFTER BILLING BASED ON AN INDIVIDUAL'S ABILITY TO PAY, SOMERSET HOSPITAL OFFERS PAYMENT PLANS AND ASSISTS INDIVIDUALS IN APPLYING FOR THE STATE'S MEDICAL ASSISTANCE PROGRAM SELF-PAY PATIENTS ARE REQUESTED TO PROVIDE PARTIAL PRE-PAYMENT FOR SERVICES RENDERED BY THE HOSPITAL HOWEVER, SERVICES BY SOMERSET HOSPITAL ARE PROVIDED WITHOUT REGARD TO AN INDIVIDUAL'S ABILITY TO PAY COMMUNITY SERVICE AND CONTRIBUTIONS DURING THE PAST YEAR, SOMERSET HOSPITAL HAS PROVIDED THE FOLLOWING SERVICES AND CONTRIBUTIONS TO THE COMMUNITY THE SERVICES ARE PROVIDED FREE OF CHARGE OR AT A NOMINAL FEE AS INDICATED COMMUNITY HEALTH EDUCATION (FREE OR MINIMAL FEES CHARGED TO COVER DIRECT COSTS) PRE-NATAL EDUCATION, 34/YEAR, 24 HOURS BREASTFEEDING CLASS, 68/YEAR, 20 HOURS CPR, 43/YEAR, 16 HOURS TOTAL, 145/YEAR, 60 HOURS SPEAKER'S BUREAU (NO CHARGE TO THE COMMUNITY) 27 VARIOUS GROUPS, 1911/YEAR, 81 HOURS SUPPORT GROUPS (NO CHARGE) HOSPICE BEREAVEMENT, 191/YEAR, 10 HOURS ARTHRITIS, 95/YEAR, 24 HOURS DIABUDDIES, 63/YEAR, 18 HOURS DIABUDDIES WITH PUMPS, 42/YEAR, 18 HOURS SALZHEIMER'S, 10/YEAR, 10 HOURS SLEEP APNEA, 145/YEAR, 18 HOURS COMPASSIONATE FRIENDS, 98/YEAR, 12 HOURS SPARKINSON'S, 63/YEAR, 12 HOURS HEALTHWALK, 75/YEAR, 30 HOURS CAMP KIDD BEREAVEMENT, 14/YEAR, 6 HOURS SUPPORT GROUP PICNIC, 50/YEAR, 6 HOURS DIGESTIVE DISORDERS SUPPORT, 7/YEAR, 18 HOURS TRANSPLANT SUPPORT, 39/YEAR, 8 HOURS WEIGHT LOSS SUPPORT, 10/YEAR, 4 HOURS TOTAL, 902/YEAR, 194 HOURS COMMUNITY EDUCATION INFORMATION REQUESTS (NO CHARGE) PHONE REQUESTS, 4023/YEAR, 125 HOURS MAIL REQUESTS, 192/YEAR, 16 HOURS WALK-IN REQUESTS, 147/YEAR, 10 HOURS DIABETES BOOT CAMP, 88/YEAR, 48 HOURS SCHOOL PROGRAMS (NO CHARGE) SECOND GRADE TOURS, 273/YEAR, 32 HOURS POISON PREVENTION PROGRAMS, 450/YEAR, 36 HOURS SHADOW STUDENTS, 102/YEAR, 408 HOURS TEACHER TOURS, 24/YEAR, 6 HOURS TOTAL, 849/YEAR, 482 HOURS HEALTH FAIRS OR COMMUNITY EDUCATION PROGRAMS (NO CHARGE TO THE COMMUNITY) SMOKING CESSATION, 89/YEAR, 32 HOURS DIABETIC EDUCATION PROGRAMS, 475/YEAR, 32 HOURS HEALTH FAIRS, 1317/YEAR, 36 HOURS HIGHMARK PROGRAMS, 316/YEAR, 64 HOURS VARIOUS COMM EDUCATION, 869/YEAR, 48 HOURS VARIOUS FREE SCREENINGS, 90/YEAR, 18 HOURS SILVER SNEAKERS, 252/YEAR, 26,208 HOURS KIDSHAPE, 23/YEAR, 414 HOURS TOTAL, 3897/YEAR, 26,852 HOURS HOSPITAL STAFF CONTRIBUTIONS TO COMMUNITY ORGANIZATIONS SOMERSET ROTARY, 150 HOURS/YEAR HEALTH & WELFARE COUNCIL (2 STAFF MEMBERS), 24 HOURS/YEAR SOMERSET COUNTY CHAMBER OF COMMERCE, 24 HOURS/YEAR REDEVELOPMENT AUTHORITY, 24 HOURS/YEAR OTHER CONTRIBUTIONS "IN TOUCH" HOSPICE THROUGH THE HOSPITAL'S HOME HEALTH AND HOSPICE CARE DEPARTMENT, TERMINALLY ILL PATIENTS AND THEIR FAMILIES ARE PROVIDED CLINICAL AND EMOTIONAL SUPPORT THIS SERVICE IS SUPPORTED THROUGH COMMUNITY CONTRIBUTIONS ANNUAL OPERATING BUDGET \$2,921,854 IN FISCAL YEAR 2011 SOCIAL WORK SERVICES SOMERSET HOSPITAL'S SOCIAL WORK SERVICES DEPARTMENT, WITH AN OPERATING BUDGET IN EXCESS OF \$116,829 IN FY 2011, IS RESPONSIBLE FOR MEETING BOTH INPATIENT AND OUTPATIENT SOCIAL NEEDS INCLUDING THE PLACEMENT OF PATIENTS IN AN APPROPRIATE COMMUNITY SETTING UPON DISCHARGE THE STAFF PROVIDES EXPERTISE TO MANY COMMUNITY ORGANIZATIONS

4b (Code ) (Expenses \$ including grants of \$ ) (Revenue \$ )

4c (Code ) (Expenses \$ including grants of \$ ) (Revenue \$ )

4d Other program services (Describe in Schedule O )
(Expenses \$ including grants of \$ ) (Revenue \$ )

4e Total program service expenses \$ 53,954,022

**Part IV Checklist of Required Schedules**

	Yes	No
<b>1</b> Is the organization described in section 501(c)(3) or 4947(a)(1) (other than a private foundation)? <i>If "Yes," complete Schedule A.</i>	Yes	
<b>2</b> Is the organization required to complete Schedule B, Schedule of Contributors (see instruction)?	Yes	
<b>3</b> Did the organization engage in direct or indirect political campaign activities on behalf of or in opposition to candidates for public office? <i>If "Yes," complete Schedule C, Part I.</i>		No
<b>4 Section 501(c)(3) organizations.</b> Did the organization engage in lobbying activities, or have a section 501(h) election in effect during the tax year? <i>If "Yes," complete Schedule C, Part II.</i>	Yes	
<b>5</b> Is the organization a section 501(c)(4), 501(c)(5), or 501(c)(6) organization that receives membership dues, assessments, or similar amounts as defined in Revenue Procedure 98-19? <i>If "Yes," complete Schedule C, Part III.</i>		No
<b>6</b> Did the organization maintain any donor advised funds or any similar funds or accounts where donors have the right to provide advice on the distribution or investment of amounts in such funds or accounts? <i>If "Yes," complete Schedule D, Part I.</i>		No
<b>7</b> Did the organization receive or hold a conservation easement, including easements to preserve open space, the environment, historic land areas or historic structures? <i>If "Yes," complete Schedule D, Part II.</i>		No
<b>8</b> Did the organization maintain collections of works of art, historical treasures, or other similar assets? <i>If "Yes," complete Schedule D, Part III.</i>		No
<b>9</b> Did the organization report an amount in Part X, line 21, serve as a custodian for amounts not listed in Part X, or provide credit counseling, debt management, credit repair, or debt negotiation services? <i>If "Yes," complete Schedule D, Part IV.</i>		No
<b>10</b> Did the organization, directly or through a related organization, hold assets in term, permanent, or quasi-endowments? <i>If "Yes," complete Schedule D, Part V.</i>		No
<b>11</b> If the organization's answer to any of the following questions is 'Yes,' then complete Schedule D, Parts VI, VII, VIII, IX, or X as applicable		
<b>a</b> Did the organization report an amount for land, buildings, and equipment in Part X, line 10? <i>If "Yes," complete Schedule D, Part VI.</i>	Yes	
<b>b</b> Did the organization report an amount for investments—other securities in Part X, line 12 that is 5% or more of its total assets reported in Part X, line 16? <i>If "Yes," complete Schedule D, Part VII.</i>	Yes	
<b>c</b> Did the organization report an amount for investments—program related in Part X, line 13 that is 5% or more of its total assets reported in Part X, line 16? <i>If "Yes," complete Schedule D, Part VIII.</i>		No
<b>d</b> Did the organization report an amount for other assets in Part X, line 15 that is 5% or more of its total assets reported in Part X, line 16? <i>If "Yes," complete Schedule D, Part IX.</i>		No
<b>e</b> Did the organization report an amount for other liabilities in Part X, line 25? <i>If "Yes," complete Schedule D, Part X.</i>	Yes	
<b>f</b> Did the organization's separate or consolidated financial statements for the tax year include a footnote that addresses the organization's liability for uncertain tax positions under FIN 48 (ASC 740)? <i>If "Yes," complete Schedule D, Part X.</i>	Yes	
<b>12a</b> Did the organization obtain separate, independent audited financial statements for the tax year? <i>If "Yes," complete Schedule D, Parts XI, XII, and XIII.</i>		No
<b>b</b> Was the organization included in consolidated, independent audited financial statements for the tax year? <i>If "Yes," and if the organization answered 'No' to line 12a, then completing Schedule D, Parts XI, XII, and XIII is optional.</i>	Yes	
<b>13</b> Is the organization a school described in section 170(b)(1)(A)(ii)? <i>If "Yes," complete Schedule E.</i>		No
<b>14a</b> Did the organization maintain an office, employees, or agents outside of the United States?		No
<b>b</b> Did the organization have aggregate revenues or expenses of more than \$10,000 from grantmaking, fundraising, business, and program service activities outside the United States? <i>If "Yes," complete Schedule F, Parts I and IV.</i>		No
<b>15</b> Did the organization report on Part IX, column (A), line 3, more than \$5,000 of grants or assistance to any organization or entity located outside the U S? <i>If "Yes," complete Schedule F, Parts II and IV.</i>		No
<b>16</b> Did the organization report on Part IX, column (A), line 3, more than \$5,000 of aggregate grants or assistance to individuals located outside the U S? <i>If "Yes," complete Schedule F, Parts III and IV.</i>		No
<b>17</b> Did the organization report a total of more than \$15,000, of expenses for professional fundraising services on Part IX, column (A), lines 6 and 11e? <i>If "Yes," complete Schedule G, Part I (see instructions).</i>		No
<b>18</b> Did the organization report more than \$15,000 total of fundraising event gross income and contributions on Part VIII, lines 1c and 8a? <i>If "Yes," complete Schedule G, Part II.</i>	Yes	
<b>19</b> Did the organization report more than \$15,000 of gross income from gaming activities on Part VIII, line 9a? <i>If "Yes," complete Schedule G, Part III.</i>		No
<b>20a</b> Did the organization operate one or more hospitals? <i>If "Yes," complete Schedule H.</i>	Yes	
<b>b</b> If "Yes" to line 20a, did the organization attach its audited financial statement to this return? <b>Note.</b> Some Form 990 filers that operate one or more hospitals must attach audited financial statements (see instructions)	Yes	

**Part IV Checklist of Required Schedules** *(continued)*

<b>21</b>	Did the organization report more than \$5,000 of grants and other assistance to governments and organizations in the United States on Part IX, column (A), line 1? <i>If "Yes," complete Schedule I, Parts I and II</i> . . . . .	<b>21</b>		No
<b>22</b>	Did the organization report more than \$5,000 of grants and other assistance to individuals in the United States on Part IX, column (A), line 2? <i>If "Yes," complete Schedule I, Parts I and III</i> . . . . .	<b>22</b>		No
<b>23</b>	Did the organization answer "Yes" to Part VII, Section A, questions 3, 4, or 5, about compensation of the organization's current and former officers, directors, trustees, key employees, and highest compensated employees? <i>If "Yes," complete Schedule J</i> . . . . .	<b>23</b>	Yes	
<b>24a</b>	Did the organization have a tax-exempt bond issue with an outstanding principal amount of more than \$100,000 as of the last day of the year, that was issued after December 31, 2002? <i>If "Yes," answer lines 24b-24d and complete Schedule K. If "No," go to line 25</i> . . . . .	<b>24a</b>	Yes	
<b>b</b>	Did the organization invest any proceeds of tax-exempt bonds beyond a temporary period exception? . . . . .	<b>24b</b>		No
<b>c</b>	Did the organization maintain an escrow account other than a refunding escrow at any time during the year to defease any tax-exempt bonds? . . . . .	<b>24c</b>		No
<b>d</b>	Did the organization act as an "on behalf of" issuer for bonds outstanding at any time during the year? . . . . .	<b>24d</b>		No
<b>25a</b>	<b>Section 501(c)(3) and 501(c)(4) organizations.</b> Did the organization engage in an excess benefit transaction with a disqualified person during the year? <i>If "Yes," complete Schedule L, Part I</i> . . . . .	<b>25a</b>		No
<b>b</b>	Is the organization aware that it engaged in an excess benefit transaction with a disqualified person in a prior year, and that the transaction has not been reported on any of the organization's prior Forms 990 or 990-EZ? <i>If "Yes," complete Schedule L, Part I</i> . . . . .	<b>25b</b>		No
<b>26</b>	Was a loan to or by a current or former officer, director, trustee, key employee, highly compensated employee, or disqualified person outstanding as of the end of the organization's tax year? <i>If "Yes," complete Schedule L, Part II</i> . . . . .	<b>26</b>		No
<b>27</b>	Did the organization provide a grant or other assistance to an officer, director, trustee, key employee, substantial contributor, or a grant selection committee member, or to a person related to such an individual? <i>If "Yes," complete Schedule L, Part III</i> . . . . .	<b>27</b>		No
<b>28</b>	Was the organization a party to a business transaction with one of the following parties? (see Schedule L, Part IV instructions for applicable filing thresholds, conditions, and exceptions)			
<b>a</b>	A current or former officer, director, trustee, or key employee? <i>If "Yes," complete Schedule L, Part IV</i> . . . . .	<b>28a</b>		No
<b>b</b>	A family member of a current or former officer, director, trustee, or key employee? <i>If "Yes," complete Schedule L, Part IV</i> . . . . .	<b>28b</b>	Yes	
<b>c</b>	An entity of which a current or former officer, director, trustee, or key employee (or a family member thereof) was an officer, director, trustee, or direct or indirect owner? <i>If "Yes," complete Schedule L, Part IV</i> . . . . .	<b>28c</b>		No
<b>29</b>	Did the organization receive more than \$25,000 in non-cash contributions? <i>If "Yes," complete Schedule M</i> . . . . .	<b>29</b>		No
<b>30</b>	Did the organization receive contributions of art, historical treasures, or other similar assets, or qualified conservation contributions? <i>If "Yes," complete Schedule M</i> . . . . .	<b>30</b>		No
<b>31</b>	Did the organization liquidate, terminate, or dissolve and cease operations? <i>If "Yes," complete Schedule N, Part I</i> . . . . .	<b>31</b>		No
<b>32</b>	Did the organization sell, exchange, dispose of, or transfer more than 25% of its net assets? <i>If "Yes," complete Schedule N, Part II</i> . . . . .	<b>32</b>		No
<b>33</b>	Did the organization own 100% of an entity disregarded as separate from the organization under Regulations sections 301.7701-2 and 301.7701-3? <i>If "Yes," complete Schedule R, Part I</i> . . . . .	<b>33</b>		No
<b>34</b>	Was the organization related to any tax-exempt or taxable entity? <i>If "Yes," complete Schedule R, Parts II, III, IV, and V, line 1</i> . . . . .	<b>34</b>	Yes	
<b>35</b>	Is any related organization a controlled entity within the meaning of section 512(b)(13)? . . . . .	<b>35</b>	Yes	
<b>a</b>	Did the organization receive any payment from or engage in any transaction with a controlled entity within the meaning of section 512(b)(13)? <i>If "Yes," complete Schedule R, Part V, line 2</i> . . . . . <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No			
<b>36</b>	<b>Section 501(c)(3) organizations.</b> Did the organization make any transfers to an exempt non-charitable related organization? <i>If "Yes," complete Schedule R, Part V, line 2</i> . . . . .	<b>36</b>		No
<b>37</b>	Did the organization conduct more than 5% of its activities through an entity that is not a related organization and that is treated as a partnership for federal income tax purposes? <i>If "Yes," complete Schedule R, Part VI</i> . . . . .	<b>37</b>		No
<b>38</b>	Did the organization complete Schedule O and provide explanations in Schedule O for Part VI, lines 11 and 19? <b>Note.</b> All Form 990 filers are required to complete Schedule O . . . . .	<b>38</b>	Yes	

Part V Statements Regarding Other IRS Filings and Tax Compliance

Check if Schedule O contains a response to any question in this Part V . . . . . [ ]

Table with columns for question number, question text, and Yes/No response. Includes rows for Form 1096, Forms W-2G, Form W-3, Form 8886-T, Form 8282, Form 8899, Form 1098-C, Form 4947(a)(1), and Form 720.

**Part VI Governance, Management, and Disclosure** For each "Yes" response to lines 2 through 7b below, and for a "No" response to lines 8a, 8b, or 10b below, describe the circumstances, processes, or changes in Schedule O. See instructions.

Check if Schedule O contains a response to any question in this Part VI

**Section A. Governing Body and Management**

		Yes	No
<b>1a</b>	Enter the number of voting members of the governing body at the end of the tax year . . . . .		
	<b>1a</b> 19		
<b>b</b>	Enter the number of voting members included in line 1a, above, who are independent . . . . .		
	<b>1b</b> 12		
<b>2</b>	Did any officer, director, trustee, or key employee have a family relationship or a business relationship with any other officer, director, trustee, or key employee? . . . . .		No
<b>3</b>	Did the organization delegate control over management duties customarily performed by or under the direct supervision of officers, directors or trustees, or key employees to a management company or other person? . . . . .		No
<b>4</b>	Did the organization make any significant changes to its governing documents since the prior Form 990 was filed? . . . . .		No
<b>5</b>	Did the organization become aware during the year of a significant diversion of the organization's assets? . . . . .		No
<b>6</b>	Does the organization have members or stockholders? . . . . .	Yes	
<b>7a</b>	Does the organization have members, stockholders, or other persons who may elect one or more members of the governing body? . . . . .	Yes	
<b>b</b>	Are any decisions of the governing body subject to approval by members, stockholders, or other persons? . . . . .		No
<b>8</b>	Did the organization contemporaneously document the meetings held or written actions undertaken during the year by the following		
<b>a</b>	The governing body? . . . . .	Yes	
<b>b</b>	Each committee with authority to act on behalf of the governing body? . . . . .	Yes	
<b>9</b>	Is there any officer, director, trustee, or key employee listed in Part VII, Section A, who cannot be reached at the organization's mailing address? If "Yes," provide the names and addresses in Schedule O . . . . .		No

**Section B. Policies** (This Section B requests information about policies not required by the Internal Revenue Code.)

		Yes	No
<b>10a</b>	Does the organization have local chapters, branches, or affiliates? . . . . .		No
<b>b</b>	If "Yes," does the organization have written policies and procedures governing the activities of such chapters, affiliates, and branches to ensure their operations are consistent with those of the organization? . . . . .		
<b>11a</b>	Has the organization provided a copy of this Form 990 to all members of its governing body before filing the form? . . . . .	Yes	
<b>b</b>	Describe in Schedule O the process, if any, used by the organization to review this Form 990 . . . . .		
<b>12a</b>	Does the organization have a written conflict of interest policy? If "No," go to line 13 . . . . .	Yes	
<b>b</b>	Are officers, directors or trustees, and key employees required to disclose annually interests that could give rise to conflicts? . . . . .	Yes	
<b>c</b>	Does the organization regularly and consistently monitor and enforce compliance with the policy? If "Yes," describe in Schedule O how this is done . . . . .	Yes	
<b>13</b>	Does the organization have a written whistleblower policy? . . . . .	Yes	
<b>14</b>	Does the organization have a written document retention and destruction policy? . . . . .	Yes	
<b>15</b>	Did the process for determining compensation of the following persons include a review and approval by independent persons, comparability data, and contemporaneous substantiation of the deliberation and decision?		
<b>a</b>	The organization's CEO, Executive Director, or top management official . . . . .	Yes	
<b>b</b>	Other officers or key employees of the organization . . . . .	Yes	
	If "Yes" to line 15a or 15b, describe the process in Schedule O (See instructions) . . . . .		
<b>16a</b>	Did the organization invest in, contribute assets to, or participate in a joint venture or similar arrangement with a taxable entity during the year? . . . . .		No
<b>b</b>	If "Yes," has the organization adopted a written policy or procedure requiring the organization to evaluate its participation in joint venture arrangements under applicable federal tax law, and taken steps to safeguard the organization's exempt status with respect to such arrangements? . . . . .		

**Section C. Disclosure**

<b>17</b>	List the States with which a copy of this Form 990 is required to be filed <b>PA</b>
<b>18</b>	Section 6104 requires an organization to make its Form 1023 (or 1024 if applicable), 990, and 990-T (501(c)(3)s only) available for public inspection. Indicate how you make these available. Check all that apply. <input type="checkbox"/> Own website <input type="checkbox"/> Another's website <input checked="" type="checkbox"/> Upon request
<b>19</b>	Describe in Schedule O whether (and if so, how), the organization makes its governing documents, conflict of interest policy, and financial statements available to the public. See Additional Data Table.
<b>20</b>	State the name, physical address, and telephone number of the person who possesses the books and records of the organization <b>▶</b> RONALD M PARK CFO 225 SOUTH CENTER AVENUE SOMERSET, PA 15501 (814) 443-5221

**Part VII Compensation of Officers, Directors, Trustees, Key Employees, Highest Compensated Employees, and Independent Contractors**

Check if Schedule O contains a response to any question in this Part VII

**Section A. Officers, Directors, Trustees, Key Employees, and Highest Compensated Employees**

**1a** Complete this table for all persons required to be listed Report compensation for the calendar year ending with or within the organization's tax year

- List all of the organization's **current** officers, directors, trustees (whether individuals or organizations), regardless of amount of compensation, and **current** key employees Enter -0- in columns (D), (E), and (F) if no compensation was paid
- List all of the organization's **current** key employees, if any See instructions for definition of "key employee "
- List the organization's five **current** highest compensated employees (other than an officer, director, trustee or key employee) who received reportable compensation (Box 5 of Form W-2 and/or Box 7 of Form 1099-MISC) of more than \$100,000 from the organization and any related organizations
- List all of the organization's **former** officers, key employees, and highest compensated employees who received more than \$100,000 of reportable compensation from the organization and any related organizations
- List all of the organization's **former directors or trustees** that received, in the capacity as a former director or trustee of the organization, more than \$10,000 of reportable compensation from the organization and any related organizations

List persons in the following order individual trustees or directors, institutional trustees, officers, key employees, highest compensated employees, and former such persons

Check this box if neither the organization nor any related organization compensated any current officer, director, or trustee

(A) Name and Title	(B) Average hours per week (describe hours for related organizations in Schedule O)	(C) Position (check all that apply)						(D) Reportable compensation from the organization (W-2/1099-MISC)	(E) Reportable compensation from related organizations (W-2/1099-MISC)	(F) Estimated amount of other compensation from the organization and related organizations
		Individual trustee or director	Institutional Trustee	Officer	Key employee	Highest compensated employee	Former			
(1) BRUCE SHIPLEY CHAIRMAN	2 00	X		X			0	0	0	
(2) AJAY P SINGH MD 1ST VICE CHAIRMAN	2 00	X		X			0	236,875	13,563	
(3) VINCENT J JACOB 2ND VICE CHAIRMAN	2 00	X		X			0	0	0	
(4) CATHERINE POORBAUGH SECRETARY	2 00	X		X			0	0	0	
(5) WILBUR A THOMAS TREASURER	1 00	X		X			0	0	0	
(6) MICHELLE MOON ASST SECRETARY/TREASURER	2 00	X		X			0	0	0	
(7) ROBERTA ANTRAM DIRECTOR	1 00	X					0	0	0	
(8) NATHANIEL A BARBERA DIRECTOR	1 00	X					0	0	0	
(9) BOB BASTIAN DIRECTOR	1 00	X					0	0	0	
(10) BRAD COBER DIRECTOR	1 00	X					0	0	0	
(11) SHARON CLAPPER DIRECTOR	1 00	X					0	0	0	
(12) REV ARTHUR GOTJEN DIRECTOR	1 00	X					3,900	0	0	
(13) JOHN HARTMAN DIRECTOR	1 00	X					0	0	0	
(14) SHOMENDRA MOITRA MD DIRECTOR	40 00	X					365,383	0	2,505	
(15) V KRISHNAN NAIR MD DIRECTOR	1 00	X					0	410,000	13,131	
(16) FREDERIC ROSEMEYER DIRECTOR	1 00	X					0	0	0	

**Part VII Section A. Officers, Directors, Trustees, Key Employees, and Highest Compensated Employees** (continued)

(A) Name and Title	(B) Average hours per week (describe hours for related organizations in Schedule O)	(C) Position (check all that apply)						(D) Reportable compensation from the organization (W-2/1099-MISC)	(E) Reportable compensation from related organizations (W-2/1099-MISC)	(F) Estimated amount of other compensation from the organization and related organizations
		Individual trustee or director	Institutional Trustee	Officer	Key employee	Highest compensated employee	Former			
(17) CARL WALKER METZGAR DIRECTOR	1 00	X						0	0	0
(18) JIMMY MARKER DIRECTOR	1 00	X						0	0	0
(19) LINDA FETTEROLF DIRECTOR	1 00	X						0	0	0
(20) MICHAEL FARRELL CEO/PRESIDENT	29 00			X				285,286	0	9,680
(21) RONALD PARK CFO	29 00			X				223,109	0	13,140
(22) PRAKASH GHATGE MD PHYSICIAN	40 00					X		256,162	0	12,451
(23) GEORGE GROF-TISZA MD PHYSICIAN	40 00					X		256,162	0	12,456
(24) JEFFERY LAVANIER MD PHYSICIAN	40 00					X		256,162	0	11,976
(25) ANIL PAREKH MD PHYSICIAN	40 00					X		241,538	0	13,638
(26) GEORGE THOMAS MD PHYSICIAN	40 00					X		256,162	0	12,577
<b>1b Sub-Total</b>										
<b>c Total from continuation sheets to Part VII, Section A</b>										
<b>d Total (add lines 1b and 1c)</b>								2,143,864	646,875	115,117

**2** Total number of individuals (including but not limited to those listed above) who received more than \$100,000 in reportable compensation from the organization **23**

	Yes	No
<b>3</b> Did the organization list any <b>former</b> officer, director or trustee, key employee, or highest compensated employee on line 1a? <i>If "Yes," complete Schedule J for such individual</i>		No
<b>4</b> For any individual listed on line 1a, is the sum of reportable compensation and other compensation from the organization and related organizations greater than \$150,000? <i>If "Yes," complete Schedule J for such individual</i>	Yes	
<b>5</b> Did any person listed on line 1a receive or accrue compensation from any unrelated organization or individual for services rendered to the organization? <i>If "Yes," complete Schedule J for such person</i>		No

**Section B. Independent Contractors**

**1** Complete this table for your five highest compensated independent contractors that received more than \$100,000 of compensation from the organization

(A) Name and business address	(B) Description of services	(C) Compensation
NCA CORPORATION 200 BESSEMER ROAD MT PLEASANT, PA 15666	ANESTHESIOLOGY SERVICES	1,223,846
SOMERSET OBGYN ASSOCIATES 229 SOUTH KIMBERLY AVENUE SOMERSET, PA 15501	OB/GYN SERVICES	384,000
INCARE LLC 1402 TREELINE DRIVE BLOOMSBURG, PA 17815	HOSPITALIST GROUP	304,165
THE ADVISORY BOARD PO BOX 79461 BALTIMORE, MD 21279	HEALTHCARE CONSULTING	270,638
POLARIS HEALTH CARE SOLUTIONS 26 E SIXTH ST SUITE 501 CINCINNATI, OH 45202	IT CONSULTING SERVICES	178,332

**2** Total number of independent contractors (including but not limited to those listed above) who received more than \$100,000 in compensation from the organization **6**

**Part VIII Statement of Revenue**

		(A) Total revenue	(B) Related or exempt function revenue	(C) Unrelated business revenue	(D) Revenue excluded from tax under sections 512, 513, or 514	
<b>Contributions, gifts, grants and other similar amounts</b>	<b>1a</b> Federated campaigns . . . . . <b>1a</b>					
	<b>b</b> Membership dues . . . . . <b>1b</b>					
	<b>c</b> Fundraising events . . . . . <b>1c</b>	19,440				
	<b>d</b> Related organizations . . . . . <b>1d</b>					
	<b>e</b> Government grants (contributions) . . . . . <b>1e</b>					
	<b>f</b> All other contributions, gifts, grants, and similar amounts not included above . . . . . <b>1f</b>	2,162,183				
	<b>g</b> Noncash contributions included in lines 1a-1f \$					
	<b>h Total.</b> Add lines 1a-1f . . . . .	2,181,623				
	<b>Program Service Revenue</b>	<b>2a</b> NET PATIENT REVENUE	900099	66,114,848	66,113,887	961
<b>b</b> MISC PATIENT REVENUE		900099	337,200		337,200	
<b>c</b> PHARMACY SALES		900099	45,209		45,209	
<b>d</b> MEDICAL RECORDS		900099	36,920		36,920	
<b>e</b>						
<b>f</b> All other program service revenue						
<b>g Total.</b> Add lines 2a-2f . . . . .			66,534,177			
<b>Other Revenue</b>		<b>3</b> Investment income (including dividends, interest and other similar amounts) . . . . .		749,486		749,486
	<b>4</b> Income from investment of tax-exempt bond proceeds . . . . .					
	<b>5</b> Royalties . . . . .					
	<b>6a</b> Gross Rents	(i) Real	379,378			
		(ii) Personal				
	<b>b</b> Less rental expenses		298,017			
	<b>c</b> Rental income or (loss)		81,361			
	<b>d</b> Net rental income or (loss) . . . . .		81,361		81,361	
	<b>7a</b> Gross amount from sales of assets other than inventory	(i) Securities				
		(ii) Other		8,204		
		<b>b</b> Less cost or other basis and sales expenses				
		<b>c</b> Gain or (loss)		8,204		
	<b>d</b> Net gain or (loss) . . . . .		8,204		8,204	
	<b>8a</b> Gross income from fundraising events (not including \$ 19,440 of contributions reported on line 1c) See Part IV, line 18 . . . . . <b>a</b>			58,715		
<b>b</b> Less direct expenses . . . . . <b>b</b>			28,288			
<b>c</b> Net income or (loss) from fundraising events . . . . .			30,427		30,427	
<b>9a</b> Gross income from gaming activities See Part IV, line 19 . . . . . <b>a</b>						
	<b>b</b> Less direct expenses . . . . . <b>b</b>					
	<b>c</b> Net income or (loss) from gaming activities . . . . .					
<b>10a</b> Gross sales of inventory, less returns and allowances . . . . . <b>a</b>						
	<b>b</b> Less cost of goods sold . . . . . <b>b</b>					
	<b>c</b> Net income or (loss) from sales of inventory . . . . .					
Miscellaneous Revenue		Business Code				
<b>11a</b> ASSETS RELEASED FROM R	900099	535,383			535,383	
<b>b</b> GAIN ON EXTINGUISHMENT	900099	284,418			284,418	
<b>c</b> OTHER OPERATING REVENUE	900099	80,138			80,138	
<b>d</b> All other revenue . . . . .		-929,460		45,000	-974,460	
<b>e Total.</b> Add lines 11a-11d . . . . .		-29,521				
<b>12 Total revenue.</b> See Instructions . . . . .		69,555,757	66,113,887	45,961	1,214,286	

**Part IX Statement of Functional Expenses**

Section 501(c)(3) and 501(c)(4) organizations must complete all columns.

All other organizations must complete column (A) but are not required to complete columns (B), (C), and (D).

Do not include amounts reported on lines 6b, 7b, 8b, 9b, and 10b of Part VIII.		(A) Total expenses	(B) Program service expenses	(C) Management and general expenses	(D) Fundraising expenses
<b>1</b>	Grants and other assistance to governments and organizations in the U S See Part IV, line 21				
<b>2</b>	Grants and other assistance to individuals in the U S See Part IV, line 22				
<b>3</b>	Grants and other assistance to governments, organizations, and individuals outside the U S See Part IV, lines 15 and 16				
<b>4</b>	Benefits paid to or for members				
<b>5</b>	Compensation of current officers, directors, trustees, and key employees . . . . .				
<b>6</b>	Compensation not included above, to disqualified persons (as defined under section 4958(f)(1)) and persons described in section 4958(c)(3)(B) . . . . .				
<b>7</b>	Other salaries and wages	25,573,938	19,282,749	6,291,189	
<b>8</b>	Pension plan contributions (include section 401(k) and section 403(b) employer contributions) . . . . .	13,000	9,802	3,198	
<b>9</b>	Other employee benefits . . . . .	5,277,635	3,979,337	1,298,298	
<b>10</b>	Payroll taxes . . . . .	1,999,850	1,507,887	491,963	
<b>a</b>	Fees for services (non-employees)				
	Management . . . . .				
<b>b</b>	Legal . . . . .	147,852		147,852	
<b>c</b>	Accounting . . . . .	52,576		52,576	
<b>d</b>	Lobbying . . . . .				
<b>e</b>	Professional fundraising services See Part IV, line 17 . . . . .				
<b>f</b>	Investment management fees . . . . .				
<b>g</b>	Other . . . . .	4,772,497	3,598,463	1,174,034	
<b>12</b>	Advertising and promotion . . . . .	303,074	228,518	74,556	
<b>13</b>	Office expenses . . . . .	681,515	513,862	167,653	
<b>14</b>	Information technology . . . . .				
<b>15</b>	Royalties . . . . .				
<b>16</b>	Occupancy . . . . .	1,490,223	1,123,628	366,595	
<b>17</b>	Travel . . . . .	204,720	154,359	50,361	
<b>18</b>	Payments of travel or entertainment expenses for any federal, state, or local public officials . . . . .				
<b>19</b>	Conferences, conventions, and meetings . . . . .	7,812	5,890	1,922	
<b>20</b>	Interest . . . . .	536,518	404,535	131,983	
<b>21</b>	Payments to affiliates . . . . .				
<b>22</b>	Depreciation, depletion, and amortization . . . . .	3,505,911	2,643,457	862,454	
<b>23</b>	Insurance . . . . .	671,903	506,615	165,288	
<b>24</b>	Other expenses Itemize expenses not covered above (List miscellaneous expenses in line 24f If line 24f amount exceeds 10% of line 25, column (A) amount, list line 24f expenses on Schedule O )				
<b>a</b>	MEDICAL SUPPLIES	10,516,835	10,516,835		
<b>b</b>	PHYSICIAN FEES	4,430,503	4,430,503		
<b>c</b>	BAD DEBTS	2,879,996	2,879,996		
<b>d</b>	EQUIPMENT RENTAL & MAIN	1,196,439	902,115	294,324	
<b>e</b>	MISCELLANEOUS	740,289	558,177	182,112	
<b>f</b>	All other expenses	938,056	707,294	230,762	
<b>25</b>	<b>Total functional expenses.</b> Add lines 1 through 24f	65,941,142	53,954,022	11,987,120	0
<b>26</b>	<b>Joint costs.</b> Check here <input type="checkbox"/> if following SOP 98-2 (ASC 958-720) Complete this line only if the organization reported in column (B) joint costs from a combined educational campaign and fundraising solicitation				

**Part X Balance Sheet**

		(A)		(B)
		Beginning of year		End of year
<b>Assets</b>	<b>1</b> Cash—non-interest-bearing . . . . .		<b>1</b>	
	<b>2</b> Savings and temporary cash investments . . . . .	10,209,173	<b>2</b>	11,007,421
	<b>3</b> Pledges and grants receivable, net . . . . .		<b>3</b>	
	<b>4</b> Accounts receivable, net . . . . .	5,344,773	<b>4</b>	5,923,214
	<b>5</b> Receivables from current and former officers, directors, trustees, key employees, and highest compensated employees. Complete Part II of Schedule L . . . . .		<b>5</b>	
	<b>6</b> Receivables from other disqualified persons (as defined under section 4958(f)(1)), persons described in section 4958(c)(3)(B), and contributing employers, and sponsoring organizations of section 501(c)(9) voluntary employees' beneficiary organizations (see instructions) Schedule L . . . . .		<b>6</b>	
	<b>7</b> Notes and loans receivable, net . . . . .		<b>7</b>	146,000
	<b>8</b> Inventories for sale or use . . . . .	769,934	<b>8</b>	921,301
	<b>9</b> Prepaid expenses and deferred charges . . . . .	212,422	<b>9</b>	195,854
	<b>10a</b> Land, buildings, and equipment cost or other basis. Complete Part VI of Schedule D	85,945,570		
	<b>b</b> Less accumulated depreciation . . . . .	53,226,504	33,477,292	<b>10c</b> 32,719,066
	<b>11</b> Investments—publicly traded securities . . . . .		<b>11</b>	
	<b>12</b> Investments—other securities. See Part IV, line 11 . . . . .	18,470,838	<b>12</b>	21,043,417
	<b>13</b> Investments—program-related. See Part IV, line 11 . . . . .		<b>13</b>	
	<b>14</b> Intangible assets . . . . .		<b>14</b>	
	<b>15</b> Other assets. See Part IV, line 11 . . . . .	1,327,702	<b>15</b>	571,586
<b>16</b> <b>Total assets.</b> Add lines 1 through 15 (must equal line 34) . . . . .	69,812,134	<b>16</b>	72,527,859	
<b>Liabilities</b>	<b>17</b> Accounts payable and accrued expenses . . . . .	8,962,744	<b>17</b>	8,093,241
	<b>18</b> Grants payable . . . . .		<b>18</b>	
	<b>19</b> Deferred revenue . . . . .		<b>19</b>	
	<b>20</b> Tax-exempt bond liabilities . . . . .	17,945,583	<b>20</b>	16,486,000
	<b>21</b> Escrow or custodial account liability. Complete Part IV of Schedule D . . . . .		<b>21</b>	
	<b>22</b> Payables to current and former officers, directors, trustees, key employees, highest compensated employees, and disqualified persons. Complete Part II of Schedule L . . . . .		<b>22</b>	
	<b>23</b> Secured mortgages and notes payable to unrelated third parties . . . . .	3,387,077	<b>23</b>	3,852,907
	<b>24</b> Unsecured notes and loans payable to unrelated third parties . . . . .		<b>24</b>	
	<b>25</b> Other liabilities. Complete Part X of Schedule D . . . . .	9,950,656	<b>25</b>	8,171,372
	<b>26</b> <b>Total liabilities.</b> Add lines 17 through 25 . . . . .	40,246,060	<b>26</b>	36,603,520
<b>Net Assets or Fund Balances</b>	<b>Organizations that follow SFAS 117, check here</b> <input checked="" type="checkbox"/> <b>and complete lines 27 through 29, and lines 33 and 34.</b>			
	<b>27</b> Unrestricted net assets . . . . .	29,134,197	<b>27</b>	35,646,230
	<b>28</b> Temporarily restricted net assets . . . . .	411,877	<b>28</b>	258,109
	<b>29</b> Permanently restricted net assets . . . . .	20,000	<b>29</b>	20,000
	<b>Organizations that do not follow SFAS 117, check here</b> <input type="checkbox"/> <b>and complete lines 30 through 34.</b>			
	<b>30</b> Capital stock or trust principal, or current funds . . . . .		<b>30</b>	
	<b>31</b> Paid-in or capital surplus, or land, building or equipment fund . . . . .		<b>31</b>	
	<b>32</b> Retained earnings, endowment, accumulated income, or other funds . . . . .		<b>32</b>	
<b>33</b> Total net assets or fund balances . . . . .	29,566,074	<b>33</b>	35,924,339	
<b>34</b> Total liabilities and net assets/fund balances . . . . .	69,812,134	<b>34</b>	72,527,859	

**Part XI Reconciliation of Net Assets**

Check if Schedule O contains a response to any question in this Part XI

<b>1</b>	Total revenue (must equal Part VIII, column (A), line 12)	<b>1</b>	69,555,757
<b>2</b>	Total expenses (must equal Part IX, column (A), line 25)	<b>2</b>	65,941,142
<b>3</b>	Revenue less expenses Subtract line 2 from line 1	<b>3</b>	3,614,615
<b>4</b>	Net assets or fund balances at beginning of year (must equal Part X, line 33, column (A))	<b>4</b>	29,566,074
<b>5</b>	Other changes in net assets or fund balances (explain in Schedule O)	<b>5</b>	2,743,650
<b>6</b>	Net assets or fund balances at end of year Combine lines 3, 4, and 5 (must equal Part X, line 33, column (B))	<b>6</b>	35,924,339

**Part XII Financial Statements and Reporting**

Check if Schedule O contains a response to any question in this Part XII

		Yes	No
<b>1</b>	Accounting method used to prepare the Form 990 <input type="checkbox"/> Cash <input checked="" type="checkbox"/> Accrual <input type="checkbox"/> Other _____ If the organization changed its method of accounting from a prior year or checked "Other," explain in Schedule O		
<b>2a</b>	Were the organization's financial statements compiled or reviewed by an independent accountant?		No
<b>b</b>	Were the organization's financial statements audited by an independent accountant?	Yes	
<b>c</b>	If "Yes," to 2a or 2b, does the organization have a committee that assumes responsibility for oversight of the audit, review, or compilation of its financial statements and selection of an independent accountant? If the organization changed either its oversight process or selection process during the tax year, explain in Schedule O	Yes	
<b>d</b>	If "Yes" to line 2a or 2b, check a box below to indicate whether the financial statements for the year were issued on a separate basis, consolidated basis, or both <input type="checkbox"/> Separate basis <input checked="" type="checkbox"/> Consolidated basis <input type="checkbox"/> Both consolidated and separated basis		
<b>3a</b>	As a result of a federal award, was the organization required to undergo an audit or audits as set forth in the Single Audit Act and OMB Circular A-133?	Yes	
<b>b</b>	If "Yes," did the organization undergo the required audit or audits? If the organization did not undergo the required audit or audits, explain why in Schedule O and describe any steps taken to undergo such audits	Yes	

**SCHEDULE A**  
(Form 990 or 990EZ)

**Public Charity Status and Public Support**

OMB No 1545-0047

**2010**

**Open to Public Inspection**

Complete if the organization is a section 501(c)(3) organization or a section 4947(a)(1) nonexempt charitable trust.

▶ Attach to Form 990 or Form 990-EZ. ▶ See separate instructions.

Department of the Treasury  
Internal Revenue Service

Name of the organization  
SOMERSET COMMUNITY HOSPITAL

Employer identification number

25-0965570

**Part I Reason for Public Charity Status** (All organizations must complete this part.) See instructions

The organization is not a private foundation because it is (For lines 1 through 11, check only one box )

- 1  A church, convention of churches, or association of churches described in **section 170(b)(1)(A)(i)**.
- 2  A school described in **section 170(b)(1)(A)(ii)**. (Attach Schedule E )
- 3  A hospital or a cooperative hospital service organization described in **section 170(b)(1)(A)(iii)**.
- 4  A medical research organization operated in conjunction with a hospital described in **section 170(b)(1)(A)(iii)**. Enter the hospital's name, city, and state
  
- 5  An organization operated for the benefit of a college or university owned or operated by a governmental unit described in **section 170(b)(1)(A)(iv)**. (Complete Part II )
- 6  A federal, state, or local government or governmental unit described in **section 170(b)(1)(A)(v)**.
- 7  An organization that normally receives a substantial part of its support from a governmental unit or from the general public described in **section 170(b)(1)(A)(vi)** (Complete Part II )
- 8  A community trust described in **section 170(b)(1)(A)(vi)** (Complete Part II )
- 9  An organization that normally receives (1) more than 33 1/3% of its support from contributions, membership fees, and gross receipts from activities related to its exempt functions—subject to certain exceptions, and (2) no more than 33 1/3% of its support from gross investment income and unrelated business taxable income (less section 511 tax) from businesses acquired by the organization after June 30, 1975 See **section 509(a)(2)**. (Complete Part III )
- 10  An organization organized and operated exclusively to test for public safety See **section 509(a)(4)**.
- 11  An organization organized and operated exclusively for the benefit of, to perform the functions of, or to carry out the purposes of one or more publicly supported organizations described in section 509(a)(1) or section 509(a)(2) See **section 509(a)(3)**. Check the box that describes the type of supporting organization and complete lines 11e through 11h
  - a  Type I
  - b  Type II
  - c  Type III - Functionally integrated
  - d  Type III - Other
- e  By checking this box, I certify that the organization is not controlled directly or indirectly by one or more disqualified persons other than foundation managers and other than one or more publicly supported organizations described in section 509(a)(1) or section 509(a)(2)
- f  If the organization received a written determination from the IRS that it is a Type I, Type II or Type III supporting organization, check this box
- g Since August 17, 2006, has the organization accepted any gift or contribution from any of the following persons?
  - (i) a person who directly or indirectly controls, either alone or together with persons described in (ii) and (iii) below, the governing body of the the supported organization?
  - (ii) a family member of a person described in (i) above?
  - (iii) a 35% controlled entity of a person described in (i) or (ii) above?
- h Provide the following information about the supported organization(s)

	Yes	No
<b>11g(i)</b>		
<b>11g(ii)</b>		
<b>11g(iii)</b>		

(i) Name of supported organization	(ii) EIN	(iii) Type of organization (described on lines 1- 9 above or IRC section (see instructions))	(iv) Is the organization in col (i) listed in your governing document?		(v) Did you notify the organization in col (i) of your support?		(vi) Is the organization in col (i) organized in the U S ?		(vii) Amount of support
			Yes	No	Yes	No	Yes	No	
<b>Total</b>									

**Part II Support Schedule for Organizations Described in Sections 170(b)(1)(A)(iv) and 170(b)(1)(A)(vi)**

(Complete only if you checked the box on line 5, 7, or 8 of Part I or if the organization failed to qualify under Part III. If the organization fails to qualify under the tests listed below, please complete Part III.)

**Section A. Public Support**

Calendar year (or fiscal year beginning in) ▶	(a) 2006	(b) 2007	(c) 2008	(d) 2009	(e) 2010	(f) Total
<b>1</b> Gifts, grants, contributions, and membership fees received (Do not include any "unusual grants.")						
<b>2</b> Tax revenues levied for the organization's benefit and either paid to or expended on its behalf						
<b>3</b> The value of services or facilities furnished by a governmental unit to the organization without charge						
<b>4 Total.</b> Add lines 1 through 3						
<b>5</b> The portion of total contributions by each person (other than a governmental unit or publicly supported organization) included on line 1 that exceeds 2% of the amount shown on line 11, column (f)						
<b>6 Public Support.</b> Subtract line 5 from line 4						

**Section B. Total Support**

Calendar year (or fiscal year beginning in) ▶	(a) 2006	(b) 2007	(c) 2008	(d) 2009	(e) 2010	(f) Total
<b>7</b> Amounts from line 4						
<b>8</b> Gross income from interest, dividends, payments received on securities loans, rents, royalties and income from similar sources						
<b>9</b> Net income from unrelated business activities, whether or not the business is regularly carried on						
<b>10</b> Other income Do not include gain or loss from the sale of capital assets (Explain in Part IV )						
<b>11 Total support</b> (Add lines 7 through 10)						
<b>12</b> Gross receipts from related activities, etc (See instructions )					<b>12</b>	

**13 First Five Years** If the Form 990 is for the organization's first, second, third, fourth, or fifth tax year as a 501(c)(3) organization, check this box and **stop here** **Section C. Computation of Public Support Percentage**

<b>14</b> Public Support Percentage for 2010 (line 6 column (f) divided by line 11 column (f))	<b>14</b>	
<b>15</b> Public Support Percentage for 2009 Schedule A, Part II, line 14	<b>15</b>	

**16a 33 1/3% support test—2010.** If the organization did not check the box on line 13, and line 14 is 33 1/3% or more, check this box and **stop here.** The organization qualifies as a publicly supported organization **b 33 1/3% support test—2009.** If the organization did not check the box on line 13 or 16a, and line 15 is 33 1/3% or more, check this box and **stop here.** The organization qualifies as a publicly supported organization **17a 10%-facts-and-circumstances test—2010.** If the organization did not check a box on line 13, 16a, or 16b and line 14 is 10% or more, and if the organization meets the "facts and circumstances" test, check this box and **stop here.** Explain in Part IV how the organization meets the "facts and circumstances" test The organization qualifies as a publicly supported organization **b 10%-facts-and-circumstances test—2009.** If the organization did not check a box on line 13, 16a, 16b, or 17a and line 15 is 10% or more, and if the organization meets the "facts and circumstances" test, check this box and **stop here.** Explain in Part IV how the organization meets the "facts and circumstances" test The organization qualifies as a publicly supported organization **18 Private Foundation** If the organization did not check a box on line 13, 16a, 16b, 17a or 17b, check this box and see instructions

**Part III Support Schedule for Organizations Described in Section 509(a)(2)**

(Complete only if you checked the box on line 9 of Part I or if the organization failed to qualify under Part II. If the organization fails to qualify under the tests listed below, please complete Part II.)

**Section A. Public Support**

Calendar year (or fiscal year beginning in) 	(a) 2006	(b) 2007	(c) 2008	(d) 2009	(e) 2010	(f) Total
<b>1</b> Gifts, grants, contributions, and membership fees received (Do not include any "unusual grants.")						
<b>2</b> Gross receipts from admissions, merchandise sold or services performed, or facilities furnished in any activity that is related to the organization's tax-exempt purpose						
<b>3</b> Gross receipts from activities that are not an unrelated trade or business under section 513						
<b>4</b> Tax revenues levied for the organization's benefit and either paid to or expended on its behalf						
<b>5</b> The value of services or facilities furnished by a governmental unit to the organization without charge						
<b>6 Total.</b> Add lines 1 through 5						
<b>7a</b> Amounts included on lines 1, 2, and 3 received from disqualified persons						
<b>b</b> Amounts included on lines 2 and 3 received from other than disqualified persons that exceed the greater of \$5,000 or 1% of the amount on line 13 for the year						
<b>c</b> Add lines 7a and 7b						
<b>8 Public Support</b> (Subtract line 7c from line 6)						

**Section B. Total Support**

Calendar year (or fiscal year beginning in) 	(a) 2006	(b) 2007	(c) 2008	(d) 2009	(e) 2010	(f) Total
<b>9</b> Amounts from line 6						
<b>10a</b> Gross income from interest, dividends, payments received on securities loans, rents, royalties and income from similar sources						
<b>b</b> Unrelated business taxable income (less section 511 taxes) from businesses acquired after June 30, 1975						
<b>c</b> Add lines 10a and 10b						
<b>11</b> Net income from unrelated business activities not included in line 10b, whether or not the business is regularly carried on						
<b>12</b> Other income. Do not include gain or loss from the sale of capital assets (Explain in Part IV.)						
<b>13 Total support</b> (Add lines 9, 10c, 11 and 12)						
<b>14 First Five Years</b> If the Form 990 is for the organization's first, second, third, fourth, or fifth tax year as a section 501(c)(3) organization, check this box and <b>stop here</b> 						

**Section C. Computation of Public Support Percentage**

<b>15</b> Public Support Percentage for 2010 (line 8 column (f) divided by line 13 column (f))	<b>15</b>	
<b>16</b> Public support percentage from 2009 Schedule A, Part III, line 15	<b>16</b>	

**Section D. Computation of Investment Income Percentage**

<b>17</b> Investment income percentage for <b>2010</b> (line 10c column (f) divided by line 13 column (f))	<b>17</b>	
<b>18</b> Investment income percentage from <b>2009</b> Schedule A, Part III, line 17	<b>18</b>	
<b>19a 33 1/3% support tests—2010.</b> If the organization did not check the box on line 14, and line 15 is more than 33 1/3% and line 17 is not more than 33 1/3%, check this box and <b>stop here</b> . The organization qualifies as a publicly supported organization 		
<b>b 33 1/3% support tests—2009.</b> If the organization did not check a box on line 14 or line 19a, and line 16 is more than 33 1/3% and line 18 is not more than 33 1/3%, check this box and <b>stop here</b> . The organization qualifies as a publicly supported organization 		
<b>20 Private Foundation</b> If the organization did not check a box on line 14, 19a or 19b, check this box and see instructions 		

**Part IV** **Supplemental Information.** Supplemental Information. Complete this part to provide the explanations required by Part II, line 10; Part II, line 17a or 17b; and Part III, line 12. Also complete this part for any additional information. (See instructions).

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<b>Facts And Circumstances Test</b>
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SCHEDULE C (Form 990 or 990-EZ)

Political Campaign and Lobbying Activities

OMB No 1545-0047

For Organizations Exempt From Income Tax Under section 501(c) and section 527

2010

Open to Public Inspection

Department of the Treasury Internal Revenue Service

Complete if the organization is described below. Attach to Form 990 or Form 990-EZ. See separate instructions.

If the organization answered "Yes," to Form 990, Part IV, Line 3, or Form 990-EZ, Part V, line 46 (Political Campaign Activities), then

- Section 501(c)(3) organizations Complete Parts I-A and B Do not complete Part I-C
Section 501(c) (other than section 501(c)(3)) organizations Complete Parts I-A and C below Do not complete Part I-B
Section 527 organizations Complete Part I-A only

If the organization answered "Yes," to Form 990, Part IV, Line 4, or Form 990-EZ, Part VI, line 47 (Lobbying Activities), then

- Section 501(c)(3) organizations that have filed Form 5768 (election under section 501(h)) Complete Part II-A Do not complete Part II-B
Section 501(c)(3) organizations that have NOT filed Form 5768 (election under section 501(h)) Complete Part II-B Do not complete Part II-A

If the organization answered "Yes," to Form 990, Part IV, Line 5 (Proxy Tax) or Form 990-EZ, Part V, line 35a (Proxy Tax), then

- Section 501(c)(4), (5), or (6) organizations Complete Part III

Name of the organization SOMERSET COMMUNITY HOSPITAL

Employer identification number

25-0965570

Part I-A Complete if the organization is exempt under section 501(c) or is a section 527 organization.

- 1 Provide a description of the organization's direct and indirect political campaign activities in Part IV
2 Political expenditures \$
3 Volunteer hours

Part I-B Complete if the organization is exempt under section 501(c)(3).

- 1 Enter the amount of any excise tax incurred by the organization under section 4955 \$
2 Enter the amount of any excise tax incurred by organization managers under section 4955 \$
3 If the organization incurred a section 4955 tax, did it file Form 4720 for this year? Yes No
4a Was a correction made? Yes No
b If "Yes," describe in Part IV

Part I-C Complete if the organization is exempt under section 501(c) except section 501(c)(3).

- 1 Enter the amount directly expended by the filing organization for section 527 exempt function activities \$
2 Enter the amount of the filing organization's funds contributed to other organizations for section 527 exempt function activities \$
3 Total exempt function expenditures Add lines 1 and 2 Enter here and on Form 1120-POL, line 17b \$
4 Did the filing organization file Form 1120-POL for this year? Yes No
5 Enter the names, addresses and employer identification number (EIN) of all section 527 political organizations to which the filing organization made payments For each organization listed, enter the amount paid from the filing organization's funds Also enter the amount of political contributions received that were promptly and directly delivered to a separate political organization, such as a separate segregated fund or a political action committee (PAC) If additional space is needed, provide information in Part IV

Table with 5 columns: (a) Name, (b) Address, (c) EIN, (d) Amount paid from filing organization's funds, (e) Amount of political contributions received and promptly and directly delivered to a separate political organization.

**Part II-A Complete if the organization is exempt under section 501(c)(3) and filed Form 5768 (election under section 501(h)).**

- A** Check  if the filing organization belongs to an affiliated group
- B** Check  if the filing organization checked box A and "limited control" provisions apply

<b>Limits on Lobbying Expenditures</b> (The term "expenditures" means amounts paid or incurred.)	(a) Filing Organization's Totals	(b) Affiliated Group Totals												
<b>1a</b> Total lobbying expenditures to influence public opinion (grass roots lobbying)														
<b>b</b> Total lobbying expenditures to influence a legislative body (direct lobbying)														
<b>c</b> Total lobbying expenditures (add lines 1a and 1b)														
<b>d</b> Other exempt purpose expenditures														
<b>e</b> Total exempt purpose expenditures (add lines 1c and 1d)														
<b>f</b> Lobbying nontaxable amount Enter the amount from the following table in both columns														
<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 50%; text-align: left;">If the amount on line 1e, column (a) or (b) is:</th> <th style="width: 50%; text-align: left;">The lobbying nontaxable amount is:</th> </tr> </thead> <tbody> <tr> <td>Not over \$500,000</td> <td>20% of the amount on line 1e</td> </tr> <tr> <td>Over \$500,000 but not over \$1,000,000</td> <td>\$100,000 plus 15% of the excess over \$500,000</td> </tr> <tr> <td>Over \$1,000,000 but not over \$1,500,000</td> <td>\$175,000 plus 10% of the excess over \$1,000,000</td> </tr> <tr> <td>Over \$1,500,000 but not over \$17,000,000</td> <td>\$225,000 plus 5% of the excess over \$1,500,000</td> </tr> <tr> <td>Over \$17,000,000</td> <td>\$1,000,000</td> </tr> </tbody> </table>	If the amount on line 1e, column (a) or (b) is:	The lobbying nontaxable amount is:	Not over \$500,000	20% of the amount on line 1e	Over \$500,000 but not over \$1,000,000	\$100,000 plus 15% of the excess over \$500,000	Over \$1,000,000 but not over \$1,500,000	\$175,000 plus 10% of the excess over \$1,000,000	Over \$1,500,000 but not over \$17,000,000	\$225,000 plus 5% of the excess over \$1,500,000	Over \$17,000,000	\$1,000,000		
If the amount on line 1e, column (a) or (b) is:	The lobbying nontaxable amount is:													
Not over \$500,000	20% of the amount on line 1e													
Over \$500,000 but not over \$1,000,000	\$100,000 plus 15% of the excess over \$500,000													
Over \$1,000,000 but not over \$1,500,000	\$175,000 plus 10% of the excess over \$1,000,000													
Over \$1,500,000 but not over \$17,000,000	\$225,000 plus 5% of the excess over \$1,500,000													
Over \$17,000,000	\$1,000,000													
<b>g</b> Grassroots nontaxable amount (enter 25% of line 1f)														
<b>h</b> Subtract line 1g from line 1a If zero or less, enter -0-														
<b>i</b> Subtract line 1f from line 1c If zero or less, enter -0-														
<b>j</b> If there is an amount other than zero on either line 1h or line 1i, did the organization file Form 4720 reporting section 4911 tax for this year?		<input type="checkbox"/> Yes <input type="checkbox"/> No												

**4-Year Averaging Period Under Section 501(h)**  
(Some organizations that made a section 501(h) election do not have to complete all of the five columns below. See the instructions for lines 2a through 2f on page 4.)

<b>Lobbying Expenditures During 4-Year Averaging Period</b>					
Calendar year (or fiscal year beginning in)	(a) 2007	(b) 2008	(c) 2009	(d) 2010	(e) Total
<b>2a</b> Lobbying non-taxable amount					
<b>b</b> Lobbying ceiling amount (150% of line 2a, column(e))					
<b>c</b> Total lobbying expenditures					
<b>d</b> Grassroots non-taxable amount					
<b>e</b> Grassroots ceiling amount (150% of line 2d, column (e))					
<b>f</b> Grassroots lobbying expenditures					

**Part II-B Complete if the organization is exempt under section 501(c)(3) and has NOT filed Form 5768 (election under section 501(h)).**

	(a)		(b)
	Yes	No	Amount
<b>1</b> During the year, did the filing organization attempt to influence foreign, national, state or local legislation, including any attempt to influence public opinion on a legislative matter or referendum, through the use of			
<b>a</b> Volunteers?		No	
<b>b</b> Paid staff or management (include compensation in expenses reported on lines 1c through 1i)?		No	
<b>c</b> Media advertisements?		No	
<b>d</b> Mailings to members, legislators, or the public?		No	
<b>e</b> Publications, or published or broadcast statements?		No	
<b>f</b> Grants to other organizations for lobbying purposes?		No	
<b>g</b> Direct contact with legislators, their staffs, government officials, or a legislative body?	Yes		79,951
<b>h</b> Rallies, demonstrations, seminars, conventions, speeches, lectures, or any similar means?		No	
<b>i</b> Other activities? If "Yes," describe in Part IV	Yes		14,387
<b>j</b> Total lines 1c through 1i			94,338
<b>2a</b> Did the activities in line 1 cause the organization to be not described in section 501(c)(3)?		No	
<b>b</b> If "Yes," enter the amount of any tax incurred under section 4912			
<b>c</b> If "Yes," enter the amount of any tax incurred by organization managers under section 4912			
<b>d</b> If the filing organization incurred a section 4912 tax, did it file Form 4720 for this year?			

**Part III-A Complete if the organization is exempt under section 501(c)(4), section 501(c)(5), or section 501(c)(6).**

	Yes	No
<b>1</b> Were substantially all (90% or more) dues received nondeductible by members?	<b>1</b>	
<b>2</b> Did the organization make only in-house lobbying expenditures of \$2,000 or less?	<b>2</b>	
<b>3</b> Did the organization agree to carryover lobbying and political expenditures from the prior year?	<b>3</b>	

**Part III-B Complete if the organization is exempt under section 501(c)(4), section 501(c)(5), or section 501(c)(6) if BOTH Part III-A, lines 1 and 2 are answered "No" OR if Part III-A, line 3 is answered "Yes".**

<b>1</b> Dues, assessments and similar amounts from members	<b>1</b>	
<b>2</b> Section 162(e) non-deductible lobbying and political expenditures ( <b>do not include amounts of political expenses for which the section 527(f) tax was paid</b> ).		
<b>a</b> Current year	<b>2a</b>	
<b>b</b> Carryover from last year	<b>2b</b>	
<b>c</b> Total	<b>2c</b>	
<b>3</b> Aggregate amount reported in section 6033(e)(1)(A) notices of nondeductible section 162(e) dues	<b>3</b>	
<b>4</b> If notices were sent and the amount on line 2c exceeds the amount on line 3, what portion of the excess does the organization agree to carryover to the reasonable estimate of nondeductible lobbying and political expenditure next year?	<b>4</b>	
<b>5</b> Taxable amount of lobbying and political expenditures (see instructions)	<b>5</b>	

**Part IV Supplemental Information**

Complete this part to provide the descriptions required for Part I-A, line 1, Part I-B, line 4, Part I-C, line 5, and Part II-B, line 1i. Also, complete this part for any additional information.

Identifier	Return Reference	Explanation
EXPLANATION OF OTHER LOBBYING ACTIVITIES	PART II-B, LINE 1I	A PORTION OF SOMERSET COMMUNITY HOSPITAL'S DUES TO THE HOSPITAL & HEALTHSYSTEM ASSOCIATION OF PENNSYLVANIA (HAP), HOSPITAL COUNCIL, AND OTHER HEALTHCARE ASSOCIATIONS ARE USED FOR LOBBYING PART II-B, LINE 1(G), DIRECT CONTACT WITH LEGISLATORS, THEIR STAFFS, GOVERNMENT OFFICIALS, OR A LEGISLATIVE BODY SOMERSET COMMUNITY HOSPITAL CONTACTS VARIOUS LEGISLATORS AND GOVERNMENT OFFICIALS TO FURTHER HEALTH CARE INITIATIVES IN THE COMMUNITIES IT SERVES

SCHEDULE D (Form 990)

OMB No 1545-0047

Supplemental Financial Statements

2010

Open to Public Inspection

Complete if the organization answered "Yes," to Form 990, Part IV, line 6, 7, 8, 9, 10, 11, or 12. Attach to Form 990. See separate instructions.

Department of the Treasury Internal Revenue Service

Name of the organization SOMERSET COMMUNITY HOSPITAL

Employer identification number 25-0965570

Part I Organizations Maintaining Donor Advised Funds or Other Similar Funds or Accounts. Complete if the organization answered "Yes" to Form 990, Part IV, line 6.

Table with 2 columns: (a) Donor advised funds, (b) Funds and other accounts. Rows 1-4: Total number at end of year, Aggregate contributions to (during year), Aggregate grants from (during year), Aggregate value at end of year.

- 5 Did the organization inform all donors and donor advisors in writing that the assets held in donor advised funds are the organization's property, subject to the organization's exclusive legal control?
6 Did the organization inform all grantees, donors, and donor advisors in writing that grant funds may be used only for charitable purposes and not for the benefit of the donor or donor advisor, or for any other purpose conferring impermissible private benefit?

Part II Conservation Easements. Complete if the organization answered "Yes" to Form 990, Part IV, line 7.

- 1 Purpose(s) of conservation easements held by the organization (check all that apply): Preservation of land for public use, Protection of natural habitat, Preservation of open space, Preservation of an historically important land area, Preservation of a certified historic structure.

2 Complete lines 2a-2d if the organization held a qualified conservation contribution in the form of a conservation easement on the last day of the tax year

Table with 2 columns: Description, Held at the End of the Year. Rows 2a-2d: Total number of conservation easements, Total acreage restricted by conservation easements, Number of conservation easements on a certified historic structure included in (a), Number of conservation easements included in (c) acquired after 8/17/06.

- 3 Number of conservation easements modified, transferred, released, extinguished, or terminated by the organization during the taxable year
4 Number of states where property subject to conservation easement is located
5 Does the organization have a written policy regarding the periodic monitoring, inspection, handling of violations, and enforcement of the conservation easements it holds?
6 Staff and volunteer hours devoted to monitoring, inspecting and enforcing conservation easements during the year
7 Amount of expenses incurred in monitoring, inspecting, and enforcing conservation easements during the year
8 Does each conservation easement reported on line 2(d) above satisfy the requirements of section 170(h)(4)(B)(i) and 170(h)(4)(B)(ii)?
9 In Part XIV, describe how the organization reports conservation easements in its revenue and expense statement, and balance sheet, and include, if applicable, the text of the footnote to the organization's financial statements that describes the organization's accounting for conservation easements

Part III Organizations Maintaining Collections of Art, Historical Treasures, or Other Similar Assets. Complete if the organization answered "Yes" to Form 990, Part IV, line 8.

- 1a If the organization elected, as permitted under SFAS 116, not to report in its revenue statement and balance sheet works of art, historical treasures, or other similar assets held for public exhibition, education or research in furtherance of public service, provide, in Part XIV, the text of the footnote to its financial statements that describes these items
b If the organization elected, as permitted under SFAS 116, to report in its revenue statement and balance sheet works of art, historical treasures, or other similar assets held for public exhibition, education, or research in furtherance of public service, provide the following amounts relating to these items: (i) Revenues included in Form 990, Part VIII, line 1; (ii) Assets included in Form 990, Part X
2 If the organization received or held works of art, historical treasures, or other similar assets for financial gain, provide the following amounts required to be reported under SFAS 116 relating to these items: a Revenues included in Form 990, Part VIII, line 1; b Assets included in Form 990, Part X

**Part III Organizations Maintaining Collections of Art, Historical Treasures, or Other Similar Assets** *(continued)*

**3** Using the organization's accession and other records, check any of the following that are a significant use of its collection items (check all that apply)

- a**  Public exhibition
- b**  Scholarly research
- c**  Preservation for future generations
- d**  Loan or exchange programs
- e**  Other

**4** Provide a description of the organization's collections and explain how they further the organization's exempt purpose in Part XIV

**5** During the year, did the organization solicit or receive donations of art, historical treasures or other similar assets to be sold to raise funds rather than to be maintained as part of the organization's collection?  Yes  No

**Part IV Escrow and Custodial Arrangements.** Complete if the organization answered "Yes" to Form 990, Part IV, line 9, or reported an amount on Form 990, Part X, line 21.

**1a** Is the organization an agent, trustee, custodian or other intermediary for contributions or other assets not included on Form 990, Part X?  Yes  No

**b** If "Yes," explain the arrangement in Part XIV and complete the following table

	Amount
<b>1c</b> Beginning balance	
<b>1d</b> Additions during the year	
<b>1e</b> Distributions during the year	
<b>1f</b> Ending balance	

**2a** Did the organization include an amount on Form 990, Part X, line 21?  Yes  No

**b** If "Yes," explain the arrangement in Part XIV

**Part V Endowment Funds.** Complete if the organization answered "Yes" to Form 990, Part IV, line 10.

	(a) Current Year	(b) Prior Year	(c) Two Years Back	(d) Three Years Back	(e) Four Years Back
<b>1a</b> Beginning of year balance . . . . .					
<b>b</b> Contributions . . . . .					
<b>c</b> Investment earnings or losses . . . . .					
<b>d</b> Grants or scholarships . . . . .					
<b>e</b> Other expenditures for facilities and programs . . . . .					
<b>f</b> Administrative expenses . . . . .					
<b>g</b> End of year balance . . . . .					

**2** Provide the estimated percentage of the year end balance held as

- a** Board designated or quasi-endowment
- b** Permanent endowment
- c** Term endowment

**3a** Are there endowment funds not in the possession of the organization that are held and administered for the organization by

	Yes	No
<b>(i)</b> unrelated organizations . . . . .	<b>3a(i)</b>	
<b>(ii)</b> related organizations . . . . .	<b>3a(ii)</b>	
<b>b</b> If "Yes" to 3a(ii), are the related organizations listed as required on Schedule R? . . . . .	<b>3b</b>	

**4** Describe in Part XIV the intended uses of the organization's endowment funds

**Part VI Investments—Land, Buildings, and Equipment.** See Form 990, Part X, line 10.

Description of investment	(a) Cost or other basis (investment)	(b) Cost or other basis (other)	(c) Accumulated depreciation	(d) Book value
<b>1a</b> Land . . . . .		3,174,956		3,174,956
<b>b</b> Buildings . . . . .		45,679,385	23,978,109	21,701,276
<b>c</b> Leasehold improvements . . . . .				
<b>d</b> Equipment . . . . .		35,830,624	28,829,135	7,001,489
<b>e</b> Other . . . . .		1,260,605	419,260	841,345
<b>Total.</b> Add lines 1a-1e (Column (d) should equal Form 990, Part X, column (B), line 10(c).)				32,719,066



**Part XI Reconciliation of Change in Net Assets from Form 990 to Financial Statements**

<b>1</b>	Total revenue (Form 990, Part VIII, column (A), line 12)	<b>1</b>	69,555,757
<b>2</b>	Total expenses (Form 990, Part IX, column (A), line 25)	<b>2</b>	65,941,142
<b>3</b>	Excess or (deficit) for the year Subtract line 2 from line 1	<b>3</b>	3,614,615
<b>4</b>	Net unrealized gains (losses) on investments	<b>4</b>	1,664,631
<b>5</b>	Donated services and use of facilities	<b>5</b>	
<b>6</b>	Investment expenses	<b>6</b>	
<b>7</b>	Prior period adjustments	<b>7</b>	
<b>8</b>	Other (Describe in Part XIV)	<b>8</b>	1,079,019
<b>9</b>	Total adjustments (net) Add lines 4 - 8	<b>9</b>	2,743,650
<b>10</b>	Excess or (deficit) for the year per financial statements Combine lines 3 and 9	<b>10</b>	6,358,265

**Part XII Reconciliation of Revenue per Audited Financial Statements With Revenue per Return**

<b>1</b>	Total revenue, gains, and other support per audited financial statements . . . . .	<b>1</b>	
<b>2</b>	Amounts included on line 1 but not on Form 990, Part VIII, line 12		
<b>a</b>	Net unrealized gains on investments . . . . .	<b>2a</b>	
<b>b</b>	Donated services and use of facilities . . . . .	<b>2b</b>	
<b>c</b>	Recoveries of prior year grants . . . . .	<b>2c</b>	
<b>d</b>	Other (Describe in Part XIV) . . . . .	<b>2d</b>	
<b>e</b>	Add lines <b>2a</b> through <b>2d</b> . . . . .	<b>2e</b>	
<b>3</b>	Subtract line <b>2e</b> from line <b>1</b> . . . . .	<b>3</b>	
<b>4</b>	Amounts included on Form 990, Part VIII, line 12, but not on line <b>1</b>		
<b>a</b>	Investment expenses not included on Form 990, Part VIII, line 7b . . . . .	<b>4a</b>	
<b>b</b>	Other (Describe in Part XIV) . . . . .	<b>4b</b>	
<b>c</b>	Add lines <b>4a</b> and <b>4b</b> . . . . .	<b>4c</b>	
<b>5</b>	Total Revenue Add lines <b>3</b> and <b>4c</b> . (This should equal Form 990, Part I, line 12 ) . . . . .	<b>5</b>	

**Part XIII Reconciliation of Expenses per Audited Financial Statements With Expenses per Return**

<b>1</b>	Total expenses and losses per audited financial statements . . . . .	<b>1</b>	
<b>2</b>	Amounts included on line 1 but not on Form 990, Part IX, line 25		
<b>a</b>	Donated services and use of facilities . . . . .	<b>2a</b>	
<b>b</b>	Prior year adjustments . . . . .	<b>2b</b>	
<b>c</b>	Other losses . . . . .	<b>2c</b>	
<b>d</b>	Other (Describe in Part XIV) . . . . .	<b>2d</b>	
<b>e</b>	Add lines <b>2a</b> through <b>2d</b> . . . . .	<b>2e</b>	
<b>3</b>	Subtract line <b>2e</b> from line <b>1</b> . . . . .	<b>3</b>	
<b>4</b>	Amounts included on Form 990, Part IX, line 25, but not on line <b>1</b> :		
<b>a</b>	Investment expenses not included on Form 990, Part VIII, line 7b . . . . .	<b>4a</b>	
<b>b</b>	Other (Describe in Part XIV) . . . . .	<b>4b</b>	
<b>c</b>	Add lines <b>4a</b> and <b>4b</b> . . . . .	<b>4c</b>	
<b>5</b>	Total expenses Add lines <b>3</b> and <b>4c</b> . (This should equal Form 990, Part I, line 18 ) . . . . .	<b>5</b>	

**Part XIV Supplemental Information**

Complete this part to provide the descriptions required for Part II, lines 3, 5, and 9, Part III, lines 1a and 4, Part IV, lines 1b and 2b, Part V, line 4, Part X, Part XI, line 8, Part XII, lines 2d and 4b, and Part XIII, lines 2d and 4b Also complete this part to provide any additional information

Identifier	Return Reference	Explanation
PART XI, LINE 8 - OTHER ADJUSTMENTS		NET ASSETS RELEASED FROM RESTRICTIONS 3,617 CHANGE IN FAIR VALUE OF INTEREST RATE SWAP -69,287 CHANGE IN DEFINED BENEFIT PENSION COSTS 2,579,560 TRANSFERS TO AFFILIATES -1,831,486 TEMPORARILY RESTRICTED INVESTMENT INCOME 6,562 TEMPORARILY RESTRICTED CONTRIBUTIONS 390,053

SCHEDULE G (Form 990 or 990-EZ)

Supplemental Information Regarding Fundraising or Gaming Activities

OMB No 1545-0047

2010

Open to Public Inspection

Complete if the organization answered "Yes" to Form 990, Part IV, lines 17, 18, or 19, or if the organization entered more than \$15,000 on Form 990-EZ, line 6a. Attach to Form 990 or Form 990-EZ. See separate instructions.

Department of the Treasury Internal Revenue Service

Name of the organization SOMERSET COMMUNITY HOSPITAL

Employer identification number 25-0965570

Part I Fundraising Activities. Complete if the organization answered "Yes" to Form 990, Part IV, line 17.

1 Indicate whether the organization raised funds through any of the following activities. Check all that apply.

- a Mail solicitations, b Internet and e-mail solicitations, c Phone solicitations, d In-person solicitations, e Solicitation of non-government grants, f Solicitation of government grants, g Special fundraising events

2a Did the organization have a written or oral agreement with any individual... Yes No

b If "Yes," list the ten highest paid individuals or entities (fundraisers) pursuant to agreements...

Table with 6 columns: (i) Name and address of individual or entity (fundraiser), (ii) Activity, (iii) Did fundraiser have custody or control of contributions?, (iv) Gross receipts from activity, (v) Amount paid to (or retained by) fundraiser listed in col (i), (vi) Amount paid to (or retained by) organization. Includes a Total row at the bottom.

3 List all states in which the organization is registered or licensed to solicit funds or has been notified it is exempt from registration or licensing

**Part II Fundraising Events.** Complete if the organization answered "Yes" to Form 990, Part IV, line 18, or reported more than \$15,000 on Form 990-EZ, line 6a. List events with gross receipts greater than \$5,000.

		(a) Event #1	(b) Event #2	(c) Other Events	(d) Total Events
		<b>GOLF OUTING</b> (event type)	(event type)	(total number)	(Add col (a) through col (c))
<b>Revenue</b>	<b>1</b> Gross receipts . . . . .	78,155			78,155
	<b>2</b> Less Charitable contributions . . . . .	19,440			19,440
	<b>3</b> Gross income (line 1 minus line 2) . . . . .	58,715			58,715
<b>Direct Expenses</b>	<b>4</b> Cash prizes . . . . .	2,000			2,000
	<b>5</b> Non-cash prizes . . . . .				
	<b>6</b> Rent/facility costs . . . . .				
	<b>7</b> Food and beverages . . . . .	13,309			13,309
	<b>8</b> Entertainment . . . . .	540			540
	<b>9</b> Other direct expenses . . . . .	12,439			12,439
	<b>10</b> Direct expense summary Add lines 4 through 9 in column (d) . . . . . ▶				28,288
<b>11</b> Net income summary Combine lines 3 and 10 in column (d) . . . . . ▶				30,427	

**Part III Gaming.** Complete if the organization answered "Yes" to Form 990, Part IV, line 19, or reported more than \$15,000 on Form 990-EZ, line 6a.

		(a) Bingo	(b) Pull tabs/Instant bingo/progressive bingo	(c) Other gaming	(d) Total gaming
					(Add col (a) through col (c))
<b>Revenue</b>	<b>1</b> Gross revenue . . . . .				
<b>Direct Expenses</b>	<b>2</b> Cash prizes . . . . .				
	<b>3</b> Non-cash prizes . . . . .				
	<b>4</b> Rent/facility costs . . . . .				
	<b>5</b> Other direct expenses . . . . .				
<b>6</b> Volunteer labor . . . . .	<input type="checkbox"/> Yes % <input type="checkbox"/> No	<input type="checkbox"/> Yes % <input type="checkbox"/> No	<input type="checkbox"/> Yes % <input type="checkbox"/> No		
<b>7</b> Direct expense summary Add lines 2 through 5 in column (d) . . . . . ▶					
<b>8</b> Net gaming income summary Combine lines 1 and 7 in column (d) . . . . . ▶					

**9** Enter the state(s) in which the organization operates gaming activities \_\_\_\_\_

**a** Is the organization licensed to operate gaming activities in each of these states? . . . . .  Yes  No

**b** If "No," Explain \_\_\_\_\_

**10a** Were any of the organization's gaming licenses revoked, suspended or terminated during the tax year? . . . . .  Yes  No

**b** If "Yes," Explain \_\_\_\_\_

- 11** Does the organization operate gaming activities with nonmembers? . . . . .  Yes  No
- 12** Is the organization a grantor, beneficiary or trustee of a trust or a member of a partnership or other entity formed to administer charitable gaming? . . . . .  Yes  No

**13** Indicate the percentage of gaming activity operated in

<b>a</b> The organization's facility . . . . .	<b>13a</b>
<b>b</b> An outside facility . . . . .	<b>13b</b>

**14** Provide the name and address of the person who prepares the organization's gaming/special events books and records

Name ▶

Address ▶

**15a** Does the organization have a contract with a third party from whom the organization receives gaming revenue? . . . . .  Yes  No

**b** If "Yes," enter the amount of gaming revenue received by the organization ▶ \$ \_\_\_\_\_ and the amount of gaming revenue retained by the third party ▶ \$ \_\_\_\_\_

**c** If "Yes," enter name and address

Name ▶

Address ▶

**16** Gaming manager information

Name ▶

Gaming manager compensation ▶ \$ \_\_\_\_\_

Description of services provided ▶ \_\_\_\_\_

- Director/officer                       Employee                       Independent contractor

**17** Mandatory distributions

**a** Is the organization required under state law to make charitable distributions from the gaming proceeds to retain the state gaming license? . . . . .  Yes  No

**b** Enter the amount of distributions required under state law distributed to other exempt organizations or spent in the organization's own exempt activities during the tax year ▶ \$ \_\_\_\_\_

**Part IV** Complete this part to provide additional information for responses to question on Schedule G (see instructions.)

Identifier	ReturnReference	Explanation
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SCHEDULE H (Form 990)

Hospitals

OMB No 1545-0047

2010

Open to Public Inspection

Complete if the organization answered "Yes" to Form 990, Part IV, question 20. Attach to Form 990. See separate instructions.

Department of the Treasury Internal Revenue Service

Name of the organization SOMERSET COMMUNITY HOSPITAL

Employer identification number 25-0965570

Part I Financial Assistance and Certain Other Community Benefits at Cost

1a Did the organization have a financial assistance policy during the tax year? 1b If "Yes," is it a written policy? 2 If the organization has multiple hospitals, indicate which of the following best describes application of the financial assistance policy... 3a Does the organization use Federal Poverty Guidelines (FPG) to determine eligibility for providing free care to low income individuals? 3b Does the organization use FPG to determine eligibility for providing discounted care to low income individuals? 4 Did the organization's financial assistance policy that applied to the largest number of its patients during the tax year provide for free or discounted care to the "medically indigent"? 5a Did the organization budget amounts for free or discounted care provided under its financial assistance policy during the tax year? 5b If "Yes," did the organization's financial assistance expenses exceed the budgeted amount? 5c If "Yes" to line 5b, as a result of budget considerations, was the organization unable to provide free or discounted care to a patient who was eligible for free or discounted care? 6a Does the organization prepare a community benefit report during the tax year? 6b If "Yes," did the organization make it available to the public? Complete the following table using the worksheets provided in the Schedule H instructions. Do not submit these worksheets with the Schedule H

7 Financial Assistance and Certain Other Community Benefits at Cost

Table with 6 columns: (a) Number of activities or programs (optional), (b) Persons served (optional), (c) Total community benefit expense, (d) Direct offsetting revenue, (e) Net community benefit expense, (f) Percent of total expense. Rows include Financial Assistance and Means-Tested Government Programs (a-j) and Other Benefits (e-k).

**Part II Community Building Activities** during the tax year, and describe in Part VI how its community building activities during the tax year, and describe in Part VI how its community building activities promoted the health of the communities it serves.

	(a) Number of activities or programs (optional)	(b) Persons served (optional)	(c) Total community building expense	(d) Direct offsetting revenue	(e) Net community building expense	(f) Percent of total expense
<b>1</b> Physical improvements and housing						
<b>2</b> Economic development			3,869		3,869	0.010 %
<b>3</b> Community support						
<b>4</b> Environmental improvements			159,246		159,246	0.250 %
<b>5</b> Leadership development and training for community members						
<b>6</b> Coalition building						
<b>7</b> Community health improvement advocacy						
<b>8</b> Workforce development						
<b>9</b> Other						
<b>10 Total</b>			163,115		163,115	0.260 %

**Part III Bad Debt, Medicare, & Collection Practices**

**Section A. Bad Debt Expense**

		Yes	No
<b>1</b> Did the organization report bad debt expense in accordance with Healthcare Financial Management Association Statement No. 15?	<b>1</b>		No
<b>2</b> Enter the amount of the organization's bad debt expense (at cost)	<b>2</b>		
			998,783
<b>3</b> Enter the estimated amount of the organization's bad debt expense (at cost) attributable to patients eligible under the organization's financial assistance policy	<b>3</b>		
			748,415
<b>4</b> Provide in Part VI the text of the footnote to the organization's financial statements that describes bad debt expense. In addition, describe the costing methodology used in determining the amounts reported on lines 2 and 3, and rationale for including a portion of bad debt amounts as community benefit			

**Section B. Medicare**

<b>5</b> Enter total revenue received from Medicare (including DSH and IME)	<b>5</b>		13,061,523
<b>6</b> Enter Medicare allowable costs of care relating to payments on line 5	<b>6</b>		12,909,830
<b>7</b> Subtract line 6 from line 5. This is the surplus or (shortfall)	<b>7</b>		151,693
<b>8</b> Describe in Part VI the extent to which any shortfall reported in line 7 should be treated as community benefit. Also describe in Part VI the costing methodology or source used to determine the amount reported on line 6. Check the box that describes the method used.			
<input type="checkbox"/> Cost accounting system	<input checked="" type="checkbox"/> Cost to charge ratio	<input type="checkbox"/> Other	

**Section C. Collection Practices**

<b>9a</b> Does the organization have a written debt collection policy?	<b>9a</b>	Yes	
<b>b</b> If "Yes," does the organization's collection policy contain provisions on the collection practices to be followed for patients who are known to qualify for charity care or financial assistance? Describe in Part VI	<b>9b</b>	Yes	

**Part IV Management Companies and Joint Ventures**

(a) Name of entity	(b) Description of primary activity of entity	(c) Organization's profit % or stock ownership %	(d) Officers, directors, trustees, or key employees' profit % or stock ownership%	(e) Physicians' profit % or stock ownership %
<b>1</b>				
<b>2</b>				
<b>3</b>				
<b>4</b>				
<b>5</b>				
<b>6</b>				
<b>7</b>				
<b>8</b>				
<b>9</b>				
<b>10</b>				
<b>11</b>				
<b>12</b>				
<b>13</b>				

**Part V Facility Information**

**Section A. Hospital Facilities**

(list in order of size, measured by total revenue per facility, from largest to smallest)

How many hospital facilities did the organization operate during the tax year? 1

Name and address

		Licensed hospital	General medical & surgical	Children's hospital	Teaching hospital	Critical access hospital	Research facility	ER-24 hours	ER-other	Other (Describe)
1	SOMERSET COMMUNITY HOSPITAL 225 SOUTH CENTER AVENUE SOMERSET, PA 15501	X	X					X		

**Section C. Other Facilities That Are Not Licensed, Registered, or Similarly Recognized as a Hospital Facility**

(list in order of size, measured by total revenue per facility, from largest to smallest)

How many non-hospital facilities did the organization operate during the tax year? 1

Name and address	Type of Facility (Describe)
<b>1</b> THE WHEELER CENTER 126 EAST CHURCH STREET SOMERSET, PA 15501	OUTPATIENT REHABILITATION
<b>2</b>	
<b>3</b>	
<b>4</b>	
<b>5</b>	
<b>6</b>	
<b>7</b>	
<b>8</b>	
<b>9</b>	
<b>10</b>	

**Part VI Supplemental Information**

Complete this part to provide the following information

- 1 **Required descriptions.** Provide the description required for Part I, lines 3c, 6a, and 7, Part II, Part III, lines 4, 8, and 9b, and Part V, Section B, lines 1j, 3, 4, 5c, 6i, 7, 11h, 13g, 15e, 16e, 17e, 18d, 19d, 20, and 21
- 2 **Needs assessment.** Describe how the organization assesses the health care needs of the communities it serves, in addition to any needs assessments reported in Part V, Section B
- 3 **Patient education of eligibility for assistance.** Describe how the organization informs and educates patients and persons who may be billed for patient care about their eligibility for assistance under federal, state, or local government programs or under the organization's financial assistance policy
- 4 **Community information.** Describe the community the organization serves, taking into account the geographic area and demographic constituents it serves
- 5 **Promotion of community health.** Provide any other information important to describing how the organization's hospital facilities or other health care facilities further its exempt purpose by promoting the health of the community (e g , open medical staff, community board, use of surplus funds, etc )
- 6 **Affiliated health care system.** If the organization is part of an affiliated health care system, describe the respective roles of the organization and its affiliates in promoting the health of the communities served
- 7 **State filing of community benefit report.** If applicable, identify all states with which the organization, or a related organization, files a community benefit report

Identifier	ReturnReference	Explanation
		PART I, LINE 7 A COST-TO-CHARGE RATIO CALCULATED FROM WORKSHEET 2, RATIO OF PATIENT CARE COSTS-TO-CHARGES IS THE COSTING METHODOLOGY USED TO DETERMINE THE AMOUNTS REPORTED ON PART I, LINE 7

Identifier	ReturnReference	Explanation
		PART I, L7 COL(F) THE BAD DEBT EXPENSE OF 2,879,996 INCLUDED ON FORM 990, PART IX, LINE 25, COLUMN A WAS SUBTRACTED FOR PURPOSES OF CALCULATING THE PERCENTAGE OF TOTAL EXPENSES

Identifier	ReturnReference	Explanation
		PART II THE ORGANIZATION CLEANED UP AREAS SURROUNDING THE HOSPITAL WHICH INCLUDED A COMMUNITY PARK AND OTHER IMPROVEMENTS THAT ENCOURAGE PHYSICAL ACTIVITY

Identifier	ReturnReference	Explanation
		PART III, LINE 4 THE PROVISION FOR BAD DEBTS IS BASED UPON MANAGEMENT'S ASSESSMENT OF HISTORICAL AND EXPECTED NET COLLECTIONS CONSIDERING BUSINESS AND ECONOMIC CONDITIONS, TRENDS IN HEALTH CARE COVERAGE, AND OTHER COLLECTION INDICATORS PERIODICALLY THROUGHOUT THE YEAR, MANAGEMENT ASSESSES THE ADEQUACY OF THE ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS BASED UPON HISTORICAL WRITE-OFF EXPERIENCE BY PAYOR THE RESULTS OF THIS REVIEW ARE THEN USED TO MAKE MODIFICATIONS TO THE PROVISION FOR BAD DEBTS TO ESTABLISH AN APPROPRIATE ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS

Identifier	ReturnReference	Explanation
		PART III, LINE 9B SOMERSET HOSPITAL GENERALLY DESIGNATES SERVICES AS "CHARITY CARE" BASED ON AN INDIVIDUAL'S ABILITY TO PAY SOMERSET HOSPITAL OFFERS PAYMENT PLANS AND ASSISTS INDIVIDUALS IN APPLYING FOR THE STATE'S MEDICAL ASSISTANCE PROGRAM

Identifier	ReturnReference	Explanation
		PART I, LINE 7B UNREIMBURSED MEDICAID DECREASED THIS YEAR DUE TO APPROXIMATELY \$1.7 MILLION RECEIVED FROM THE MEDICAID MODERNIZATION PROGRAM. IF THESE PAYMENTS WERE NOT RECEIVED, THE MEDICAID SHORTFALL WOULD HAVE BEEN APPROXIMATELY 4.7% OF TOTAL EXPENSE.

Identifier	ReturnReference	Explanation
		PART VI, LINE 2 SOMERSET HOSPITAL DOES NOT CURRENTLY HAVE A FORMALIZED METHOD TO ASSESS THE COMMUNITY FOR ITS HEALTH NEEDS WE CURRENTLY USE INTERNAL AND EXTERNAL MARKET STUDIES TO ESTABLISH PATTERNS OF UTILIZATION OF SERVICES SOMERSET COMMUNITY HOSPITAL IS CURRENTLY LAUNCHING A MORE FORMALIZED PROCESS TO ASSESS OUR COMMUNITY NEEDS

Identifier	ReturnReference	Explanation
		PART VI, LINE 3 THROUGH SIGNAGE POSTED IN THE HOSPITAL'S INFORMATION CENTER, ADMISSIONS DEPARTMENT, EMERGENCY ROOM AND CREDIT OFFICE, THE PUBLIC IS PROVIDED WITH THE ORGANIZATION'S POLICY OF PROVIDING CARE REGARDLESS OF ABILITY TO PAY ADDITIONALLY, PUBLIC NOTICES ADVERTISED IN THE DAILY AMERICAN, TRIBUNE DEMOCRAT AND MEYERSDALE REPUBLIC CALL ATTENTION TO THE HOSPITAL'S OPEN ADMISSIONS POLICY SOMERSET HOSPITAL GENERALLY DESIGNATES SERVICES AS "CHARITY CARE" AFTER BILLING BASED ON AN INDIVIDUAL'S ABILITY TO PAY, SOMERSET HOSPITAL OFFERS PAYMENT PLANS AND ASSISTS INDIVIDUALS IN APPLYING FOR THE STATE'S MEDICAL ASSISTANCE PROGRAM SELF-PAY PATIENTS ARE REQUESTED TO PROVIDE PARTIAL PRE-PAYMENT FOR SERVICES RENDERED BY THE HOSPITAL HOWEVER, SERVICES BY SOMERSET HOSPITAL ARE PROVIDED WITHOUT REGARD TO AN INDIVIDUAL'S ABILITY TO PAY

Identifier	ReturnReference	Explanation
		PART VI, LINE 4 SOMERSET HOSPITAL SERVES RESIDENTS IN SOMERSET COUNTY, PENNSYLVANIA SOMERSET COUNTY IS A RURAL AREA WITH A POPULATION OF APPROXIMATELY 77,000 AND LAND AREA OF 1075 SQUARE MILES THE COST OF LIVING IS BELOW THE NATIONAL AVERAGE AND THE ESTIMATED MEDIAN HOUSEHOLD INCOME IS \$39,362 WHICH IS ALSO BELOW THE PENNSYLVANIA AVERAGE APPROXIMATELY 13% OF SOMERSET RESIDENTS LIVE IN POVERTY

Identifier	ReturnReference	Explanation
		<p>PART VI, LINE 6 SOMERSET HOSPITAL IS A NOT-FOR-PROFIT COMMUNITY ASSET COMMITTED TO PROVIDING CARE TO THE SICK AND INJURED, PRESERVING AND SUSTAINING LIFE, AND PROMOTING HEALTH AND WELL BEING, TO THE PROMOTION AND DEVELOPMENT OF COMPLEMENTARY PROGRAMS AND SERVICES, MANPOWER AND FACILITIES, TO THE CONTINUOUS IMPROVEMENT OF QUALITY, ACCESSIBILITY AND CONTINUITY OF PATIENT CARE, TO THE WELFARE AND LIVELIHOOD OF ITS EMPLOYEES, TO ENSURING THE HOSPITAL'S FINANCIAL VIABILITY NECESSARY TO MEET THE HEALTHCARE NEEDS OF THE COMMUNITY AND REGION TODAY AND IN THE FUTURE SOMERSET HOSPITAL PROVIDES QUALITY HEALTH CARE IN A COMPASSIONATE MANNER REGARDLESS OF RACE, CREED, SEX, NATIONAL ORIGIN, HANDICAP, AGE OR THE PATIENT'S ABILITY TO PAY ALTHOUGH REIMBURSEMENT FOR SERVICES RENDERED IS CRITICAL TO THE OPERATION AND STABILITY OF SOMERSET HOSPITAL, THE HOSPITAL, UNDER ITS WRITTEN CHARITY CARE POLICY, IS COMMITTED TO PROVIDING NECESSARY HEALTH CARE SERVICES AT NO CHARGE OR AT A REDUCED CHARGE TO PATIENTS THE HOSPITAL USES ANY EXCESS IN REVENUES OVER EXPENSES TO FUND IMPROVEMENTS IN PATIENT CARE IN ORDER TO PROVIDE THE COMMUNITY WITH STATE OF THE ART EQUIPMENT AND FACILITIES THE HOSPITAL RECRUITS THE BEST AND THE BRIGHTEST TO PROVIDE SERVICES TO THE COMMUNITY WHERE THERE IS A NEED AND A SHORTAGE OF PHYSICIANS THE HOSPITAL EXTENDS MEDICAL PRIVILEGES TO ALL QUALIFIED PHYSICIANS IN THE COMMUNITY THE GOVERNING BODY IS COMPRISED OF LOCAL RESIDENTS WHO HAVE THE BEST INTEREST OF THE COMMUNITY A MAJORITY OF THE GOVERNING BODY CONSISTS OF INDIVIDUALS WHO ARE NEITHER EMPLOYEES OF THE ORGANIZATION NOR CONTRACTORS OF THE ORGANIZATION</p>

**Schedule J**  
(Form 990)

**Compensation Information**

OMB No 1545-0047

**2010**

**Open to Public Inspection**

For certain Officers, Directors, Trustees, Key Employees, and Highest Compensated Employees

▶ Complete if the organization answered "Yes" to Form 990, Part IV, question 23.

▶ Attach to Form 990. ▶ See separate instructions.

Department of the Treasury  
Internal Revenue Service

Name of the organization  
SOMERSET COMMUNITY HOSPITAL

Employer identification number

25-0965570

**Part I Questions Regarding Compensation**

	Yes	No
--	-----	----

- 1a** Check the appropriate box(es) if the organization provided any of the following to or for a person listed in Form 990, Part VII, Section A, line 1a Complete Part III to provide any relevant information regarding these items
- |   |  |
|---|--|
| <input type="checkbox"/> First-class or charter travel            | <input type="checkbox"/> Housing allowance or residence for personal use |
| <input type="checkbox"/> Travel for companions                    | <input type="checkbox"/> Payments for business use of personal residence |
| <input type="checkbox"/> Tax idemnification and gross-up payments | <input type="checkbox"/> Health or social club dues or initiation fees   |
| <input type="checkbox"/> Discretionary spending account           | <input type="checkbox"/> Personal services (e g , maid, chauffeur, chef) |

**b** If any of the boxes in line 1a are checked, did the organization follow a written policy regarding payment or reimbursement or provision of all the expenses described above? If "No," complete Part III to explain

**2** Did the organization require substantiation prior to reimbursing or allowing expenses incurred by all officers, directors, trustees, and the CEO/Executive Director, regarding the items checked in line 1a?

**3** Indicate which, if any, of the following the organization uses to establish the compensation of the organization's CEO/Executive Director Check all that apply

- |  |   |
|--|---|
| <input checked="" type="checkbox"/> Compensation committee   | <input checked="" type="checkbox"/> Written employment contract                     |
| <input type="checkbox"/> Independent compensation consultant | <input type="checkbox"/> Compensation survey or study                               |
| <input type="checkbox"/> Form 990 of other organizations     | <input checked="" type="checkbox"/> Approval by the board or compensation committee |

**4** During the year, did any person listed in Form 990, Part VII, Section A, line 1a with respect to the filing organization or a related organization

**a** Receive a severance payment or change-of-control payment from the organization or a related organization?

**b** Participate in, or receive payment from, a supplemental nonqualified retirement plan?

**c** Participate in, or receive payment from, an equity-based compensation arrangement?

If "Yes" to any of lines 4a-c, list the persons and provide the applicable amounts for each item in Part III

**Only 501(c)(3) and 501(c)(4) organizations only must complete lines 5-9.**

**5** For persons listed in form 990, Part VII, Section A, line 1a, did the organization pay or accrue any compensation contingent on the revenues of

**a** The organization?

**b** Any related organization?

If "Yes," to line 5a or 5b, describe in Part III

**6** For persons listed in form 990, Part VII, Section A, line 1a, did the organization pay or accrue any compensation contingent on the net earnings of

**a** The organization?

**b** Any related organization?

If "Yes," to line 6a or 6b, describe in Part III

**7** For persons listed in Form 990, Part VII, Section A, line 1a, did the organization provide any non-fixed payments not described in lines 5 and 6? If "Yes," describe in Part III

**8** Were any amounts reported in Form 990, Part VII, paid or accrued pursuant to a contract that was subject to the initial contract exception described in Regs section 53 4958-4(a)(3)? If "Yes," describe in Part III

**9** If "Yes" to line 8, did the organization also follow the rebuttable presumption procedure described in Regulations section 53 4958-6(c)?

<b>1b</b>		
<b>2</b>		
<b>4a</b>		No
<b>4b</b>		No
<b>4c</b>		No
<b>5a</b>		No
<b>5b</b>		No
<b>6a</b>		No
<b>6b</b>		No
<b>7</b>		No
<b>8</b>		No
<b>9</b>		

**Part II Officers, Directors, Trustees, Key Employees, and Highest Compensated Employees.** Use duplicate copies if additional space is needed.

For each individual whose compensation must be reported in Schedule J, report compensation from the organization on row (i) and from related organizations, described in the instructions on row (ii) Do not list any individuals that are not listed on Form 990, Part VII

**Note.** The sum of columns (B)(i)-(iii) must equal the applicable column (D) or column (E) amounts on Form 990, Part VII, line 1a

(A) Name		(B) Breakdown of W-2 and/or 1099-MISC compensation			(C) Retirement and other deferred compensation	(D) Nontaxable benefits	(E) Total of columns (B)(i)-(D)	(F) Compensation reported in prior Form 990 or Form 990-EZ
		(i) Base compensation	(ii) Bonus & incentive compensation	(iii) Other reportable compensation				
(1) AJAY P SINGH MD	(i)	0	0	0	0	0	0	0
	(ii)	231,875	5,000	0	0	13,563	250,438	0
(2) SHOMENDRA MOITRA MD	(i)	365,383	0	0	0	2,505	367,888	0
	(ii)	0	0	0	0	0	0	0
(3) V KRISHNAN NAIR MD	(i)	0	0	0	0	0	0	0
	(ii)	410,000	0	0	0	13,131	423,131	0
(4) MICHAEL FARRELL	(i)	268,786	0	16,500	5,354	4,326	294,966	0
	(ii)	0	0	0	0	0	0	0
(5) RONALD PARK	(i)	217,609	0	5,500	4,199	8,941	236,249	0
	(ii)	0	0	0	0	0	0	0
(6) PRAKASH GHATGE MD	(i)	239,662	0	16,500	0	12,451	268,613	0
	(ii)	0	0	0	0	0	0	0
(7) GEORGE GROF-TISZA MD	(i)	239,662	0	16,500	0	12,456	268,618	0
	(ii)	0	0	0	0	0	0	0
(8) JEFFERY LAVANIER MD	(i)	239,662	0	16,500	0	11,976	268,138	0
	(ii)	0	0	0	0	0	0	0
(9) ANIL PAREKH MD	(i)	225,038	0	16,500	0	13,638	255,176	0
	(ii)	0	0	0	0	0	0	0
(10) GEORGE THOMAS MD	(i)	256,162	0	0	0	12,577	268,739	0
	(ii)	0	0	0	0	0	0	0
(11)								
(12)								
(13)								
(14)								
(15)								
(16)								

**Part III Supplemental Information**

Complete this part to provide the information, explanation, or descriptions required for Part I, lines 1a, 1b, 4c, 5a, 5b, 6a, 6b, 7, and 8. Also complete this part for any additional information.

Identifier	Return Reference	Explanation
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**Schedule K  
(Form 990)**

Department of the Treasury  
Internal Revenue Service

**Supplemental Information on Tax Exempt Bonds**

▶ **Complete if the organization answered "Yes" to Form 990, Part IV, line 24a. Provide descriptions, explanations, and any additional information in Schedule O (Form 990).**

▶ **Attach to Form 990. ▶ See separate instructions.**

OMB No 1545-0047

**2010**

**Open to Public  
Inspection**

Name of the organization  
SOMERSET COMMUNITY HOSPITAL

Employer identification number  
25-0965570

**Part I Bond Issues**

	(a) Issuer Name	(b) Issuer EIN	(c) CUSIP #	(d) Date Issued	(e) Issue Price	(f) Description of Purpose	(g) Defeased		(h) On Behalf of Issuer		(i) Pool financing	
							Yes	No	Yes	No	Yes	No
<b>A</b>	SOMERSET COUNTY HOSPITAL AUTHORITY	25-6001040		04-27-2009	3,590,000	REPAYMENT OF NOTE		X		X		X
<b>B</b>	SOMERSET COUNTY HOSPITAL AUTHORITY	25-6001040		12-23-2010	17,471,000	REFUND SERIES 1997A, SERIES 2002A, SERIES 2007A, AND SERIES 2007B BONDS		X		X		X

**Part II Proceeds**

		A	B	C	D
<b>1</b>	Amount of bonds retired				
<b>2</b>	Amount of bonds legally defeased				
<b>3</b>	Total proceeds of issue	3,590,000	17,471,000		
<b>4</b>	Gross proceeds in reserve funds				
<b>5</b>	Capitalized interest from proceeds				
<b>6</b>	Proceeds in refunding escrow	18,463,000	18,463,000		
<b>7</b>	Issuance costs from proceeds	66,780	86,232		
<b>8</b>	Credit enhancement from proceeds				
<b>9</b>	Working capital expenditures from proceeds				
<b>10</b>	Capital expenditures from proceeds				
<b>11</b>	Other spent proceeds				
<b>12</b>	Other unspent proceeds				
<b>13</b>	Year of substantial completion				
		<b>Yes</b>	<b>No</b>	<b>Yes</b>	<b>No</b>
<b>14</b>	Were the bonds issued as part of a current refunding issue?		X		X
<b>15</b>	Were the bonds issued as part of an advance refunding issue?	X		X	
<b>16</b>	Has the final allocation of proceeds been made?	X		X	
<b>17</b>	Does the organization maintain adequate books and records to support the final allocation of proceeds?	X		X	

**Part III Private Business Use**

		A		B		C		D	
		Yes	No	Yes	No	Yes	No	Yes	No
<b>1</b>	Was the organization a partner in a partnership, or a member of an LLC, which owned property financed by tax-exempt bonds?		X		X				
<b>2</b>	Are there any lease arrangements that may result in private business use of bond-financed property?		X		X				

**Part III Private Business Use (Continued)**

	A		B		C		D	
	Yes	No	Yes	No	Yes	No	Yes	No
<b>3a</b> Are there any management or service contracts that may result in private business use?		X		X				
<b>b</b> Are there any research agreements that may result in private business use of bond-financed property?		X		X				
<b>c</b> Does the organization routinely engage bond counsel or other outside counsel to review any management or service contracts or research agreements relating to the financed property?	X		X					
<b>4</b> Enter the percentage of financed property used in a private business use by entities other than a section 501(c)(3) organization or a state or local government	0 %		0 %					
<b>5</b> Enter the percentage of financed property used in a private business use as a result of unrelated trade or business activity carried on by your organization, another section 501(c)(3) organization, or a state or local government	0 %		0 %					
<b>6</b> Total of lines 4 and 5	0 %		0 %					
<b>7</b> Has the organization adopted management practices and procedures to ensure the post-issuance compliance of its tax-exempt bond liabilities?	X		X					

**Part IV Arbitrage**

	A		B		C		D	
	Yes	No	Yes	No	Yes	No	Yes	No
<b>1</b> Has a Form 8038-T, Arbitrage Rebate, Yield Reduction and Penalty in Lieu of Arbitrage Rebate, been filed with respect to the bond issue?	X		X					
<b>2</b> Is the bond issue a variable rate issue?		X	X					
<b>3a</b> Has the organization or the governmental issuer entered into a hedge with respect to the bond issue?		X	X					
<b>b</b> Name of provider	PNC BANK		PNC BANK					
<b>c</b> Term of hedge	7 000000000000		7 000000000000					
<b>d</b> Was the hedge superintegrated?		X		X				
<b>e</b> Was a hedge terminated?		X		X				
<b>4a</b> Were gross proceeds invested in a GIC?		X		X				
<b>b</b> Name of provider								
<b>c</b> Term of GIC								
<b>d</b> Was the regulatory safe harbor for establishing the fair market value of the GIC satisfied?								
<b>5</b> Were any gross proceeds invested beyond an available temporary period?		X		X				
<b>6</b> Did the bond issue qualify for an exception to rebate?		X		X				

**Part V Supplemental Information**

Complete this part to provide additional information for responses to questions on Schedule K (see instructions)

Identifier	Return Reference	Explanation

Schedule L (Form 990 or 990-EZ)

Transactions with Interested Persons

OMB No 1545-0047

2010

Open to Public Inspection

Complete if the organization answered "Yes" on Form 990, Part IV, lines 25a, 25b, 26, 27, 28a, 28b, or 28c, or Form 990-EZ, Part V lines 38a or 40b. Attach to Form 990 or Form 990-EZ. See separate instructions.

Department of the Treasury Internal Revenue Service

Name of the organization SOMERSET COMMUNITY HOSPITAL

Employer identification number 25-0965570

Part I Excess Benefit Transactions (section 501(c)(3) and section 501 (c)(4) organizations only).

Complete if the organization answered "Yes" on Form 990, Part IV, line 25a or 25b, or Form 990-EZ, Part V, line 40b

Table with 3 main columns: (a) Name of disqualified person, (b) Description of transaction, (c) Corrected? (Yes/No)

2 Enter the amount of tax imposed on the organization managers or disqualified persons during the year under section 4958. 3 Enter the amount of tax, if any, on line 2, above, reimbursed by the organization.

Part II Loans to and/or From Interested Persons.

Complete if the organization answered "Yes" on Form 990, Part IV, line 26, or Form 990-EZ, Part V, line 38a

Table with 7 main columns: (a) Name of interested person and purpose, (b) Loan to or from the organization?, (c) Original principal amount, (d) Balance due, (e) In default?, (f) Approved by board or committee?, (g) Written agreement?

Part III Grants or Assistance Benefitting Interested Persons.

Complete if the organization answered "Yes" on Form 990, Part IV, line 27.

Table with 3 main columns: (a) Name of interested person, (b) Relationship between interested person and the organization, (c) Amount of grant or type of assistance

**Part IV Business Transactions Involving Interested Persons.**

Complete if the organization answered "Yes" on Form 990, Part IV, line 28a, 28b, or 28c.

(a) Name of interested person	(b) Relationship between interested person and the organization	(c) Amount of transaction	(d) Description of transaction	(e) Sharing of organization's revenues?	
				Yes	No
(1) ANN COBER	BRAD COBER, DIRECTOR - FAMILY MEMBER	95,045	EMPLOYEE OF SOMERSET COMMUNITY HOSPITAL		No
(2) JILLIAN THOMAS	WILBUR A THOMAS, DIRECTOR - FAMILY MEMBER	17,324	EMPLOYEE OF SOMERSET COMMUNITY HOSPITAL		No
(3) JOYCE FARRELL	MICHAEL FARRELL, CEO/PRESIDENT - FAMILY MEMBER	88,927	EMPLOYEE OF SOMERSET COMMUNITY HOSPITAL		No
(4) MIKE PETROSKY	MICHELLE MOON, ASST SECRETARY/TREASURER - FAMILY MEMBER	49,635	EMPLOYEE OF SOMERSET COMMUNITY HOSPITAL		No

**Part V Supplemental Information**

Complete this part to provide additional information for responses to questions on Schedule L (see instructions)

Identifier	Return Reference	Explanation
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**SCHEDULE O**  
(Form 990 or 990-EZ)

Department of the Treasury  
Internal Revenue Service

**Supplemental Information to Form 990 or 990-EZ**

**Complete to provide information for responses to specific questions on Form 990 or to provide any additional information.**  
▶ **Attach to Form 990 or 990-EZ.**

OMB No 1545-0047

**2010**

**Open to Public Inspection**

**Name of the organization**  
SOMERSET COMMUNITY HOSPITAL

**Employer identification number**

25-0965570

Identifier	Return Reference	Explanation
FORM 990, PART VI, SECTION A, LINE 6		MEMBERS ARE SELECTED BY THE BOARD OF DIRECTORS ANY NATURAL PERSON OVER EIGHTEEN YEARS OF AGE WHO HAVE CONTRIBUTED TO SOMERSET COMMUNITY HOSPITAL IN THE YEAR PRECEDING THE SELECTION AN AMOUNT DETERMINED BY THE BOARD, OR PROPERTY OF EQUIVALENT VALUE SHALL BE ELIGIBLE TO BE SELECTED AS A MEMBER OF SOMERSET COMMUNITY HOSPITAL

<b>Identifier</b>	<b>Return Reference</b>	<b>Explanation</b>
FORM 990, PART VI, SECTION A, LINE 7A		THE BOARD MEMBERS OF SOMERSET COMMUNITY HOSPITAL MUST BE APPROVED BY SOMERSET COMMUNITY HOSPITAL FOUNDATION

Identifier	Return Reference	Explanation
FORM 990, PART VI, SECTION B, LINE 11		SOMERSET COMMUNITY HOSPITAL HAS A CPA FIRM PREPARE ITS FORM 990 THE RETURN IS COMPLETED IN DRAFT FORM AND REVIEWED BY MANAGEMENT OF THE ORGANIZATION THE RETURN IS THEN FINALIZED AND THE BOARD IS PROVIDED A COPY OF THE FORM 990 BEFORE IT IS FILED

Identifier	Return Reference	Explanation
	FORM 990, PART VI, SECTION B, LINE 12C	SOMERSET COMMUNITY HOSPITAL ANNUALLY REQUIRES ITS BOARD MEMBERS, OFFICERS AND KEY EMPLOYEES TO FILL OUT A CONFLICTS OF INTEREST FORM DURING BOARD MEETINGS, IF AN INTERESTED PARTY HAS A CONFLICT, HE OR SHE RECUSES THEMSELVES FROM VOTING

Identifier	Return Reference	Explanation
	FORM 990, PART VI, SECTION B, LINE 15	THE LEADERSHIP COMMITTEE, WHICH IS A SUBCOMMITTEE OF THE BOARD OF DIRECTORS, ANNUALLY REVIEWS AND APPROVES THE COMPENSATION OF THEIR ORGANIZATION'S TOP MANAGEMENT

<b>Identifier</b>	<b>Return Reference</b>	<b>Explanation</b>
	FORM 990, PART VI, SECTION C, LINE 18	SOMEREST COMMUNITY HOSPITAL MAKES ITS FORM 990 AND FORM 1023 AVAILABLE TO THE PUBLIC

<b>Identifier</b>	<b>Return Reference</b>	<b>Explanation</b>
	FORM 990, PART VI, SECTION C, LINE 19	AT THIS TIME, SOMERSET COMMUNITY HOSPITAL DOES NOT MAKE ITS GOVERNING DOCUMENTS, CONFLICTS OF INTEREST POLICY AND CONSOLIDATED FINANCIAL STATEMENTS AVAILABLE TO THE GENERAL PUBLIC

Identifier	Return Reference	Explanation
CHANGES IN NET ASSETS OR FUND BALANCES	FORM 990, PART XI, LINE 5	NET UNREALIZED GAINS ON INVESTMENTS 1,664,631 NET ASSETS RELEASED FROM RESTRICTIONS 3,617 CHANGE IN FAIR VALUE OF INTEREST RATE SWAP -69,287 CHANGE IN DEFINED BENEFIT PENSION COSTS 2,579,560 TRANSFERS TO AFFILIATES -1,831,486 TEMPORARILY RESTRICTED INVESTMENT INCOME 6,562 TEMPORARILY RESTRICTED CONTRIBUTIONS 390,053 TOTAL TO FORM 990, PART XI, LINE 5 2,743,650

Identifier	Return Reference	Explanation
	FORM 990, PART XII, LINE 2C	SOMERSET COMMUNITY HOSPITAL HAS A FINANCE COMMITTEE THAT IS RESPONSIBLE FOR THE OVERSIGHT OF THE AUDIT AND SELECTION OF THE INDEPENDENT AUDITORS THE PROCESS IS CONSISTENT WITH PRIOR YEARS AND HAS NOT CHANGED

Identifier	Return Reference	Explanation
	FORM 990, PART VII, COLUMN B	MICHAEL FARRELL, CEO/PRESIDENT AND RONALD PARK, CFO SPLIT THEIR TIME BETWEEN SOMERSET COMMUNITY HOSPITAL, SOMERSET HEALTH SERVICES, INC , SOMERSET COMMUNITY HOSPITAL FOUNDATION, TWIN LAKES CENTER, INC , SOMERSET MANAGEMENT SERVICES, INC , AND SOMERSET ORTHOPEDICS, INC BREAKDOWN OF HOURS PER WEEK DEVOTED TO EACH ENTITY MICHAEL FARRELL, CEO/PRESIDENT SOMERSET COMMUNITY HOSPITAL - 29 HOURS SOMERSET HEALTH SERVICES, INC - 6 HOURS SOMERSET COMMUNITY HOSPITAL FOUNDATION - 1 HOUR TWIN LAKES CENTER, INC - 1 HOUR SOMERSET MANAGEMENT SERVICES, INC - 1 HOUR SOMERSET ORTHOPEDICS, INC - 2 HOURS RONALD PARK, CFO SOMERSET COMMUNITY HOSPITAL - 29 HOURS SOMERSET HEALTH SERVICES, INC - 6 HOURS SOMERSET COMMUNITY HOSPITAL FOUNDATION - 1 HOUR TWIN LAKES CENTER, INC - 1 HOUR SOMERSET MANAGEMENT SERVICES, INC - 1 HOUR SOMERSET ORTHOPEDICS, INC - 2 HOURS

**SCHEDULE R  
(Form 990)**

**Related Organizations and Unrelated Partnerships**

OMB No 1545-0047

**2010**

**Open to Public  
Inspection**

▶ **Complete if the organization answered "Yes" to Form 990, Part IV, line 33, 34, 35, 36, or 37.**  
▶ **Attach to Form 990.** ▶ **See separate instructions.**

Department of the Treasury  
Internal Revenue Service

**Name of the organization**  
SOMERSET COMMUNITY HOSPITAL

**Employer identification number**  
25-0965570

**Part I Identification of Disregarded Entities** (Complete if the organization answered "Yes" on Form 990, Part IV, line 33.)

(a) Name, address, and EIN of disregarded entity	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Total income	(e) End-of-year assets	(f) Direct controlling entity

**Part II Identification of Related Tax-Exempt Organizations** (Complete if the organization answered "Yes" on Form 990, Part IV, line 34 because it had one or more related tax-exempt organizations during the tax year.)

(a) Name, address, and EIN of related organization	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Exempt Code section	(e) Public charity status (if section 501(c)(3))	(f) Direct controlling entity	(g) Section 512(b)(13) controlled organization	
						Yes	No
<b>(1)</b> TWIN LAKES CENTER INC 225 SOUTH CENTER AVENUE SOMERSET, PA 15501 23-2910318	HEALTH CARE	PA	501(C)(3)	509(A)(1)	SOMERSET COMMUNITY HOSPITAL	Yes	
<b>(2)</b> SOMERSET COMMUNITY HOSPITAL FOUNDATION 225 SOUTH CENTER AVENUE SOMERSET, PA 15501 25-1441863	HEALTH CARE	PA	501(C)(3)	509(A)(3)			No
<b>(3)</b> SOMERSET HEALTH SERVICESINC 223 SOUTH PLEASANT AVENUE SOMERSET, PA 15501 25-1441920	HEALTH CARE	PA	501(C)(3)	509(A)(1)	SOMERSET COMMUNITY HOSPITAL	Yes	

**Part III Identification of Related Organizations Taxable as a Partnership** (Complete if the organization answered "Yes" on Form 990, Part IV, line 34 because it had one or more related organizations treated as a partnership during the tax year.)

(a) Name, address, and EIN of related organization	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Direct controlling entity	(e) Predominant income (related, unrelated, excluded from tax under sections 512-514)	(f) Share of total income	(g) Share of end-of-year assets	(h) Disproportionate allocations?		(i) Code V—UBI amount in box 20 of Schedule K-1 (Form 1065)	(j) General or managing partner?		(k) Percentage ownership
							Yes	No		Yes	No	

**Part IV Identification of Related Organizations Taxable as a Corporation or Trust** (Complete if the organization answered "Yes" on Form 990, Part IV, line 34 because it had one or more related organizations treated as a corporation or trust during the tax year.)

(a) Name, address, and EIN of related organization	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Direct controlling entity	(e) Type of entity (C corp, S corp, or trust)	(f) Share of total income	(g) Share of end-of-year assets	(h) Percentage ownership
<b>(1)</b> SOMERSET MANAGEMENT SERVICES INC 225 SOUTH CENTER AVENUE SOMERSET, PA15501 25-1512960	REAL ESTATE HOLDING	PA	SOMERSET HEALTH SERVICES INC	C			
<b>(2)</b> SOMERSET ORTHOPEDICS INC 225 SOUTH CENTER AVENUE SOMERSET, PA15501 11-3725138	ORTHOPEDIC PHYSICIANS	PA	SOMERSET COMMUN HOSP FOUNDATION	C			

**Part V Transactions With Related Organizations** (Complete if the organization answered "Yes" on Form 990, Part IV, line 34, 35, 35A, or 36.)

**Note.** Complete line 1 if any entity is listed in Parts II, III or IV

**1** During the tax year, did the organization engage in any of the following transactions with one or more related organizations listed in Parts II-IV?

- a** Receipt of **(i)** interest **(ii)** annuities **(iii)** royalties **(iv)** rent from a controlled entity
- b** Gift, grant, or capital contribution to other organization(s)
- c** Gift, grant, or capital contribution from other organization(s)
- d** Loans or loan guarantees to or for other organization(s)
- e** Loans or loan guarantees by other organization(s)
  
- f** Sale of assets to other organization(s)
- g** Purchase of assets from other organization(s)
- h** Exchange of assets
- i** Lease of facilities, equipment, or other assets to other organization(s)
  
- j** Lease of facilities, equipment, or other assets from other organization(s)
- k** Performance of services or membership or fundraising solicitations for other organization(s)
- l** Performance of services or membership or fundraising solicitations by other organization(s)
- m** Sharing of facilities, equipment, mailing lists, or other assets
- n** Sharing of paid employees
  
- o** Reimbursement paid to other organization for expenses
- p** Reimbursement paid by other organization for expenses
  
- q** Other transfer of cash or property to other organization(s)
- r** Other transfer of cash or property from other organization(s)

	Yes	No
<b>1a</b>		No
<b>1b</b>		No
<b>1c</b>		No
<b>1d</b>		No
<b>1e</b>		No
<b>1f</b>		No
<b>1g</b>		No
<b>1h</b>		No
<b>1i</b>		No
<b>1j</b>		No
<b>1k</b>		No
<b>1l</b>		No
<b>1m</b>		No
<b>1n</b>	Yes	
<b>1o</b>	Yes	
<b>1p</b>	Yes	
<b>1q</b>	Yes	
<b>1r</b>		No

**2** If the answer to any of the above is "Yes," see the instructions for information on who must complete this line, including covered relationships and transaction thresholds

(a) Name of other organization	(b) Transaction type(a-r)	(c) Amount involved	(d) Method of determining amount involved
<b>(1)</b> SOMERSET HEALTH SERVICESINC	Q	873,040	
<b>(2)</b>			
<b>(3)</b>			
<b>(4)</b>			
<b>(5)</b>			
<b>(6)</b>			



**Part VII Supplemental Information**

Complete this part to provide additional information for responses to questions on Schedule R (see instructions)

Identifier	Return Reference	Explanation
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# **Somerset Hospital and Subsidiary**

Accountants' Report and Consolidated Financial Statements

June 30, 2011 and 2010

# Somerset Hospital and Subsidiary

## June 30, 2011 and 2010

### Contents

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## Independent Accountants' Report

Board of Directors  
Somerset Hospital and Subsidiary  
Somerset, Pennsylvania

We have audited the accompanying consolidated balance sheets of Somerset Hospital and Subsidiary (the "Hospital") as of June 30, 2011 and 2010, and the related consolidated statements of operations, changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these 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 audit 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 financial position of Somerset Hospital and Subsidiary as of June 30, 2011 and 2010, and the results of its operations, the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The accompanying supplementary consolidating information is presented for purposes of additional analysis of the basic consolidated financial statements rather than to present the financial position, results of operations and changes in net assets of the individual companies, and is not a required part of the basic consolidated financial statements. The consolidating information has been subjected to the procedures applied in the audits of the basic consolidated financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic consolidated financial statements taken as a whole.

*BKD, LLP*

September 27, 2011

**Somerset Hospital and Subsidiary**  
**Consolidated Balance Sheets**  
**June 30, 2011 and 2010**

**Assets**

	<u>2011</u>	<u>2010</u>
<b>Current Assets</b>		
Cash and cash equivalents	\$ 12,038,970	\$ 11,155,488
Assets limited as to use - current	453,871	570,534
Patient accounts receivable, net of allowance, 2011 – \$1,150,000, 2010 – \$1,065,000	5,254,069	4,992,944
Estimated amounts due from third-party payers	679,601	209,770
Supply inventories	921,301	769,934
Prepaid expenses and other	463,677	496,431
	<u>19,811,489</u>	<u>18,195,101</u>
<b>Assets Limited As To Use</b>		
Internally designated	18,754,635	15,599,306
Externally restricted by donors	311,287	454,234
Externally restricted by grantors	143,871	-
Workers' compensation self-insurance fund	241,982	242,584
Medical malpractice deductible fund	992,545	1,036,880
Held by trustee	580,983	1,091,469
	<u>21,025,303</u>	<u>18,424,473</u>
Less amount required to meet current obligations	453,871	570,534
	<u>20,571,432</u>	<u>17,853,939</u>
<b>Investments in and Advances to Equity Investees</b>	<u>434,379</u>	<u>780,971</u>
<b>Property and Equipment, At Cost</b>	87,720,495	84,982,966
Less accumulated depreciation	<u>54,253,908</u>	<u>50,899,502</u>
	<u>33,466,587</u>	<u>34,083,464</u>
<b>Other Assets</b>		
Deferred financing costs	137,207	546,731
Other	178,181	130,892
	<u>315,388</u>	<u>677,623</u>
Total assets	<u>\$ 74,599,275</u>	<u>\$ 71,591,098</u>

## Liabilities and Net Assets

	<u>2011</u>	<u>2010</u>
<b>Current Liabilities</b>		
Current maturities of long-term debt	\$ 860,523	\$ 1,094,170
Accounts payable	3,795,102	4,659,923
Accrued pay roll and vacation pay	3,271,790	3,332,452
Estimated self-insurance costs - current	760,000	760,000
Accrued interest payable	25,947	121,281
Deferred revenue and other	169,431	36,175
	<u>8,882,793</u>	<u>10,004,001</u>
<b>Estimated Self-Insurance Costs and Other</b>	4,044,747	3,714,653
<b>Interest Rate Swap Agreements</b>	249,914	180,627
<b>Long-Term Debt</b>	19,478,383	20,238,490
<b>Accrued Pension Obligation</b>	4,126,625	6,236,003
	<u>36,782,462</u>	<u>40,373,774</u>
<b>Net Assets</b>		
Unrestricted	37,538,704	30,785,447
Temporarily restricted	258,109	411,877
Permanently restricted	20,000	20,000
	<u>37,816,813</u>	<u>31,217,324</u>
<b>Total liabilities and net assets</b>	<u>\$ 74,599,275</u>	<u>\$ 71,591,098</u>

**Somerset Hospital and Subsidiary**  
**Consolidated Statements of Operations**  
**Years Ended June 30, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
<b>Unrestricted Revenues, Gains and Other Support</b>		
Net patient service revenue	\$ 67,847,386	\$ 68,205,149
Federal, state and county grants	912,534	992,143
Other	1,190,880	878,075
Net assets released from restrictions used for operations	535,383	370,946
Total unrestricted revenues, gains and other support	<u>70,486,183</u>	<u>70,446,313</u>
<b>Expenses</b>		
Salaries and wages	26,830,573	26,667,253
Employee benefits	7,615,758	7,068,102
Physician fees	4,490,374	4,439,835
Supplies and other	22,744,503	23,703,639
Depreciation and amortization	3,567,030	3,151,426
Interest	536,518	644,861
Provision for uncollectible accounts	2,890,146	3,324,825
Total expenses	<u>68,674,902</u>	<u>68,999,941</u>
<b>Operating Income</b>	<u>1,811,281</u>	<u>1,446,372</u>
<b>Other Income (Expense)</b>		
Contributions	2,162,183	695,000
Investment return	726,280	570,081
Investment return - change in fair value of investments accounted for under the fair value option of Topic 825	284,418	352,348
Investment return - loss on investment securities for other-than- temporary impairment	-	(826,348)
Loss on extinguishment of debt	(838,689)	-
Loss on termination of swap agreement	(158,200)	-
Gain (loss) on investments in equity investees	(135,771)	163,355
Other	4,337	(33,672)
Total other income (expense)	<u>2,044,558</u>	<u>920,764</u>
<b>Excess of Revenues Over Expenses</b>	3,855,839	2,367,136
Investment return – change in unrealized gains and losses on other than trading securities	1,664,631	1,581,330
Grant funds utilized for acquisition of property and equipment	539,000	388,100
Net assets released from restriction used for purchase of property and equipment	15,000	14,817
Change in fair value of interest rate swap agreements	(69,287)	(40,605)
Defined benefit pension costs		
Recognition of net loss	884,582	677,223
Net gain (loss) arising during the year	1,694,978	(2,654,490)
Transfers to affiliates	(1,831,486)	(1,720,560)
<b>Increase in Unrestricted Net Assets</b>	<u>\$ 6,753,257</u>	<u>\$ 612,951</u>

**Somerset Hospital and Subsidiary**  
**Consolidated Statements of Changes in Net Assets**  
**Years Ended June 30, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
<b>Unrestricted Net Assets</b>		
Excess of revenues over expenses	\$ 3,855,839	\$ 2,367,136
Investment return - change in unrealized gains and losses on other than trading securities	1,664,631	1,581,330
Grant funds utilized for acquisition of property and equipment	539,000	388,100
Net assets released from restriction used for purchase of property and equipment	15,000	14,817
Change in fair value of interest rate swap agreements	(69,287)	(40,605)
Defined benefit pension costs		
Recognition of net loss	884,582	677,223
Net gain (loss) arising during the year	1,694,978	(2,654,490)
Transfers to affiliates	<u>(1,831,486)</u>	<u>(1,720,560)</u>
Increase in unrestricted net assets	<u>6,753,257</u>	<u>612,951</u>
<b>Temporarily Restricted Net Assets</b>		
Contributions received	390,053	424,113
Investment return	6,562	4,192
Net assets released from restriction	<u>(550,383)</u>	<u>(385,763)</u>
Increase (decrease) in temporarily restricted net assets	<u>(153,768)</u>	<u>42,542</u>
<b>Change in Net Assets</b>	6,599,489	655,493
<b>Net Assets, Beginning of Year</b>	<u>31,217,324</u>	<u>30,561,831</u>
<b>Net Assets, End of Year</b>	<u>\$ 37,816,813</u>	<u>\$ 31,217,324</u>

**Somerset Hospital and Subsidiary**  
**Consolidated Statements of Cash Flows**  
**Years Ended June 30, 2011 and 2010**

	<b>2011</b>	<b>2010</b>
<b>Operating Activities</b>		
Change in net assets	\$ 6,599,489	\$ 655,493
Items not requiring (providing) cash		
(Gain) loss on sale of property and equipment	(8,204)	11,660
Depreciation and amortization	3,567,030	3,151,426
(Gain) loss on investment in equity investees	135,771	(163,355)
Net (gain) loss on investments	(2,282,813)	(1,285,199)
Change in fair value of interest rate swap agreements	69,287	40,605
Transfers to affiliates	1,831,486	1,720,560
Restricted contributions, grants and investment return	(935,615)	(816,405)
Change in accrued self-insurance costs	24,248	(129,574)
Change in defined benefit pension plans	(2,579,560)	1,977,267
Loss on extinguishment of debt	838,689	-
Changes in		
Patient accounts receivable, net	(261,125)	319,588
Estimated amounts due from third-party payers	(469,831)	210,597
Accounts payable and accrued expenses	192,419	65,844
Other current assets and liabilities	84,844	172,854
Other, net	(109,707)	(531,911)
Net cash provided by operating activities	6,696,408	5,399,450
<b>Investing Activities</b>		
Proceeds from sales of assets limited as to use	13,525,252	3,097,682
Purchase of assets limited as to use	(13,832,447)	(3,751,713)
Dividends and return of equity from equity investee	200,000	225,000
Purchase of property and equipment	(3,770,457)	(4,064,623)
Proceeds from sale of property and equipment	85,000	2,500
Net cash used in investing activities	(3,792,652)	(4,491,154)
<b>Financing Activities</b>		
Cash transfers to affiliates	(1,831,486)	(1,720,560)
Proceeds from restricted contributions, grants and investment return	935,615	816,405
Payment of deferred financing costs	(86,232)	-
Principal payments on long-term debt	(18,509,171)	(1,037,752)
Proceeds from issuance of note payable	17,471,000	-
Net cash used in financing activities	(2,020,274)	(1,941,907)
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	883,482	(1,033,611)
<b>Cash and Cash Equivalents, Beginning of Year</b>	11,155,488	12,189,099
<b>Cash and Cash Equivalents, End of Year</b>	\$ 12,038,970	\$ 11,155,488
<b>Supplemental Cash Flows Information</b>		
Interest paid	\$ 637,100	\$ 683,335
Purchase of property and equipment in accounts payable	\$ 340,704	\$ 1,121,396

**Somerset Hospital and Subsidiary**  
**Notes to Consolidated Financial Statements**  
**June 30, 2011 and 2010**

**Note 1: Nature of Operations and Summary of Significant Accounting Policies**

***Nature of Operations***

Somerset Hospital (the "Hospital") is a wholly owned subsidiary of Somerset Hospital Foundation (the "Foundation") and operates an acute care hospital facility in Somerset, Pennsylvania. The Hospital also operates a home health agency and an inpatient Hospice facility in the same geographic area. The Foundation is also the parent of Somerset Health Services, Inc. (SHS), a not-for-profit corporation established to provide health-related activities in the Somerset, Pennsylvania, area and Somerset Orthopedics, Inc. (SOI), a corporation created to employ orthopedic physicians.

Twin Lakes Center (TLC) is a not-for-profit corporation, wholly owned by the Hospital, providing drug and alcohol rehabilitation services on both an inpatient and outpatient basis.

***Principles of Consolidation***

The consolidated financial statements include the financial statements of Somerset Hospital and its wholly owned subsidiary, Twin Lakes Center. All significant intercompany accounts and transactions have been eliminated.

***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 Equivalents***

The Hospital considers all liquid investments, other than those limited as to use, with original maturities of three months or less to be cash equivalents. At June 30, 2011 and 2010, cash equivalents consisted primarily of deposits in weekly maturing municipal securities, money market funds and certificates of deposit.

Pursuant to legislation enacted in 2010, the FDIC will fully insure all noninterest-bearing transaction accounts beginning December 31, 2010, through December 31, 2012, at all FDIC-insured institutions.

For interest-bearing cash accounts, the FDIC's insurance limits were permanently increased to \$250,000, effective July 21, 2010. At June 30, 2011 and 2010, the Hospital's cash accounts exceeded federally insured limits by approximately \$1,990,000 and \$1,975,000, respectively.

# **Somerset Hospital and Subsidiary**

## **Notes to Consolidated Financial Statements**

### **June 30, 2011 and 2010**

The Hospital and TLC maintained approximately \$7,425,000 and \$7,095,000 of its cash equivalents in one money market fund at June 30, 2011 and 2010, respectively. This money market fund invests in certificates of deposit, commercial paper, variable rate obligations, agency obligations, time deposits, repurchase agreements, master notes and promissory notes.

The Hospital maintained approximately \$2,100,000 and \$2,125,000 of its cash equivalents in weekly maturing tax exempt variable rate demand bonds backed by letters of credit from nationally recognized financial institutions at June 30, 2011 and 2010, respectively.

#### ***Investments and Investment Return***

Investments in equity securities having a readily determinable fair value and in all debt securities are carried at fair value. Investments in equity investees are reported on the equity method of accounting. Other investments are valued at the lower of cost (or fair value at time of donation, if acquired by contribution) or fair value. Investment return includes dividend, interest and other investment income, realized and unrealized gains and losses on investments carried at fair value, and realized gains and losses on other investments.

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is initially included in temporarily restricted net assets. Other investment return is reflected in the statements of operations and changes in net assets as unrestricted, temporarily restricted or permanently restricted based upon the existence and nature of any donor or legally imposed restrictions.

Investments in hedge funds and investment partnerships are carried at fair value pursuant to the fair value option provision of Topic 825 (*Note 18*).

#### ***Assets Limited As To Use***

Assets limited as to use include (1) assets held by trustees for debt service, deferred compensation and workers' compensation requirements, (2) assets restricted by donors and grantors, (3) medical malpractice deductible fund and (4) assets set aside by the Board of Directors for designated purposes over which the Board retains control and may at its discretion subsequently use for other purposes. Amounts required to meet current liabilities of the Hospital are included in current assets.

#### ***Patient Accounts Receivable***

The Hospital and TLC report patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The Hospital and TLC provide an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions. As a service to the patient, the Hospital and TLC bill third-party payers directly and the patient when the patient's liability is determined. Patient accounts receivable are due in full when billed. Accounts are considered delinquent and subsequently written off as bad debts based on individual credit evaluation and specific circumstances of the account.

**Somerset Hospital and Subsidiary**  
**Notes to Consolidated Financial Statements**  
**June 30, 2011 and 2010**

***Supply Inventories***

The Hospital states supply inventories at the lower of cost, determined using the first-in, first-out method, or market

***Property and Equipment***

Property and equipment acquisitions are recorded at cost and are depreciated on a straight-line basis over the estimated useful life of each asset

Donations of property and equipment are reported at fair value as an increase in unrestricted net assets unless use of the assets is restricted by the donor. Monetary gifts that must be used to acquire property and equipment are reported as restricted support. The expiration of such restrictions is reported as an increase in unrestricted net assets when the donated asset is placed in service.

***Long-Lived Asset Impairment***

The Hospital evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

No asset impairment was recognized during the years ended June 30, 2011 and 2010.

***Deferred Financing Costs***

Deferred financing costs represent costs incurred in connection with the issuance of long-term debt. Such costs are being amortized over the term of the respective debt using the effective interest method.

***Deferred Revenue***

Support funded by grants is recognized as the Hospital and TLC performs the contracted services or incurs outlays eligible for reimbursement under the grant agreements. Deferred revenue represents grant funds received not yet eligible for recognition. Grant activities and outlays are subject to audit and acceptance by granting agencies and, as a result of such audit, adjustments could be required.

***Temporarily and Permanently Restricted Net Assets***

Temporarily restricted net assets are those whose use by the Hospital 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 Hospital in perpetuity.

# **Somerset Hospital and Subsidiary**

## **Notes to Consolidated Financial Statements**

### **June 30, 2011 and 2010**

#### ***Net Patient Service Revenue***

The Hospital and TLC have agreements with third-party payers that provide for payments to the Hospital and TLC at amounts different from their established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and includes estimated retroactive revenue adjustments. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

#### ***Federal, State and County Grants***

TLC contracts with Somerset County, Bedford County, Butler County, Cambria County, Centre County, Crawford County, Clarion County, Clearfield-Jefferson Counties, Forest-Warren Counties, Greene County, Armstrong County, Indiana County, Washington County, Fayette County, Lawrence County, Westmoreland County and Venango County, Single County Authorities (SCAS) of the state of Pennsylvania as well as with various Act 152 HUBS to provide services for the control, treatment, prevention, rehabilitation, research, education and training aspects of drug and alcohol abuse and dependency problems, pursuant to the provisions of the Pennsylvania Drug and Alcohol Act of April 14, 1972, P L 221, No. 63, 71 P S 1690-101. Each contract provides that costs incurred by TLC in the delivery of drug and alcohol program services are to serve as the basis for reimbursement of federal, state and county funds made available under the contracts. Revenue for the reimbursed costs is recorded at the time the expense is incurred. The Act 152 HUBS are charged with developing and implementing a multicounty service system for the case management, treatment and rehabilitation of drug and alcohol abuse and dependency problems for eligible Act 152 clients pursuant to the Pennsylvania Drug and Alcohol Act. TLC received approximately 80% and 85% of its grant revenue from Somerset, Cambria, Westmoreland, Bedford, Fayette, Armstrong and Indiana counties in 2011 and 2010, respectively.

#### ***Charity Care***

The Hospital and TLC provide care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Hospital and TLC do not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue.

#### ***Contributions***

Unconditional gifts expected to be collected within one year are reported at their net realizable value. Unconditional gifts expected to be collected in future years are initially reported at fair value determined using the discounted present value of estimated future cash flows technique. The resulting discount is amortized using the level-yield method and is reported as contribution revenue.

# **Somerset Hospital and Subsidiary**

## **Notes to Consolidated Financial Statements**

### **June 30, 2011 and 2010**

Gifts received with donor stipulations are reported as either temporarily or permanently restricted support. When a donor restriction expires, that is, when a time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified and reported as an increase in unrestricted net assets. Donor-restricted contributions whose restrictions are met within the same year as received are initially reported as temporarily restricted contributions. Conditional contributions are reported as liabilities until the condition is eliminated or the contributed assets are returned to the donor.

#### ***Estimated Malpractice Costs***

An annual estimated provision is accrued for the self-insured portion of medical malpractice claims and includes an estimate of the ultimate costs for both reported claims and claims incurred but not reported.

#### ***Estimated Self-Insurance Costs***

The Hospital accrues estimated liabilities for self-insurance losses associated with workers' compensation and employee health insurance claims and includes an estimate of the ultimate costs for both reported claims and claims incurred but not reported. Costs resulting from self-insured losses are charged to income when incurred.

#### ***Income Taxes***

The Hospital and TLC have been recognized as exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the Hospital and TLC are subject to federal income tax on any unrelated business taxable income.

#### ***Excess of Revenues Over Expenses***

The consolidated statements of operations include excess of revenues over expenses. Changes in unrestricted net assets which are excluded from excess of revenues over expenses, consistent with industry practice, include unrealized gains and losses on investments other than trading securities, permanent transfers to and from affiliates for other than goods and services, contributions and grants of and for long-lived assets (including assets acquired using contributions or grant funds which by donor restriction were to be used for the purpose of acquiring such assets), changes in fair value of interest rate swap agreements and pension liability adjustments.

#### ***Subsequent Events***

Subsequent events have been evaluated through September 27, 2011, which is the date the financial statements were issued.

**Somerset Hospital and Subsidiary**  
**Notes to Consolidated Financial Statements**  
**June 30, 2011 and 2010**

**Note 2: Net Patient Service Revenue**

The Hospital and TLC have agreements with third-party payers that provide for payments to the Hospital and TLC at amounts different from its established rates. These payment arrangements include

*Medicare* Inpatient acute care services and substantially all outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. The Hospital is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary. The Hospital is designated as a sole community hospital by the Medicare program.

*Medical Assistance* Inpatient services rendered to Medical Assistance program beneficiaries are reimbursed based on a prospectively established rate. Outpatient services are reimbursed under a fee schedule methodology.

In 2011, the Medical Assistance program underwent significant changes (MA Modernization), including updating the inpatient DRG payment system and creating a new provider assessment program. For the year ended June 30, 2011, the approximate additional net benefit from this program was \$865,000.

*Highmark Blue Cross* Inpatient and outpatient services rendered to Highmark Blue Cross subscribers are reimbursed at prospective rates per discharge and fee schedules in accordance with established contractual agreements. The prospectively determined rates are not subject to retroactive adjustment.

Approximately 43% and 45% of net patient service revenue is from participation in the Medicare and state-sponsored Medical Assistance programs for both the years ended June 30, 2011 and 2010, respectively. Laws and regulations governing the Medicare and Medical Assistance programs are complex and subject to interpretation and change. As a result, it is possible that recorded estimates may change materially in the near term.

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

**Somerset Hospital and Subsidiary**  
**Notes to Consolidated Financial Statements**  
**June 30, 2011 and 2010**

**Note 3: Concentration of Credit Risk**

The Hospital and TLC grant credit without collateral to its patients, most of whom are area residents and are insured under third-party payer agreements. The mix of net receivables from patients and third-party payers at June 30, 2011 and 2010, is

	<u>2011</u>	<u>2010</u>
Medicare	34%	40%
Medical Assistance	14%	11%
Highmark Blue Cross	14%	15%
Other third-party payers	32%	26%
Patients	6%	8%
	<u>100%</u>	<u>100%</u>

**Note 4: Investments and Investment Return**

***Assets Limited As To Use***

Assets limited as to use include

	<u>2011</u>	<u>2010</u>
Internally designated		
Cash and cash equivalents	\$ 645,363	\$ 315,688
U S government agency bonds	-	225,793
Corporate obligations	-	1,903,989
Mutual funds - equities	8,274,180	5,862,840
Mutual funds - fixed income	6,953,388	4,442,709
Hedge funds and limited liability partnerships	2,881,704	2,848,287
	<u>18,754,635</u>	<u>15,599,306</u>
Externally restricted by donors		
Cash and cash equivalents	167,355	318,514
Trust held by others	20,000	20,000
Other assets	123,932	115,720
	<u>311,287</u>	<u>454,234</u>
Externally restricted by grantors		
Cash and cash equivalents	<u>143,871</u>	<u>-</u>

**Somerset Hospital and Subsidiary**  
**Notes to Consolidated Financial Statements**  
**June 30, 2011 and 2010**

	<b>2011</b>	<b>2010</b>
Workers' compensation self-insurance fund		
Cash and cash equivalents	\$ 241,982	\$ 242,584
Medical malpractice deductible fund		
Deposit held by malpractice insurer	992,545	1,036,880
Held by trustee under bond indenture and voluntary deferred compensation agreements		
Cash and cash equivalents	-	708,271
Other	580,983	383,198
	580,983	1,091,469
Total assets limited as to use	21,025,303	18,424,473
Less amounts required to meet current obligations	453,871	570,534
Assets limited as to use, net of current portion	\$ 20,571,432	\$ 17,853,939

Total investment return is comprised of the following

	<b>2011</b>	<b>2010</b>
Interest and dividend income	\$ 416,655	\$ 427,011
Realized gains on sales of securities	327,202	173,677
Change in fair value of investments accounted for under the fair value option of Topic 825	284,418	352,348
Loss on investment securities for other-than-temporary impairment	-	(826,348)
Net unrealized gains and losses on other than trading securities	1,671,193	1,585,522
	\$ 2,699,468	\$ 1,712,210

**Somerset Hospital and Subsidiary**  
**Notes to Consolidated Financial Statements**  
**June 30, 2011 and 2010**

Total investment return is reflected in the statements of operations and changes in net assets as follows

	<b>2011</b>	<b>2010</b>
Unrestricted net assets		
Other operating revenue	\$ 17,577	\$ 30,607
Other nonoperating income	726,280	570,081
Investment return- change in fair value of investments accounted for under the fair value option of Topic 825	284,418	352,348
Investment return - loss on investment securities for other-than-temporary impairment	-	(826,348)
Change in unrealized gains and losses on other than trading securities	1,664,631	1,581,330
Temporarily restricted net assets	6,562	4,192
	\$ 2,699,468	\$ 1,712,210

At June 30, 2010, as required by accounting principles generally accepted in the United States of America, and in accordance with the definition of other-than-temporary impairment within those principals, the Hospital reduced the cost basis of certain investments to the current market value and recognized the resulting loss as a component of excess of revenues over expenses in the amount of \$826,348. No other-than-temporary impairment was recorded in 2011.

***Unrealized Losses on Investments***

Certain investments in debt and marketable equity securities are reported in the financial statements at an amount less than their historical cost by \$27,688 and \$470,324 at June 30, 2011 and 2010, respectively. Total fair value of these investments at June 30, 2011 and 2010, was \$3,751,073 and \$4,381,128, respectively, which is approximately 18% and 24%, respectively, of the Hospital's assets limited as to use. These declines primarily resulted from the performance of the underlying securities in mutual funds and changes in market interest rates.

Based on evaluation of available evidence, management believes the declines in fair value for these securities are temporary. Should the impairment of any of these securities become other than temporary, the cost basis of the investment will be reduced and the resulting loss recognized in excess of revenues over expenses in the period the other-than-temporary impairment is identified.

**Somerset Hospital and Subsidiary**  
**Notes to Consolidated Financial Statements**  
**June 30, 2011 and 2010**

The following table shows the Hospital's investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at June 30, 2011 and 2010

Description of Securities	June 30, 2011				Total Unrealized	
	Less than 12 Months		12 Months or More			
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Losses
Debt securities	\$ 2,057,482	\$ (27,132)	\$ 1,484,367	\$ (230)	\$ 3,541,849	\$ (27,362)
Mutual funds - equities	-	-	209,224	(326)	209,224	(326)
Total temporarily impaired securities	<u>\$ 2,057,482</u>	<u>\$ (27,132)</u>	<u>\$ 1,693,591</u>	<u>\$ (556)</u>	<u>\$ 3,751,073</u>	<u>\$ (27,688)</u>

Description of Securities	June 30, 2010				Total Unrealized	
	Less than 12 Months		12 Months or More			
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Losses
Debt securities	\$ -	\$ -	\$ 2,044,978	\$ (117,790)	\$ 2,044,978	\$ (117,790)
Mutual funds - equities	1,378,988	(141,012)	957,162	(211,522)	2,336,150	(352,534)
Total temporarily impaired securities	<u>\$ 1,378,988</u>	<u>\$ (141,012)</u>	<u>\$ 3,002,140</u>	<u>\$ (329,312)</u>	<u>\$ 4,381,128</u>	<u>\$ (470,324)</u>

***Hedge Funds and Limited Liability Partnerships***

The fair value of the hedge funds and limited liability partnerships has been estimated using the net asset value per share of the investments. Hedge funds and limited liability partnerships held at June 30 consist of the following:

	June 30, 2011			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Hedge fund of funds (A)	\$ 889,457	\$ -	Quarterly	90-day written notice
Hedge fund of funds (B)	\$ 984,646	\$ -	Quarterly	90-day written notice
Limited liability partnership (D)	\$ 1,007,601	\$ -	Quarterly	90-day written notice

**Somerset Hospital and Subsidiary**  
**Notes to Consolidated Financial Statements**  
**June 30, 2011 and 2010**

	June 30, 2010			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Hedge fund of funds (A)	\$ 726,294	\$ -	Quarterly	90-day written notice
Hedge fund of funds (B)	\$ 777,653	\$ -	Quarterly	90-day written notice
Limited liability company (C)	\$ 457,463	\$ -	Monthly	5-day written notice
Limited liability partnership (D)	\$ 886,877	\$ -	Quarterly	90-day written notice

- (A) This fund seeks to generate total return in excess of the yields of short-term U S Treasury securities, irrespective of the performance of any particular sector of the global capital markets. The fund seeks to achieve its objective by capitalizing on inefficiencies in the global capital markets through an allocation of the fund's capital to various alternative investment strategies. The fund invests in hedge funds which hold various government and corporate debt obligations, corporate common stocks and warrants, closed-end funds, restricted preferred stock and derivative financial instruments, among other investments.
- (B) This fund seeks to achieve long-term growth of capital with reduced volatility by allocating its capital amount various money managers that, as a group, employ a variety of investment techniques and strategies. The money managers invest in diversified portfolios of U S and international equities as well as in distressed and arbitrage securities and some private, less liquid investments.
- (C) The purpose of this fund is to increase the long-term value of its members' investment primarily investing in equity securities of companies that the fund manager believes show a high probability for superior growth. The fund invests in common stocks, warrants, stock purchase rights, preferred stock, real estate investment trusts, depository receipts and convertible debt securities. During the year ended June 30, 2011, the Hospital sold its interest in this investment.
- (D) This fund seeks to earn an attractive return while minimizing risk over the long-term by investing in securities and other financial instruments that the general partner believes to be under-valued and that are issued by or related to special situation companies. This account invests in securities and other financial instruments of United States and foreign entities, including, without limitation, capital stock, partnership interests, interests in real estate and real estate related assets, bonds, notes and debentures, currencies, commodities, interest rate, currency, commodity, equity and other derivative products, loans participations, mutual funds, money market funds, obligations of the United States or any state therefore, foreign governments commercial paper, certificates of deposit, letters of credit, trade claims, and any other obligations and instruments or evidences of indebtedness of whatever kind or nature, and to sell securities short and cover such sales.

***Other-Than-Temporary Impairment***

The Hospital routinely conducts periodic reviews to identify and evaluate each investment security to determine whether an other-than-temporary impairment has occurred. For each security in the

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investment portfolio (including but not limited to those whose fair value is less than their amortized cost basis), an extensive, regular review is conducted to determine if an other-than-temporary impairment has occurred. Various inputs to the economic models are used to determine if an unrealized loss is other-than-temporary impairment such as severity of loss, length of time in a loss position and other significant factors.

**Note 5: Investments in and Advances to Equity Investees**

The investments in and advances to equity investees relate to a 50% ownership of Somerset Med Services, Inc. and a 2% ownership of Community Health Alliance Reciprocal Risk Retention Group.

Financial position and results of operations of Somerset Med Services, Inc. as of June 30, 2011 and 2010, are summarized below.

	<b>2011</b>	<b>2010</b>
Current assets	\$ 1,189,430	\$ 1,209,874
Property and other long-term assets, net	121,901	155,160
Total assets	<u>1,311,331</u>	<u>1,365,034</u>
Total liabilities	<u>442,577</u>	<u>420,266</u>
Equity	<u>\$ 868,754</u>	<u>\$ 944,768</u>
Revenues	\$ 4,193,099	\$ 4,227,488
Net income	\$ 323,986	\$ 414,470

During 2011 and 2010, the Hospital received \$200,000 and \$225,000, respectively, in cash dividends from Somerset Med Services, Inc.

Financial positions and results of operations of Community Health Alliance Reciprocal Risk Retention Group (CHA) are summarized below from its audited financial statements as of December 31, 2010 and 2009, respectively.

	<b>December 31,</b>	
	<b>2010</b>	<b>2009</b>
Total assets	\$119,456,088	\$100,581,899
Total liabilities	<u>110,683,939</u>	<u>84,790,409</u>
Equity	<u>\$ 8,772,149</u>	<u>\$ 15,791,490</u>
Revenues	\$ 16,572,006	\$ 13,231,823
Net income (loss)	\$(15,346,606)	\$ 508,506

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During 2011 and 2010, the Hospital did not receive an equity distribution from the Community Health Alliance Reciprocal Risk Retention Group. During 2011, the Hospital contributed \$146,000 to CHA as a surplus note and has recorded a related receivable at June 30, 2011.

**Note 6: Property and Equipment**

Property and equipment are stated at cost. A summary of cost by category and the related total accumulated depreciation follows:

	2011	2010
Land	\$ 2,365,638	\$ 2,365,638
Land improvements	630,824	469,869
Buildings	47,894,929	47,737,669
Equipment	36,336,677	34,141,646
Construction in progress	492,427	268,144
	87,720,495	84,982,966
Less accumulated depreciation	54,253,908	50,899,502
	\$ 33,466,587	\$ 34,083,464

Included in construction in progress are capital costs associated with renovating a physician office building. Total costs of this project are expected to be approximately \$1,500,000, and is scheduled for completion during 2012. This project is expected to be paid from operating funds of the Hospital and available grant funds.

**Note 7: Contingent Liabilities**

***Medical Malpractice***

The Hospital purchases primary and excess liability malpractice insurance under claims-made policies. Adjustments of estimated to actual expense, if any, after the policy terms, are included in the period such adjustments are determined. The Hospital accrues the expense of its share of asserted and unasserted claims occurring during the year by estimating the probable ultimate cost of any such claim. Hospital management does not expect any claims to exceed malpractice insurance coverage limits. However, because of the risks involved in providing health care services, it is possible that an event has occurred which will be the basis of a future material claim.

Beginning January 1, 2003, the Hospital became a member of the Community Health Alliance (CHA), a Reciprocal Risk Retention Group approved to provide malpractice coverage in Pennsylvania. The group was formed in order to stabilize the cost and availability of malpractice insurance for Pennsylvania community hospitals by taking advantage of the self-funding

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capabilities of a larger group and leveraging the group's purchasing power. The group members are provided with primary and excess liability malpractice insurance under claims-made policies. Adjustments of estimated to actual expense, if any, after the policy terms, will be included in the period such adjustments are determined. The Hospital has an approximate 2% ownership in the group and accounts for its investment utilizing the equity method of accounting (*Note 5*).

The Hospital also participates in the Medical Care Availability and Reduction of Error Fund (MCARE) of the Commonwealth of Pennsylvania. Any unfunded liabilities within the MCARE may be funded through surcharge assessments in future years. Recent increases in the annual surcharge and concerns over MCARE's ability to manage and pay claims resulted in proposals to reform, restructure or terminate MCARE. Depending upon the ultimate resolution of this matter, the Hospital may incur additional costs in future years. No amounts for such unfunded liabilities, if any, are currently estimable and none are recorded on the consolidated balance sheets at June 30, 2011 and 2010.

**Self-Insurance**

The Hospital is self-insured for employee health insurance and has accrued an estimate of the ultimate costs for both reported claims and claims incurred but not reported. Actual results could differ from these estimates.

The Hospital is self-insured for workers' compensation claims and has accrued an estimate of the ultimate costs for both reported claims and claims incurred but not reported estimated based upon known amounts and historical trends. Actual results could differ from these estimates.

A summary of estimated self-insurance reserves accrued by the Hospital as of June 30, 2011 and 2010, follows:

	<b>Current</b>	<b>2011 Long-Term</b>	<b>Total</b>
Health insurance	\$ 325,000	\$ -	\$ 325,000
Medical malpractice	300,000	1,809,957	2,109,957
Workers' compensation	135,000	257,000	392,000
	<u>\$ 760,000</u>	<u>\$ 2,066,957</u>	<u>\$ 2,826,957</u>
		<b>2010</b>	
	<b>Current</b>	<b>Long-Term</b>	<b>Total</b>
Health insurance	\$ 325,000	\$ -	\$ 325,000
Medical malpractice	300,000	1,776,205	2,076,205
Workers' compensation	135,000	315,000	450,000
	<u>\$ 760,000</u>	<u>\$ 2,091,205</u>	<u>\$ 2,851,205</u>

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The long-term portion of these estimated self-insurance reserves are presented as long-term liabilities on the consolidated balance sheets as a component of estimated self-insurance costs and other

**Note 8: Long-Term Debt**

	<b>2011</b>	<b>2010</b>
Hospital Revenue Bonds, Series 1997A (A)	\$ -	\$ 2,450,000
Hospital Revenue Bonds, Series 2002A (B)	-	5,650,000
Hospital Revenue Bonds, Series 2007A (C)	-	4,780,000
Hospital Revenue Bonds, Series 2007B (D)	-	5,110,000
Hospital Revenue Note, Series 2009 (E)	3,192,906	3,387,077
Hospital Revenue Note, Series 2010 (F)	17,146,000	-
	<u>20,338,906</u>	<u>21,377,077</u>
Less current maturities	860,523	1,094,170
Less unamortized discount on bonds	-	44,417
	<u>\$ 19,478,383</u>	<u>\$ 20,238,490</u>

- (A) Hospital Revenue Bonds, Series 1997A consist of Somerset County Hospital Authority (Authority) Revenue Bonds in the original amount of \$4,000,000 dated May 1, 1997, bearing a variable interest rate of 0.28% at June 30, 2010. The interest rate on these bonds was adjusted weekly based on market interest rates. The bonds were payable in annual installments through March 1, 2022. This bond issue was paid in full during 2011 with the issuance of the Series 2010 Hospital Revenue Note.
- (B) Hospital Revenue Bonds, Series 2002A consist of Authority Revenue Bonds in the original amount of \$6,615,000 dated July 1, 2002, with stated interest rates ranging from 2.00% to 5.45%. The bonds were payable in annual installments through March 1, 2032. This bond issue was advance refunded during 2011 with the issuance of the Series 2010 Hospital Revenue Note.
- (C) Revenue Bonds, Series 2007A consist of Hospital Revenue Refunding Bonds in the original amount of \$6,435,000 dated May 31, 2007, bearing a variable interest rate of 0.28% at June 30, 2010. The interest rate on these bonds was adjusted weekly based on market interest rates. The bonds were payable in annual installments through June 30, 2017. This bond issue was paid in full during 2011 with the issuance of the Series 2010 Hospital Revenue Note.

The Hospital had entered into an interest rate swap agreement to help mitigate exposure to future changes in interest rates on the Series 2007A bonds. See *Note 9* for additional discussion of the interest rate swap agreement. This interest rate swap agreement was terminated in 2011 in conjunction with the repayment of the Series 2007A bonds.

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- (D) Hospital Revenue Bonds. Series 2007B consist of Hospital Revenue Refunding Bonds in the original amount of \$5,110,000 dated May 31, 2007, bearing a variable interest rate of 0.28% at June 30, 2010. The interest rate on these bonds was adjusted weekly based on market interest rates. The bonds were payable in annual installments through June 30, 2037. This bond issue was paid in full during 2011 with the issuance of the Series 2010 Hospital Revenue Note.
- (E) Hospital Revenue Note. Series of 2009 dated April 1, 2009, in the original amount of \$3,590,000, bearing an interest rate of 3.32% when the prime rate is equal to or less than 4.75%, and 70% of the prime rate when it is higher than 4.75%, with a maximum variable rate of 6.00%. At June 30, 2011 and 2010, the interest rate was 3.32%. The note is payable in monthly installments through May 1, 2024.
- (F) Hospital Revenue Note. Series 2010 dated December 23, 2010, in the original amount of \$17,471,000, bearing an interest rate equal to the bank qualified tax-exempt rate of 65% of the sum of one-month LIBOR in effect for each reset day plus 2 percent. At June 30, 2011, the interest rate was 1.42%. The note is payable in monthly installments with a balloon payment of \$12,554,000, on December 15, 2017. Principal and interest on this variable rate note are payable in monthly installments in accordance with an established twenty-year amortization schedule up to the maturity date on the note of December 15, 2017. The outstanding principle of \$12,554,000 along with any accrued interest will be due and payable on this maturity date. The Hospital would intend to restructure this note prior to its established maturity date. This note was issued during 2010 to refund the Series 1997A, Series 2002A, Series 2007A and Series 2007B bond issues.

The Hospital has entered into an interest rate swap agreement to help mitigate exposure to future changes in interest rates on \$9,000,000 of the Series 2010 Note. See *Note 9* for additional discussion of the interest rate swap agreement.

Upon issuance and delivery of the Hospital Revenue Note, Series 2010, the Hospital repaid its outstanding 1997A, 2007A and 2007B bonds in the total principal amount of \$12,485,000.

Proceeds from the Series 2010 Note were also used to purchase securities that were deposited in trust under an escrow agreement sufficient in the amount to pay for future principal, interest and redemption premiums on the Series 2002A defeased bonds. At June 30, 2011, the unpaid balance of the 2002A bonds of \$5,505,000 together with the \$6,076,353 of trustee-held assets in escrow are not considered assets or obligations of the Hospital, and therefore are not included in the financial statements.

These advance refunding transactions resulted in a loss on extinguishment of debt of \$838,689 at June 30, 2011, since the Hospital was released from its obligation on the 1997A, 2002A, 2007A and 2007B bonds.

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The Hospital has pledged as collateral all income received by or on behalf of the Hospital from the use of the health care facilities and all equipment and inventory used in the operation of the health care facilities for each of the Hospital Revenue Bonds Series, the Hospital Revenue Notes and the interest rate swap agreement entered into in 2010 (*Note 9*). Additionally, the Hospital had entered into a Mortgage and Security Agreement with the bond trustee with respect to the Hospital's health care facilities.

The Hospital obtained financing in 1997 through the issuance of the 1997A Bonds in the amount of \$4,000,000. The proceeds provided the Hospital with the funds necessary for construction projects of the Hospital, to partially refund the Authority's 1991 Series Bonds, pay certain costs of issuance of the bonds and fund a bond reserve fund. These bonds were paid in full during the year ended June 30, 2011, with the issuance of the Hospital Revenue Note, Series 2010.

The interest rate on the 1997A Series Bonds was based on a weekly variable rate or a term rate. The period for the term rate ended February 28, 2007, at which time the Hospital elected to convert the bonds to a weekly variable rate. The variable rate was adjusted weekly by a remarketing agent, based on market conditions, with a maximum rate of 12%. The Hospital maintained a letter-of-credit facility that permitted the trustee to draw an amount up to the principal amount outstanding should the bonds not be remarketed and become due. The letter of credit, which was set to expire on July 2, 2011, could have been used to pay principal or interest on the 1997A Series Bonds. The letter of credit was terminated in advance of its expiration date with the refunding of the Series 1997A Bonds.

The Hospital obtained financing in 2002 through the issuance of the 2002A Series Bonds in the amount of \$6,615,000. The proceeds provided the Hospital with the funds necessary to complete construction projects at the Hospital. The 2002A Series Bonds were insured by Radian Asset Assurance.

The 2002A Series Bonds were subject to mandatory sinking fund redemption provisions prior to maturity at a redemption price of 100% of the principal amount including interest, commencing in March 2013, from established sinking funds. The Hospital could, at its option, redeem the 2002A Series Bonds in whole or in part beginning on March 1, 2012, or anytime thereafter. These bonds were advance refunded and repayment funds were placed into escrow during the year ended June 30, 2011, with the issuance of the Hospital Revenue Note, Series 2010.

The Hospital obtained financing in 2007 through the issuance of the 2007A and 2007B Series Bonds in the amount of \$6,435,000 and \$5,110,000, respectively. The proceeds provided necessary funds to finance the construction of a medical office building and refund the Series 1997B Bonds.

The interest rates on the 2007A and 2007B Series Bonds was based on a weekly variable rate or a term rate. In March 2009, the Hospital elected for the 2007B Bonds to bear a term rate of 2.40% for a one-year term, and the 2007A Bonds to bear a weekly variable rate based on market conditions, with a maximum rate of 12%. In March 2010, the Hospital elected for the 2007A and 2007B Bonds to bear a weekly variable rate based on market conditions, with a maximum rate of 12%. The Hospital maintained letters of credit that permitted the trustee to draw an amount up to

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the principal amount outstanding should either of the bonds not be remarketed and become due. The letters of credit had expiration dates of June 15, 2012, and could have been used to pay principal or interest on the bonds. The letters of credit were terminated in advance of their expiration dates with the refunding of the Series 2007A and 2007B Bonds.

The bond agreements and notes contain certain restrictive covenants which, among other provisions, require that the Hospital maintain certain financial covenants which include maximum annual debt service, debt service coverage, leverage and liquidity ratios. As of June 30, 2011 and 2010, and for the years then ended, the Hospital was in compliance with these covenants.

Aggregate annual maturities and sinking fund requirements of long-term debt at June 30, 2011, are as follows:

2012	\$ 860,523
2013	890,663
2014	907,762
2015	946,104
2016	972,492
Thereafter	<u>15,761,362</u>
	<u><u>\$ 20,338,906</u></u>

**Note 9: Interest Rate Swap Agreements**

As a strategy to maintain acceptable levels of exposure to the risk of changes in future cash flows due to interest rate fluctuations, the Hospital entered into an interest rate swap agreement for a portion of its floating rate debt on March 3, 2008. The agreement provided for the Hospital to receive interest from the counterparty equivalent to 65% of LIBOR and to pay interest to the counterparty at a fixed rate of 2.364%. Under the agreement, the Hospital paid or received the net interest amount monthly, with the monthly settlements included in interest expense. The swap was set to expire on March 1, 2013, however, the Hospital terminated the swap agreement during 2011 with the repayment of the Series 2007A bonds with the proceeds from the Series 2010 Hospital Revenue Note. The expense associated with the swap, recognized in interest expense in the statement of operations, for the years ended June 30, 2011 and 2010, respectively, was approximately \$58,000 and \$122,000. The cost associated to terminate the interest rate swap agreement prior to its maturity was \$158,200. This cost associated with the termination has been reclassified to a component of excess of revenues over expenses in 2011.

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Management designated the interest rate swap agreement as a cash flow hedging instrument. As a result, the agreement is recorded at its fair value with subsequent changes in fair value excluded from excess of revenues over expenses until the swap agreement was terminated in advance of its maturity date. The change in the fair value of the swap was \$180,627 and \$(40,605) at June 30, 2011 and 2010, respectively, and is recorded as a component of changes in unrestricted net assets. The fair value of the swap at June 30, 2010, was \$(180,627) and was recorded as a long-term liability.

As a strategy to maintain acceptable levels of exposure to the risk of changes in future cash flows due to interest rate fluctuations, the Hospital entered into an interest rate swap agreement for a portion of its floating rate debt relating to the Hospital Revenue Note, Series 2010, on December 23, 2010. The agreement provides for the Hospital to receive interest from the counterparty equivalent to 65% of one-month LIBOR plus a 2.00% spread and to pay interest to the counterparty at a fixed rate of 3.315% on a notional amount of \$8,833,115 at June 30, 2011. Under the agreement, the Hospital pays or receives the net interest amount monthly, with the monthly settlements included in interest expense. The swap expires on December 15, 2017. The expense associated with the swap, recognized in interest expense in the statement of operations, for the year ended June 30, 2011, was approximately \$75,000.

Management has designated the interest rate swap agreement as a cash flow hedging instrument. As a result, the agreement is recorded at its fair value with subsequent changes in fair value excluded from excess of revenues over expenses. The change in the fair value of the swap was \$(249,914) at June 30, 2011, and is recorded as a component of changes in unrestricted net assets. The fair value of the swap at June 30, 2011, was \$(249,914), and is recorded as a long-term liability.

**Note 10: Line of Credit**

During 2010, the Hospital entered into a \$1,500,000 revolving line of credit expiring January 30, 2011. During 2011, the Hospital extended the line of credit for one year and it now expires on January 30, 2012. The line is collateralized by any hardware and software purchased from the proceeds of this line of credit. Interest is at a fixed rate of 4.75%, and is payable monthly. At June 30, 2011 and 2010, there was \$0 borrowed against this line.

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**Note 11: Temporarily and Permanently Restricted Net Assets**

Temporarily restricted net assets are available for the following purpose or periods

	<u>2011</u>	<u>2010</u>
Operating room needs	\$ 67,215	\$ 58,353
Equipment purchases	27,907	44,888
Inpatient Hospice program	72,395	219,446
Medical student program	27,090	45,016
Campus development	29,174	44,174
Diabetic Education Grant	34,328	-
	<u>\$ 258,109</u>	<u>\$ 411,877</u>

During 2011 and 2010, net assets were released from donor restrictions by incurring expenses, satisfying the restricted purposes in the amounts of \$535,383 and \$370,946, respectively. During 2011 and 2010, net assets of \$15,000 and \$14,817, respectively, were released to purchase property and equipment

Permanently restricted net assets are restricted to

	<u>2011</u>	<u>2010</u>
Trusts held by others	\$ 20,000	\$ 20,000

**Note 12: Charity Care**

Charges excluded from revenue under the Hospital's charity care policy were \$2,158,058 and \$2,065,808 for 2011 and 2010, respectively

In support of its mission, the Hospital voluntarily provides free care to patients who lack financial resources and are deemed to be medically indigent. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported in net patient service revenue. In addition, the Hospital provides services to other medically indigent patients under certain government-reimbursed public aid programs. Such programs pay providers amounts which are less than established charges for the services provided to the recipients and many times the payments are less than the cost of rendering the services provided.

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**Note 13: Functional Expenses**

The Hospital provides health care services primarily to residents within its geographic area. Expenses related to providing these services are as follows:

	2011	2010
Health care services	\$ 51,799,055	\$ 52,361,732
General and administrative	16,875,847	16,638,209
	\$ 68,674,902	\$ 68,999,941

**Note 14: Operating Leases**

Rental expense under operating lease agreements totaled approximately \$675,000 and \$985,000 for the years ended June 30, 2011 and 2010, respectively.

Future minimum lease payments under noncancellable operating leases at June 30, 2011, are summarized as follows:

2012	\$ 409,392
2013	324,328
2014	154,200
2015	72,398
Future minimum lease payments	\$ 960,318

**Note 15: Pension Plan**

***Defined Benefit Plan***

The Hospital has a noncontributory defined benefit pension plan covering all employees who meet the eligibility requirements. The Hospital's funding policy is to contribute such amounts as are necessary on an actuarial basis to provide the plan with assets sufficient to meet the benefits to be paid to retirees or their beneficiaries. The Hospital does not expect to contribute to the plan in 2012. During 2011, the Hospital has internally designated \$500,000 to be used for future payments into the Plan, and the Hospital is intending to internally designate an additional \$900,000 for this purpose in 2012.

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Effective June 30, 2008, pension benefits for all employees in the defined benefit pension plan have been frozen

The Hospital uses a June 30 measurement date for the plan. Information about the plan's funded status follows

	<u>2011</u>	<u>2010</u>
Benefit obligation	\$(25,487,161)	\$(25,357,428)
Fair value of plan assets	<u>21,360,536</u>	<u>19,121,425</u>
Funded status	<u>\$ (4,126,625)</u>	<u>\$ (6,236,003)</u>
Liabilities recognized in the balance sheets		
Noncurrent liabilities - accrued pension obligation	<u>\$ 4,126,625</u>	<u>\$ 6,236,003</u>

Amounts recognized in unrestricted net assets not yet recognized as components of net periodic benefit cost consist of

	<u>2011</u>	<u>2010</u>
Net loss	\$ 7,342,445	\$ 9,922,005

Amortization of the unrecognized net loss, excluding asset gains and losses not yet reflected in the fair value of assets, is required if it exceeds 10% of the greater of the benefit obligation or the fair value of plan assets

The estimated net loss for the defined benefit pension plan that will be amortized from unrestricted net assets into net periodic benefit cost over the next fiscal year is \$532,045

The accumulated benefit obligation for the defined benefit pension plan was \$25,487,161 and \$25,357,428 at June 30, 2011 and 2010, respectively

	<u>2011</u>	<u>2010</u>
Other significant balances and costs are		
Benefit costs	\$ 970,182	\$ 881,307
Employer contributions	\$ 500,000	\$ 1,400,000
Benefits paid	\$ 692,273	\$ 642,401

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The following amounts have been recognized in the statements of operations for the years ended June 30, 2011 and 2010

	<b>2011</b>	<b>2010</b>
Amounts arising during the period		
Net gain (loss)	\$ 1,694,978	\$ (2,654,490)
Amounts reclassified as components of net periodic pension cost		
Net loss	\$ 884,582	\$ 677,223
Amounts reflected as components of net periodic benefit cost for the period		
Interest cost	\$ 1,435,108	\$ 1,420,475
Expected return on plan assets	(1,349,508)	(1,216,391)
Recognition of net loss	884,582	677,223
Total	\$ 970,182	\$ 881,307

Significant assumptions include

	<b>2011</b>	<b>2010</b>
Weighted average assumptions used to determine benefit obligations		
Discount rate	6.00%	5.75%
Rate of compensation increase	N/A	N/A
Weighted average assumptions used to determine benefit costs		
Discount rate	5.75%	6.75%
Expected return on plan assets	7.00%	7.00%
Rate of compensation increase	N/A	N/A

The Hospital has estimated the long-term rate of return on plan assets based primarily on historical returns on plan assets, adjusted for changes in target portfolio allocations and recent changes in long-term interest rates based on publicly available information

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Asset allocation is primarily based on a strategy to provide stable earnings while still permitting the plans to recognize potentially higher returns through a limited investment in equity securities. The target asset allocation percentages for 2011 and 2010 are as follows:

	2011	2010
Equity securities	40% - 60%	25% - 45%
Fixed income	25% - 45%	40% - 60%
Hedge funds and distressed securities	5% - 20%	5% - 20%

Plan assets are rebalanced quarterly. At June 30, 2011 and 2010, plan assets by category are as follows:

	2011	2010
Equity securities	56%	30%
Fixed income	35%	53%
Hedge funds and distressed securities	9%	17%
	100%	100%

***Pension Plan Assets***

Following is a description of the valuation methodologies used for pension plan assets measured at fair value on a recurring basis and recognized in the accompanying balance sheets, as well as the general classification of pension plan assets pursuant to the valuation hierarchy:

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include mutual funds. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Level 2 securities include U.S. government agency bonds, corporate obligations and investments in hedge funds and limited partnerships. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. Level 3 securities include investments in hedge funds and limited liability partnerships. For investments, other than the hedge funds and limited liability partnerships, the inputs used by the pricing service to determine fair value may include one, or a combination of observable inputs such as benchmark yields, broker/dealer quotes, issuer spreads, benchmark securities and reference data market research publications. For the hedge funds and limited liability partnerships, the net asset value reported by the fund manager was used to determine fair value.

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The fair values of the Hospital's pension plan assets at June 30, 2011 and 2010, respectively, by asset class are as follows

2011 Fair Value Measurements Using				
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Mutual funds - equities	\$ 11,886,701	\$ 11,886,701	\$ -	\$ -
Mutual funds - fixed income	7,502,716	7,502,716	-	-
Hedge funds and limited liability partnerships	1,971,119	-	-	1,971,119
2010 Fair Value Measurements Using				
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U S government agency bonds	\$ 208,040	\$ -	\$ 208,040	\$ -
Corporate obligations	1,720,648	-	1,720,648	-
Mutual funds - equities	5,797,951	5,797,951	-	-
Mutual funds - fixed income	8,308,278	8,308,278	-	-
Hedge funds and limited liability partnerships	3,086,508	-	389,917	2,696,591

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	<b>Investments in Hedge Funds and Limited Liability Partnerships</b>
Balance, July 1, 2009	\$ 2,423,762
Actual return on plan assets Relating to assets still held at June 30, 2010	272,829
Balance, July 1, 2010	2,696,591
Actual return on plan assets Relating to assets still held at June 30, 2011	110,446
Relating to assets sold during the period	12,191
Sales of investments	(848,109)
Balance, June 30, 2011	\$ 1,971,119

Plan assets are held by a bank-administered trust fund, which invest the assets in accordance with investment policy statements. The plan agreements permit investment in common stocks, corporate bonds and debentures, U S government securities, certain insurance contracts and other specified investments, hedge funds and distressed securities based on certain target allocation percentages.

The following benefit payments, which reflect expected future service, are expected to be paid as of June 30, 2011

2012	\$ 858,504
2013	927,111
2014	977,150
2015	1,047,091
2016	1,129,880
2017 – 2021	7,377,507

**Somerset Hospital and Subsidiary**  
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***Defined Contribution Plans***

The Hospital has also established a 403(b) plan to which employees may elect to contribute, from their compensation each pay period, a percentage up to the maximum dollar limit allowed by the Internal Revenue Service and upon which the employer matching contribution is determined. The salary deferral contributions and related investments of the 403(b) plan are held separately within each employee's account along with the employer's match. Employer discretionary contributions to the 403(b) plan for the years ended June 30, 2011 and 2010, were approximately \$588,000 and \$436,000, respectively.

TLC maintained a 401(a) defined contribution plan for its employees in order to provide additional security during retirement by encouraging them to make regular contributions to the plan. Under this plan, TLC made biannual matching contributions to eligible employees' accounts up to 1% of the employee's salary in a given year. TLC's expense associated with contributions to the plan was \$0 for the year ended June 30, 2010. During 2010, TLC elected to terminate this plan.

During 2010, TLC established a 403(b) plan to which employees may elect to contribute, from their compensation each pay period, a percentage up to the maximum dollar limit allowed by the Internal Revenue Service and upon which the employer matching contribution is determined. The salary deferral contributions and related investments of the 403(b) plan are held separately within each employee's account along with the employer's match. Employer discretionary contributions to the 403(b) plan for the year ended June 30, 2011 and 2010, were approximately \$12,000 and \$4,800, respectively.

***Voluntary Deferred Compensation Plans***

The Hospital has incepted a voluntary deferred compensation 457(b) plan for the benefit of certain employees. No Hospital assets are being used to fund the plan, as amounts are withheld from employee compensation. The trust account assets are classified as assets limited as to use and a corresponding deferred compensation obligation has been recorded by the Hospital in the amount of \$580,983 and \$383,198 at June 30, 2011 and 2010, respectively.

**Note 16: Related Party Transactions**

The Hospital leases office space from Somerset Management Services (SMS), a wholly owned subsidiary of SHS, under leases that are renewable annually. Total lease expense for 2011 and 2010 totaled approximately \$89,100 annually. The Hospital has advanced operating capital to SMS, and a receivable of \$175,051 and \$140,039 is recorded in prepaid expenses and other on the balance sheet at June 30, 2011 and 2010, respectively.

Net transfers from the Hospital to SHS in 2011 and 2010 were approximately \$873,000 and \$491,000, respectively. Transfers are used to fund operations and cash needs for affiliates of the Hospital. SHS paid the Hospital \$118,500 and \$96,850 for office rental space for the years ended June 30, 2011 and 2010, respectively. The Hospital and TLC have advanced operating capital to SHS, and a receivable of \$52,700 and \$87,600 is recorded in prepaid expenses and other on the balance sheet at June 30, 2011 and 2010, respectively.

# Somerset Hospital and Subsidiary

## Notes to Consolidated Financial Statements

### June 30, 2011 and 2010

The Hospital received contributions of approximately \$1,140,000 and \$645,000 from the Foundation during 2011 and 2010, respectively, for certain operations of the Hospital, the purchase of property and equipment, campus development and educational assistance programs

Net transfers from the Hospital to SOI in 2011 and 2010 were approximately \$958,000 and \$1,229,000, respectively. SOI paid the Hospital \$87,000 for office rental space for the years ended June 30, 2011 and 2010. The Hospital has advanced operating capital to SOI, and a receivable of \$55,780 is recorded in prepaid expenses and other on the balance sheet at June 30, 2011 and 2010

The Hospital received temporarily restricted contributions of \$45,000 and \$95,000 from the Somerset Hospital Auxiliary during 2011 and 2010, respectively, to be used in certain operations of the Hospital

#### **Note 17: Disclosures About Fair Value of Financial Instruments**

ASC Topic 820, *Fair Value Measurements*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Topic 820 also specifies a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities

Following is a description of the valuation methodologies and inputs used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying balance sheets, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy:

#### ***Cash Equivalents and Investments***

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include money market funds, mutual funds – equities and mutual funds – fixed income. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Level 2 securities include U.S. government agency bonds, corporate obligations, investments in hedge funds and limited liability partnerships and weekly maturing variable rate demand bonds. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. Level 3 securities include investments in hedge funds and limited liability partnerships. For investments, other than the

**Somerset Hospital and Subsidiary**  
**Notes to Consolidated Financial Statements**  
**June 30, 2011 and 2010**

hedge funds and limited liability partnerships, the inputs used by the pricing service to determine fair value may include one, or a combination of observable inputs such as benchmark yields, broker/dealer quotes, issuer spreads, benchmark securities and reference data market research publications. For the hedge funds and limited liability partnerships, the net asset value reported by the fund manager was used to determine fair value.

***Interest in Common Trust Funds***

Fair value is estimated at the present value of the future distributions expected to be received over the term of the agreements. Due to the nature of the valuation inputs, the interest is classified within Level 2 of the hierarchy.

***Interest Rate Swap Agreement***

The fair value is estimated using forward-looking interest rate curves and discounted cash flows that are observable or that can be corroborated by observable market data and, therefore, are classified within Level 2 of the valuation hierarchy.

The following tables present estimated fair value measurements of assets and liabilities recognized in the accompanying balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at June 30, 2011 and 2010.

	<b>2011</b>			
	<b>Fair Value Measurements Using</b>			
	<b>Fair Value</b>	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
Cash equivalents				
Weekly maturing variable rate demand bonds	\$ 2,100,413	\$ -	\$ 2,100,413	\$ -
Money market funds	7,423,794	7,423,794	-	-
Investments				
Money market funds	402,580	402,580	-	-
Mutual funds - equities	8,855,163	8,855,163	-	-
Mutual funds - fixed income	6,953,388	6,953,388	-	-
Hedge funds and limited liability partnerships	2,881,704	-	-	2,881,704
Interest in common trust funds	71,699	-	71,699	-
Interest rate swap agreement	249,914	-	249,914	-

**Somerset Hospital and Subsidiary**  
**Notes to Consolidated Financial Statements**  
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	2010 Fair Value Measurements Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash equivalents				
Weekly maturing variable rate demand bonds	\$ 2,125,656	\$ -	\$ 2,125,656	\$ -
Money market funds	7,096,844	7,096,844	-	-
Investments				
Money market funds	1,246,543	1,246,543	-	-
U S government agency bonds	225,793	-	225,793	-
Corporate obligations	1,903,989	-	1,903,989	-
Mutual funds - equities	6,246,038	6,246,038	-	-
Mutual funds - fixed income	4,442,709	4,442,709	-	-
Hedge funds and limited liability partnerships	2,848,287	-	457,463	2,390,824
Interest in common trust funds	64,415	-	64,415	-
Interest rate swap agreement	180,627	-	180,627	-

The following is a reconciliation of the beginning and ending balances of recurring fair value measurements recognized in the accompanying balance sheets using significant unobservable (Level 3) inputs

	<b>Investments in Hedge Funds and Limited Liability Partnerships</b>
Balance, July 1, 2009	\$ 2,085,676
Total realized and unrealized losses included in other income (expense)	305,148
Balance, June 30, 2010	2,390,824
Purchases	125,000
Total realized and unrealized losses included in other income (expense)	365,880
Balance, June 30, 2011	\$ 2,881,704

**Somerset Hospital and Subsidiary**  
**Notes to Consolidated Financial Statements**  
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Realized and unrealized gains and losses are included in excess of revenues over expenses for the period from July 1, 2009, through June 30, 2011

The following methods were used to estimate the fair value of all other financial instruments recognized in the accompanying balance sheets at amounts other than fair value

**Cash and Cash Equivalents**

The carrying amount approximates fair value

**Notes Payable and Long-Term Debt**

Fair value is estimated based on the borrowing rates currently available to the Hospital for bank loans with similar terms and maturities

The following table presents estimated fair values of the Hospital's financial instruments in accordance with Topic 825 not previously disclosed at June 30, 2011 and 2010

	2011		2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Cash and cash equivalents	\$ 9,800,995	\$ 9,800,995	\$ 8,929,134	\$ 8,929,134
Financial liabilities				
Long-term debt (including current portion)	20,338,906	20,338,906	21,332,660	21,143,828

**Note 18: The Fair Value Option**

As permitted by Topic 825, *The Fair Value Option for Financial Assets and Financial Liabilities*, the Hospital elected to measure its hedge funds and investment partnerships at fair value. Management has elected the fair value option for its hedge funds and investment partnerships because it more accurately reflects the portfolio returns and financial position of the Hospital. Total investment partnerships at June 30, 2011 and 2010, are \$2,881,704 and \$2,848,287, respectively.

See *Note 17* for additional disclosures regarding fair value of each of the balance sheet line items listed in the preceding paragraph.

**Changes in Fair Value**

Changes in fair value for items for which the fair value option has been elected are reported as investment return in other income (expense) in the financial statements. The change for 2011 and 2010, was an increase of \$284,418 and \$352,348, respectively, which reflects all investment return amounts from the hedge funds and investment partnerships.

**Somerset Hospital and Subsidiary**  
**Notes to Consolidated Financial Statements**  
**June 30, 2011 and 2010**

**Note 19: Significant Estimates and Concentrations**

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Estimates of allowances for adjustments included in net patient service revenue are described in *Notes 1* and *2*. Estimates related to the accrual for medical malpractice claims are described in *Notes 1* and *7*. Estimates related to the accrual for self-employee health insurance and workers' compensation are described in *Notes 1* and *7*.

***Collective Bargaining Agreement***

Approximately 25% of the Hospital employees are covered by two collective bargaining agreements, dietary and nursing services. The dietary collective bargaining agreement covering the dietary employees is scheduled to expire on February 29, 2012. The nursing collective bargaining agreement covering nursing services employees expired on March 23, 2011. The parties continue to work under the terms of the expired collective bargaining agreement while contract negotiations continue between the union and the Hospital.

***Litigation***

In the normal course of business, the Hospital is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by the Hospital's self-insurance program (discussed elsewhere in these notes) or by commercial insurance, for example, allegations regarding employment practices or performance of contracts. The Hospital evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of counsel, management records an estimate of the amount of ultimate expected loss, if any, for each of these matters. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

***Asset Retirement Obligations***

As discussed in *Note 20*, the Hospital has recorded a liability for its conditional asset retirement obligations related to asbestos abatement.

***Investments***

The Hospital invests in various investment securities. Investment securities are exposed to various risks 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 change could materially affect the amounts reported in the accompanying balance sheets. The hedge funds and limited liability partnerships investments are subject to varying degrees of market and credit risks.

# **Somerset Hospital and Subsidiary**

## **Notes to Consolidated Financial Statements**

### **June 30, 2011 and 2010**

#### ***Pension Benefit Obligations***

The Hospital has a noncontributory defined benefit pension plan whereby it agrees to provide certain postretirement benefits to eligible employees. The benefit obligation is the actuarial present value of all benefits attributed to service rendered prior to the valuation date based on the linear method. It is reasonably possible that events could occur that would change the estimated amount of this liability materially in the near term.

#### ***Current Economic Conditions***

The current protracted economic decline continues to present hospitals with difficult circumstances and challenges, which in some cases have resulted in large declines in the fair value of investments and other assets, large declines in contributions, constraints on liquidity and difficulty obtaining financing. The financial statements have been prepared using values and information currently available to the Hospital.

Current economic conditions, including the high unemployment rate, have made it difficult for certain patients to pay for services rendered. As employers make adjustments to health insurance plans or more patients become unemployed, services provided to self-pay and other payers may significantly impact net patient service revenue, which could have an adverse impact on the Hospital's future operating results. Further, the effect of economic conditions on the state may have an adverse effect on cash flows related to the Medical Assistance program.

Given the volatility of current economic conditions, the values of assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments in investment values, including defined benefit pension plan investments, and allowances for accounts receivable that could negatively impact the Hospital's ability to meet debt covenants or maintain sufficient liquidity.

#### **Note 20: Asset Retirement Obligation**

Accounting principles generally accepted in the United States of America, require that an asset retirement obligation (ARO) associated with the retirement of a tangible long-lived asset be recognized as a liability in the period in which it is incurred or becomes determinable (as defined by the standard) even when the timing and/or method of settlement may be conditional on a future event. The Hospital's conditional asset retirement obligations primarily relate to asbestos contained in buildings that the Hospital owns. Environmental regulations exist that require the Hospital to handle and dispose of asbestos in a special manner if a building undergoes major renovations or is demolished. A liability of \$112,332 and \$105,775 has been recognized in the accompanying 2011 and 2010 financial statements, respectively, for the portion of the liability that can be reasonably estimated. However, there remains a liability that has not been recognized in the accompanying financial statements because the range of time over which the Hospital may settle is unknown and cannot be reasonably determined. The Hospital will recognize a liability when sufficient information is available to reasonably estimate fair value.

## **Supplementary Information**

**Somerset Hospital and Subsidiary**  
**Consolidating Schedule – Balance Sheet Information**  
**June 30, 2011**

**Assets**

	<b>Somerset Hospital</b>	<b>Twin Lakes Center</b>	<b>Consolidated</b>
<b>Current Assets</b>			
Cash and cash equivalents	\$ 11,007,419	\$ 1,031,551	\$ 12,038,970
Assets limited as to use - current	453,871	-	453,871
Patient accounts receivable, net of allowance, 2011 - \$1,150,000	4,962,075	291,994	5,254,069
Estimated amounts due from third-party payers	679,601	-	679,601
Supply inventories	921,301	-	921,301
Prepaid expenses and other	463,327	350	463,677
	<u>18,487,594</u>	<u>1,323,895</u>	<u>19,811,489</u>
<b>Assets Limited As To Use</b>			
Internally designated	18,754,635	-	18,754,635
Externally restricted by donors	311,287	-	311,287
Externally restricted by grantors	143,871	-	143,871
Workers' compensation self-insurance fund	241,982	-	241,982
Medical malpractice deductible fund	992,545	-	992,545
Held by trustee	580,983	-	580,983
	<u>21,025,303</u>	<u>-</u>	<u>21,025,303</u>
Less amount required to meet current obligations	453,871	-	453,871
	<u>20,571,432</u>	<u>-</u>	<u>20,571,432</u>
<b>Investments in and Advances to Equity</b>			
<b>Investees</b>	434,379	-	434,379
<b>Property and Equipment, At Cost</b>			
	85,945,571	1,774,924	87,720,495
Less accumulated depreciation	53,226,505	1,027,403	54,253,908
	<u>32,719,066</u>	<u>747,521</u>	<u>33,466,587</u>
<b>Other Assets</b>			
Deferred financing costs	137,207	-	137,207
Other	178,181	-	178,181
	<u>315,388</u>	<u>-</u>	<u>315,388</u>
Total assets	<u>\$ 72,527,859</u>	<u>\$ 2,071,416</u>	<u>\$ 74,599,275</u>

## Liabilities and Net Assets

	<b>Somerset Hospital</b>	<b>Twin Lakes Center</b>	<b>Consolidated</b>
<b>Current Liabilities</b>			
Current maturities of long-term debt	\$ 860.523	\$ -	\$ 860.523
Accounts payable	3,745.534	49.568	3,795.102
Accrued payroll and vacation pay	3,142.416	129.374	3,271.790
Estimated self-insurance costs – current	760.000	-	760.000
Accrued interest payable	25.947	-	25.947
Deferred revenue and other	169.431	-	169.431
	<u>8,703.851</u>	<u>178.942</u>	<u>8,882.793</u>
<b>Total current liabilities</b>	<b>8,703.851</b>	<b>178.942</b>	<b>8,882.793</b>
<b>Estimated Self-Insurance Costs and Other</b>	<b>4,044.747</b>	<b>-</b>	<b>4,044.747</b>
<b>Interest Rate Swap Agreements</b>	<b>249.914</b>	<b>-</b>	<b>249.914</b>
<b>Long-Term Debt</b>	<b>19,478.383</b>	<b>-</b>	<b>19,478.383</b>
<b>Accrued Pension Obligation</b>	<b>4,126.625</b>	<b>-</b>	<b>4,126.625</b>
<b>Total liabilities</b>	<b><u>36,603.520</u></b>	<b><u>178.942</u></b>	<b><u>36,782.462</u></b>
<b>Net Assets</b>			
Unrestricted	35,646.230	1,892.474	37,538.704
Temporarily restricted	258.109	-	258.109
Permanently restricted	20.000	-	20.000
	<u>35,924.339</u>	<u>1,892.474</u>	<u>37,816.813</u>
<b>Total net assets</b>	<b><u>35,924.339</u></b>	<b><u>1,892.474</u></b>	<b><u>37,816.813</u></b>
<b>Total liabilities and net assets</b>	<b><u>\$ 72,527.859</u></b>	<b><u>\$ 2,071.416</u></b>	<b><u>\$ 74,599.275</u></b>

**Somerset Hospital and Subsidiary**  
**Consolidating Schedule – Balance Sheet Information**  
**June 30, 2010**

**Assets**

	<b>Somerset Hospital</b>	<b>Twin Lakes Center</b>	<b>Consolidated</b>
<b>Current Assets</b>			
Cash and cash equivalents	\$ 10,209,172	\$ 946,316	\$ 11,155,488
Assets limited as to use – current	570,534	-	570,534
Patient accounts receivable, net of allowance, 2010 - \$1,065,000	4,766,468	226,476	4,992,944
Estimated amounts due from third-party payers	209,770	-	209,770
Supply inventories	769,934	-	769,934
Prepaid expenses and other	496,431	-	496,431
	<u>17,022,309</u>	<u>1,172,792</u>	<u>18,195,101</u>
<b>Assets Limited As To Use</b>			
Internally designated	15,599,306	-	15,599,306
Externally restricted by donors	454,234	-	454,234
Workers' compensation self-insurance fund	242,584	-	242,584
Medical malpractice deductible fund	1,036,880	-	1,036,880
Held by trustee	1,091,469	-	1,091,469
	<u>18,424,473</u>	<u>-</u>	<u>18,424,473</u>
Less amount required to meet current obligations	570,534	-	570,534
	<u>17,853,939</u>	<u>-</u>	<u>17,853,939</u>
<b>Investments in and Advances to Equity</b>			
<b>Investees</b>	780,971	-	780,971
<b>Property and Equipment, At Cost</b>			
	83,410,510	1,572,456	84,982,966
Less accumulated depreciation	49,933,218	966,284	50,899,502
	<u>33,477,292</u>	<u>606,172</u>	<u>34,083,464</u>
<b>Other Assets</b>			
Deferred financing costs	546,731	-	546,731
Other	130,892	-	130,892
	<u>677,623</u>	<u>-</u>	<u>677,623</u>
Total assets	<u>\$ 69,812,134</u>	<u>\$ 1,778,964</u>	<u>\$ 71,591,098</u>

## Liabilities and Net Assets

	<b>Somerset Hospital</b>	<b>Twin Lakes Center</b>	<b>Consolidated</b>
<b>Current Liabilities</b>			
Current maturities of long-term debt	\$ 1,094,170	\$ -	\$ 1,094,170
Accounts payable	4,648,065	11,858	4,659,923
Accrued payroll and vacation pay	3,216,596	115,856	3,332,452
Estimated self-insurance costs – current	760,000	-	760,000
Accrued interest payable	121,281	-	121,281
Deferred revenue and other	36,175	-	36,175
	<u>9,876,287</u>	<u>127,714</u>	<u>10,004,001</u>
<b>Total current liabilities</b>	<b>9,876,287</b>	<b>127,714</b>	<b>10,004,001</b>
<b>Estimated Self-Insurance Costs and Other</b>	<b>3,714,653</b>	<b>-</b>	<b>3,714,653</b>
<b>Interest Rate Swap Agreement</b>	<b>180,627</b>	<b>-</b>	<b>180,627</b>
<b>Long-Term Debt</b>	<b>20,238,490</b>	<b>-</b>	<b>20,238,490</b>
<b>Accrued Pension Obligation</b>	<b>6,236,003</b>	<b>-</b>	<b>6,236,003</b>
<b>Total liabilities</b>	<b><u>40,246,060</u></b>	<b><u>127,714</u></b>	<b><u>40,373,774</u></b>
<b>Net Assets</b>			
Unrestricted	29,134,197	1,651,250	30,785,447
Temporarily restricted	411,877	-	411,877
Permanently restricted	20,000	-	20,000
	<u>29,566,074</u>	<u>1,651,250</u>	<u>31,217,324</u>
<b>Total net assets</b>	<b>29,566,074</b>	<b>1,651,250</b>	<b>31,217,324</b>
<b>Total liabilities and net assets</b>	<b><u>\$ 69,812,134</u></b>	<b><u>\$ 1,778,964</u></b>	<b><u>\$ 71,591,098</u></b>

**Somerset Hospital and Subsidiary**  
**Consolidating Schedule – Statement of Operations Information**  
**Year Ended June 30, 2011**

	<b>Somerset Hospital</b>	<b>Twin Lakes Center</b>	<b>Consolidated</b>
<b>Unrestricted Revenues, Gains and Other Support</b>			
Net patient service revenue	\$ 66,114,848	\$ 1,732,538	\$ 67,847,386
Federal, state and county grants	-	912,534	912,534
Other	1,187,273	3,607	1,190,880
Net assets released from restrictions used for operations	535,383	-	535,383
Total unrestricted revenues, gains and other support	<u>67,837,504</u>	<u>2,648,679</u>	<u>70,486,183</u>
<b>Expenses</b>			
Salaries and wages	25,573,938	1,256,635	26,830,573
Employee benefits	7,191,685	424,073	7,615,758
Physician fees	4,430,503	59,871	4,490,374
Supplies and other	22,148,896	595,607	22,744,503
Depreciation and amortization	3,505,911	61,119	3,567,030
Interest	536,518	-	536,518
Provision for uncollectible accounts	2,879,996	10,150	2,890,146
Total expenses	<u>66,267,447</u>	<u>2,407,455</u>	<u>68,674,902</u>
<b>Operating Income</b>	<u>1,570,057</u>	<u>241,224</u>	<u>1,811,281</u>
<b>Other Income (Expense)</b>			
Contributions	2,162,183	-	2,162,183
Investment return	726,280	-	726,280
Investment return - change in fair value of investments accounted for under the fair value option of Topic 825	284,418	-	284,418
Loss on extinguishment of debt	(838,689)	-	(838,689)
Loss on termination of swap agreement	(158,200)	-	(158,200)
Loss on investments in equity investees	(135,771)	-	(135,771)
Other	4,337	-	4,337
Total other income (expense)	<u>2,044,558</u>	<u>-</u>	<u>2,044,558</u>
<b>Excess of Revenues Over Expenses</b>	3,614,615	241,224	3,855,839
Investment return – change in unrealized gains and losses on other than trading securities	1,664,631	-	1,664,631
Grant funds utilized for acquisition of property and equipment	539,000	-	539,000
Net assets released from restriction used for purchase of property and equipment	15,000	-	15,000
Change in fair value of interest rate swap agreement	(69,287)	-	(69,287)
Defined benefit pension costs			
Recognition of net loss	884,582	-	884,582
Net loss arising during the year	1,694,978	-	1,694,978
Transfers to affiliates	(1,831,486)	-	(1,831,486)
<b>Increase in Unrestricted Net Assets</b>	<u>\$ 6,512,033</u>	<u>\$ 241,224</u>	<u>\$ 6,753,257</u>

**Somerset Hospital and Subsidiary**  
**Consolidating Schedule – Statement of Operations Information**  
**Year Ended June 30, 2010**

	Somerset Hospital	Twin Lakes Center	Consolidated
<b>Unrestricted Revenues, Gains and Other Support</b>			
Net patient service revenue	\$ 66,693,571	\$ 1,511,578	\$ 68,205,149
Federal, state and county grants	-	992,143	992,143
Other	877,421	654	878,075
Net assets released from restrictions used for operations	370,946	-	370,946
Total unrestricted revenues, gains and other support	<u>67,941,938</u>	<u>2,504,375</u>	<u>70,446,313</u>
<b>Expenses</b>			
Salaries and wages	25,414,965	1,252,288	26,667,253
Employee benefits	6,701,275	366,827	7,068,102
Physician fees	4,381,171	58,664	4,439,835
Supplies and other	23,124,678	578,961	23,703,639
Depreciation and amortization	3,086,389	65,037	3,151,426
Interest	644,861	-	644,861
Provision for uncollectible accounts	3,318,903	5,922	3,324,825
Total expenses	<u>66,672,242</u>	<u>2,327,699</u>	<u>68,999,941</u>
<b>Operating Income</b>	<u>1,269,696</u>	<u>176,676</u>	<u>1,446,372</u>
<b>Other Income (Expense)</b>			
Contributions	695,000	-	695,000
Investment return	570,081	-	570,081
Investment return - change in fair value of investments accounted for under the fair value option of Topic 825	352,348	-	352,348
Investment return - loss on investment securities for other-than-temporary impairment	(826,348)	-	(826,348)
Gain on investments in equity investees	163,355	-	163,355
Other	(33,672)	-	(33,672)
Total other income (expense)	<u>920,764</u>	<u>-</u>	<u>920,764</u>
<b>Excess of Revenues Over Expenses</b>	2,190,460	176,676	2,367,136
Investment return – change in unrealized gains and losses on other than trading securities	1,581,330	-	1,581,330
Grant funds utilized for acquisition of property and equipment	388,100	-	388,100
Net assets released from restriction used for purchase of property and equipment	14,817	-	14,817
Change in fair value of interest rate swap agreement	(40,605)	-	(40,605)
Defined benefit pension costs			
Recognition of net loss	677,223	-	677,223
Net loss arising during the year	(2,654,490)	-	(2,654,490)
Contributions of property and equipment	-	-	-
Transfers to affiliates	(1,720,560)	-	(1,720,560)
<b>Increase in Unrestricted Net Assets</b>	<u>\$ 436,275</u>	<u>\$ 176,676</u>	<u>\$ 612,951</u>

**Somerset Hospital and Subsidiary**  
**Consolidating Schedule – Statement of Changes in Net Assets Information**  
**Year Ended June 30, 2011**

	<b>Somerset Hospital</b>	<b>Twin Lakes Center</b>	<b>Consolidated</b>
<b>Unrestricted Net Assets</b>			
Excess of revenues over expenses	\$ 3,614,615	\$ 241,224	\$ 3,855,839
Investment return – change in unrealized gains and losses on other than trading securities	1,664,631	-	1,664,631
Grant funds utilized for acquisition of property and equipment	539,000	-	539,000
Net assets released from restriction used for purchase of property and equipment	15,000	-	15,000
Change in fair value of interest rate swap agreement	(69,287)	-	(69,287)
Defined benefit pension costs			
Recognition of net loss	884,582	-	884,582
Net loss arising during the year	1,694,978	-	1,694,978
Transfers to affiliates	(1,831,486)	-	(1,831,486)
	<u>6,512,033</u>	<u>241,224</u>	<u>6,753,257</u>
<b>Temporarily Restricted Net Assets</b>			
Contributions received	390,053	-	390,053
Investment return	6,562	-	6,562
Net assets released from restriction	(550,383)	-	(550,383)
	<u>(153,768)</u>	<u>-</u>	<u>(153,768)</u>
	<u>6,358,265</u>	<u>241,224</u>	<u>6,599,489</u>
<b>Change in Net Assets</b>			
<b>Net Assets, Beginning of Year</b>	<u>29,566,074</u>	<u>1,651,250</u>	<u>31,217,324</u>
<b>Net Assets, End of Year</b>	<u><u>\$ 35,924,339</u></u>	<u><u>\$ 1,892,474</u></u>	<u><u>\$ 37,816,813</u></u>

**Somerset Hospital and Subsidiary**  
**Consolidating Schedule – Statement of Changes in Net Assets Information**  
**Year Ended June 30, 2010**

	<b>Somerset Hospital</b>	<b>Twin Lakes Center</b>	<b>Consolidated</b>
<b>Unrestricted Net Assets</b>			
Excess of revenues over expenses	\$ 2,190,460	\$ 176,676	\$ 2,367,136
Investment return – change in unrealized gains and losses on other than trading securities	1,581,330	-	1,581,330
Grant funds utilized for acquisition of property and equipment	388,100	-	388,100
Net assets released from restriction used for purchase of property and equipment	14,817	-	14,817
Change in fair value of interest rate swap agreement	(40,605)	-	(40,605)
Defined benefit pension costs			
Recognition of net loss	677,223	-	677,223
Net loss arising during the year	(2,654,490)	-	(2,654,490)
Transfers to affiliates	(1,720,560)	-	(1,720,560)
	<u>436,275</u>	<u>176,676</u>	<u>612,951</u>
<b>Temporarily Restricted Net Assets</b>			
Contributions received	424,113	-	424,113
Investment return	4,192	-	4,192
Net assets released from restriction	(385,763)	-	(385,763)
	<u>42,542</u>	<u>-</u>	<u>42,542</u>
<b>Change in Net Assets</b>	478,817	176,676	655,493
<b>Net Assets, Beginning of Year</b>	<u>29,087,257</u>	<u>1,474,574</u>	<u>30,561,831</u>
<b>Net Assets, End of Year</b>	<u><u>\$ 29,566,074</u></u>	<u><u>\$ 1,651,250</u></u>	<u><u>\$ 31,217,324</u></u>