



CONSOLIDATED FINANCIAL STATEMENTS

AND

SUPPLEMENTARY INFORMATION

APRIL 30, 2012 AND 2011

CPAs / ADVISORS



COMMUNITY HOSPITAL OF BREMEN, INC.

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REPORT OF INDEPENDENT AUDITORS

Board of Directors
Community Hospital of Bremen, Inc.
Bremen, Indiana

We have audited the accompanying consolidated balance sheets of Community Hospital of Bremen, Inc. (Hospital) as of April 30, 2012 and 2011, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Hospital as of April 30, 2012 and 2011, and its consolidated results of operations, changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 18, 2012, on our consideration of the Hospital's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Board of Directors
Community Hospital of Bremen, Inc.
Bremen, Indiana

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary information listed in the accompanying table of contents is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, changes in net assets and cash flows of the individual entities, and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Blue & Co., LLC

June 18, 2012

COMMUNITY HOSPITAL OF BREMEN, INC.

CONSOLIDATED BALANCE SHEETS APRIL 30, 2012 AND 2011

	2012	2011
ASSETS		
Current assets		
Cash and cash equivalents	\$ 821,155	\$ 708,928
Investments	1,688,844	1,473,900
Patient accounts receivable, less allowance for uncollectible accounts of \$495,000 in 2012 and \$516,000 in 2011	1,807,081	1,756,736
Supplies	127,510	170,350
Other current assets	616,093	396,166
Current portion of contributions receivable	-0-	5,202
Total current assets	<u>5,060,683</u>	<u>4,511,282</u>
Assets whose use is limited		
Board designated for capital improvements	136,890	195,610
Held by trustee	672,567	673,508
Total assets whose use is limited	<u>809,457</u>	<u>869,118</u>
Property and equipment, net	17,939,198	17,907,076
Other assets	14,224	15,081
Contributions receivable, long-term	-0-	151
Total assets	<u><u>\$ 23,823,562</u></u>	<u><u>\$ 23,302,708</u></u>

See accompanying notes to consolidated financial statements.

COMMUNITY HOSPITAL OF BREMEN, INC.

CONSOLIDATED BALANCE SHEETS APRIL 30, 2012 AND 2011

LIABILITIES AND NET ASSETS

	<u>2012</u>	<u>2011</u>
Current liabilities		
Accounts payable	\$ 301,478	\$ 255,110
Accrued wages and related expenses	506,361	503,566
Accrued interest payable	67,895	74,326
Estimated third-party settlements	944,671	120,414
Lines of credit	795,281	506,737
Current portion of long-term debt	510,011	622,262
Total current liabilities	<u>3,125,697</u>	<u>2,082,415</u>
Long-term debt, less current portion	15,313,360	15,823,372
Total liabilities	<u>18,439,057</u>	<u>17,905,787</u>
Net assets		
Unrestricted	5,384,505	5,391,555
Temporarily restricted net assets	-0-	5,366
Total net assets	<u>5,384,505</u>	<u>5,396,921</u>
Total liabilities and net assets	<u>\$ 23,823,562</u>	<u>\$ 23,302,708</u>

See accompanying notes to consolidated financial statements.

COMMUNITY HOSPITAL OF BREMEN, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS YEARS ENDED APRIL 30, 2012 AND 2011

	2012	2011
Unrestricted operating revenues and gains		
Patient service revenue, net	\$ 14,220,098	\$ 13,287,376
Grants and other public support	153,567	293,364
Other revenue	325,716	335,233
Total unrestricted operating revenues and gains	14,699,381	13,915,973
Unrestricted operating expenses		
Salaries and wages	6,021,060	6,005,008
Employee benefits	1,341,560	1,325,899
Physician fees	538,180	521,802
Medical and surgical supplies	1,415,547	1,573,635
Other supplies	182,830	126,194
Purchased services	1,610,948	1,661,513
Equipment rentals	515,301	518,545
Utilities	355,308	347,795
Bad debts	157,847	388,907
Insurance	152,068	137,073
Depreciation	1,126,418	1,125,843
Interest	683,905	684,408
HAF program	327,268	-0-
Other	340,005	249,599
Total unrestricted expenses	14,768,245	14,666,221
Operating loss	(68,864)	(750,248)
Nonoperating revenues (expenses)		
Foundation unrestricted revenues	145,796	1,135,478
Foundation unrestricted expenses	(89,348)	(49,070)
Total nonoperating revenues (expenses)	56,448	1,086,408
Excess revenues over (under) expenses	(12,416)	336,160
Other changes in unrestricted net assets		
Net assets released from restrictions	5,366	8,214
Change in unrestricted net assets	(7,050)	344,374
Temporarily restricted net assets		
Net assets released from restrictions	(5,366)	(8,214)
Change in net assets	(12,416)	336,160
Net assets		
Beginning of year	5,396,921	5,060,761
End of year	\$ 5,384,505	\$ 5,396,921

See accompanying notes to consolidated financial statements.

COMMUNITY HOSPITAL OF BREMEN, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED APRIL 30, 2012 AND 2011

	2012	2011
Operating activities		
Change in net assets	\$ (12,416)	\$ 336,160
Adjustments to reconcile change in net assets to net cash flows from operating activities		
Depreciation	1,126,418	1,125,843
Bad debts	157,847	388,907
Net realized and unrealized gains on investments	(2,225)	(27,334)
Changes in operating assets and liabilities		
Patient accounts receivable	(208,192)	(126,754)
Supplies	42,840	(18,882)
Other current assets	(219,927)	(46,226)
Contributions receivable	5,353	8,227
Other assets	857	675
Accounts payable	46,368	(35,778)
Accrued wages and related expenses	2,795	101,926
Accrued interest payable	(6,431)	(7,460)
Estimated third-party settlements	824,257	(1,071,782)
Net cash flows from operating activities	<u>1,757,544</u>	<u>627,522</u>
Investing activities		
Proceeds from the sale of investments	59,661	1,103,237
Purchase of investments	(212,719)	(700,000)
Purchase of property and equipment	<u>(1,158,540)</u>	<u>(865,615)</u>
Net cash flows from investing activities	(1,311,598)	(462,378)
Financing activities		
Payments on long-term debt	(622,263)	(784,141)
Borrowings on line of credit, net	<u>288,544</u>	<u>306,737</u>
Net cash flows from financing activities	<u>(333,719)</u>	<u>(477,404)</u>
Net change in cash and cash equivalents	112,227	(312,260)
Cash and cash equivalents		
Beginning of year	708,928	1,021,188
End of year	<u>\$ 821,155</u>	<u>\$ 708,928</u>
Supplemental cash flows information		
Cash paid for interest	\$ 689,280	\$ 691,868

See accompanying notes to consolidated financial statements.

COMMUNITY HOSPITAL OF BREMEN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS APRIL 30, 2012 AND 2011

1. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed by Community Hospital of Bremen, Inc. (Hospital) in the preparation of its consolidated financial statements are summarized below:

Organization

The Hospital, located in Bremen, Indiana, is a not-for-profit acute care hospital. The Hospital provides inpatient, outpatient, and other ancillary services to the residents of Bremen and surrounding communities. Admitting physicians are primarily practitioners in the local area.

Community Hospital of Bremen Foundation, Inc. (Foundation), an affiliate of the Hospital, is a not-for-profit corporation established to support and assist the Hospital through grants and gifts as well as to provide other assistance towards the Hospital's stated exempt purpose.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Hospital and the Foundation. All material intercompany balances and transactions have been eliminated in the consolidation. Because the Foundation's sole purpose is to support the activities of the Hospital, the results of these entities have been consolidated. As a result of this consolidation, the net assets of the Hospital as of April 30, 2012 and 2011 include approximately \$1,394,000 and \$1,546,000, respectively, of net assets of the Foundation.

Use of Estimates

The preparation of consolidated 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 consolidated financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Investments

The Hospital's investments consist of certificates of deposit with local financial institutions carried at contract value. The Foundation maintains a fund with the Marshall County Community Foundation. The principal and annual earnings allocable to the fund, net of fees and expenses, are available for distribution as determined by the Foundation. The fund is recorded at fair value as reported by the Marshall County Community Foundation.

COMMUNITY HOSPITAL OF BREMEN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS APRIL 30, 2012 AND 2011

Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts deemed to be charity care, they are not reported as revenue. Amounts recognized as charity care as of April 30, 2012 and 2011 are approximately \$821,000 and \$656,000, respectively.

Of the Hospital's total unrestricted operating expense reported, (approximately \$14,768,000 and \$14,666,000 during the years ended April 30, 2012 and 2011, respectively), an estimated \$462,000 and \$378,000 arose from providing services to charity patients during the years ended April 30, 2012 and 2011, respectively.

The estimated costs of providing charity services are based on a calculation which applies a ratio of costs to charges to the gross uncompensated charges associated with providing care to charity patients. The ratio of cost to charges is calculated based on the Hospital's total expenses (less bad debt expense) divided by gross patient service revenue.

Patient Service Revenue and Patient Accounts Receivable

Patient service revenue and the related accounts receivable are recorded at the time services to patients are performed. The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

The Hospital is a provider of services to patients entitled to coverage under Titles XVIII and XIX of the Health Insurance Act (Medicare and Medicaid). The Hospital has Critical Access Status and is paid for Medicare services based upon a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at an interim rate, with final settlement determined after submission of annual cost reports. Differences between the total program billed charges and the payments received are reflected as deductions from revenue. At the Hospital's year-end, a cost report is filed with the Medicare program computing reimbursement amounts related to Medicare services.

COMMUNITY HOSPITAL OF BREMEN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS APRIL 30, 2012 AND 2011

The difference between computed reimbursement and interim reimbursement is reflected as a receivable from or payable to the third-party program. The year-end cost reports filed with the Medicare and Medicaid programs through April 30, 2009 have been audited by these programs and any resulting differences are reflected in the consolidated financial statements. During 2012 and 2011, the Hospital recognized a decrease in net assets of approximately \$246,000 and \$163,000, respectively, due to the differences between original estimates and subsequent revisions for the final settlement of cost reports.

Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. Although these audits may result in some changes in these amounts, they are not expected to have a material effect on the accompanying consolidated financial statements.

Management estimates an allowance for uncollectible accounts receivable based on an evaluation of historical losses, current economic conditions, and other factors unique to the Hospital's customer base.

Supplies

Supplies consist mainly of pharmaceuticals and medical supplies and are valued the lower of cost or market on a first-in first-out basis.

Contributions

Donations are recorded at fair value as revenue on the date the promise to give is irrevocable. Depending on the existence and nature of any donor restrictions, donations are reflected as increases in unrestricted, temporarily restricted, or permanently restricted net assets. When restrictions expire due to the passage of time or when the purpose is fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of operations as net assets released from restrictions.

Assets Whose Use is Limited

Assets whose use is limited by internal board designation include cash and cash equivalents and are recorded at fair value.

Assets held by trustee include cash and cash equivalents from Hospital deposits for debt service payments and construction commitments in compliance with the debt agreements.

COMMUNITY HOSPITAL OF BREMEN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS APRIL 30, 2012 AND 2011

Property and Equipment and Provision for Depreciation

Property and equipment are recorded at historical cost except for donations, which are recorded at fair market value at the date of the donation. Property and equipment include expenditures for additions and repairs that substantially increase the useful lives of existing property and equipment. Maintenance, repairs and minor renewals are expensed as incurred. Property and equipment are being depreciated over their estimated useful lives using the straight-line method.

The ranges of useful lives used in computing depreciation are as follows:

<u>Description</u>	<u>Range of Useful Lives</u>
Buildings and improvements	10-40 years
Equipment	3-20 years

Gifts of long-lived assets such as land, buildings, or equipment are reported as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor restrictions about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service. During 2012 and 2011, there were no gifts of long-lived assets with restrictions.

Temporarily Restricted Net Assets

Unconditional promises to give cash and other assets to the Hospital are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets.

Temporarily restricted net assets are those whose use by the Hospital has been limited by external sources for a specific time period or purpose. When a restriction expires, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statements of operations and changes in net assets as net assets released from restrictions. Restrictions that are met within the year of receipt are reflected with unrestricted net assets. As of April 30, 2012 and 2011, temporarily restricted net assets were \$-0- and \$5,366, respectively. These assets are restricted for Hospital building construction programs.

COMMUNITY HOSPITAL OF BREMEN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS APRIL 30, 2012 AND 2011

Performance Indicator

The consolidated statements of operations and changes in net assets include a performance indicator, excess revenues over (under) expenses. Changes in unrestricted net assets that are excluded from the performance indicator include unrealized gain and loss on investments other than trading securities and contributions of long-lived assets.

Federal and State Income Taxes

Both the Hospital and Foundation are organized as not-for-profit corporations under Section 501(c)(3) of the United States Internal Revenue Code. The exemption is on all income except unrelated business income as noted under Section 511 of the Internal Revenue Code. Internal Revenue Code Section 513(a) defines an unrelated trade or business of an exempt organization as any trade or business which is not substantially related to the exercise or performance of its exempt purpose.

As such, the Hospital and Foundation are generally exempt from income taxes. However, the Hospital and Foundation are required to file Federal Form 990 – Return of Organization Exempt from Income Tax, which is an informational return only.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Hospital and Foundation and recognize a tax liability if they have taken an uncertain position that more likely than not would not be sustained upon examination by various federal and state taxing authorities. Management has analyzed the tax positions taken by the Hospital and Foundation and has concluded that as of April 30, 2012 and 2011, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the accompanying consolidated financial statements. The Hospital and Foundation are subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

The Hospital and Foundation filed their federal and state income tax returns for periods through April 30, 2011. These income tax returns are generally open to examination by the relevant taxing authorities for a period of three years from the later of the date the return was filed or its due date (including approved extensions).

Advertising Costs

The Hospital's policy is to expense advertising costs when the advertising first takes place. Advertising expenses were approximately \$44,000 and \$53,000 in 2012 and 2011, respectively.

COMMUNITY HOSPITAL OF BREMEN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS APRIL 30, 2012 AND 2011

Statements of Cash Flows

For the purposes of reporting cash flows, cash and cash equivalents include all cash held in checking and money market accounts available for operating purposes with original maturities of 90 days or less.

Reclassification

Certain items in the 2011 consolidated financial statements have been reclassified herein to conform to the current year presentation with no changes on previously reported net assets or change in net assets.

Subsequent Events

The Hospital has evaluated events or transactions occurring subsequent to the consolidated balance sheet date for recognition and disclosure in the accompanying consolidated financial statements through the date the consolidated financial statements are issued which is June 18, 2012.

2. NET PATIENT SERVICE REVENUE

The Hospital has agreements with third-party payors that provide for reimbursement to the Hospital at amounts different from its established rates. Estimated contractual adjustments under third-party reimbursement programs represent the difference between the Hospital's billings at standard rates and amounts reimbursed by third-party payors. They also include any differences between estimated third-party reimbursement settlements for prior years and subsequent final settlements.

A summary of the reimbursement arrangements with major third-party payors is as follows:

Medicare

The Hospital was granted Critical Access Status by Medicare and is paid for Medicare services based upon a cost reimbursement methodology. The Hospital is reimbursed for cost reimbursable items at an interim rate, with final settlement determined after submission of annual cost reports.

Medicaid and Hospital Fee Assessment Program

The Hospital is reimbursed for Medicaid inpatient services under a prospectively determined rate-per-discharge and is not subject to retroactive adjustment. The differences between standard charges and reimbursement from these programs are recorded as contractual adjustments. Reimbursement for Medicaid outpatient services is based on predetermined rates, and is not subject to retroactive cost based settlements.

COMMUNITY HOSPITAL OF BREMEN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS APRIL 30, 2012 AND 2011

During 2012, Hospital Assessment Fee (HAF) Program for the period July 1, 2011 through June 30, 2013 was approved by Centers for Medicare & Medicaid Services retroactive to July 1, 2011. The purpose of the HAF Program is to fund the State share of enhanced Medicaid payments and Medicaid Disproportionate Share (DSH) payments for Indiana hospitals. Previously, the State share was funded by governmental entities through intergovernmental transfers. The Medicaid increases relate to both fee for service and managed care claims. The Medicaid rate increases are designed to follow the patients and result in increased Medicaid rates. During 2012, the Hospital recognized HAF Program expense of approximately \$327,000 which resulted in Medicaid rate increases of approximately \$411,000.

Other Payors

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

The following is a summary of net patient service revenue for 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Inpatient services	\$ 5,357,870	\$ 5,509,712
Outpatient services	19,958,806	19,219,692
	<u>25,316,676</u>	<u>24,729,404</u>
Less provisions for		
Contractual adjustments under third-party reimbursement programs	10,275,774	10,786,384
Charity care	820,804	655,644
Total provisions	<u>11,096,578</u>	<u>11,442,028</u>
Patient service revenue, net	<u>\$ 14,220,098</u>	<u>\$ 13,287,376</u>

3. INVESTMENTS

Investments consist of certificates of deposit (recorded at contract value) and Funds held by Marshall County Community Foundation (recorded at fair value) as of April 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Certificates of deposit	\$ 729,491	\$ 516,772
Funds held by Marshall County Community Foundation	959,353	957,128
	<u>\$ 1,688,844</u>	<u>\$ 1,473,900</u>

COMMUNITY HOSPITAL OF BREMEN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS APRIL 30, 2012 AND 2011

The following is a reconciliation of investment income, included in other revenue on the consolidated statements of operations for 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Interest and dividends	\$ 18,690	\$ 34,051
Net realized and unrealized gains on investments	<u>2,225</u>	<u>27,334</u>
	<u>\$ 20,915</u>	<u>\$ 61,385</u>

4. ASSETS WHOSE USE IS LIMITED

Assets whose use is limited include board-designated funds for capital improvements and funds designated for debt service held by trustee. The funds are recorded at fair value include the following as of April 30:

	<u>2012</u>	<u>2011</u>
Cash and cash equivalents	<u>\$ 809,457</u>	<u>\$ 869,118</u>

5. FAIR VALUE MEASUREMENTS

During 2012, the Hospital changed its accounting policies to expand the level of detail provided on investments and assets whose use is limited by disaggregating mutual funds by investment objective. The change was made to adopt Financial Accounting Standards Board's Accounting Standards Update No. 2010-06, Fair Value Measurements and Disclosures (Topic 820) - Improving Disclosures about Fair Value Measurements. Accordingly, the accounting change has been retrospectively applied to prior periods presented as if the policy had always been used. The Hospital's assets whose is limited are reported at fair value in the accompanying consolidated balance sheets.

Fair value is defined as the price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction value hierarchy, which requires an entity to maximize the use of observable inputs when measuring fair value.

Level 1 Fair Value Measurements

Inputs to the valuation methodology are quoted prices available in the active markets for identical investments as of the reporting date.

Level 2 Fair Value Measurements

Inputs to the valuation methodology are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date and fair value can be determined through the use of models or other valuation methodologies.

COMMUNITY HOSPITAL OF BREMEN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS APRIL 30, 2012 AND 2011

Level 3 Fair Value Measurements

Inputs to the valuation methodology are unobservable inputs in situations where there is little or no market activity for the asset or liability and the reporting entity makes estimates and assumptions related to the pricing of the asset or liability including assumptions regarding risk.

The preceding methods used to measure fair value may produce an amount that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Hospital believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Assets and liabilities measured at fair value on a recurring basis as of April 30, 2012 and April 30, 2011 are as follows:

	April 30, 2012			
	Total	Level 1	Level 2	Level 3
Assets				
Investments				
Funds held by Marshall County				
Community Foundation				
Mutual funds				
Large/Mid Cap	\$ 324,475	\$ -0-	\$ 324,475	\$ -0-
International equity	87,676	-0-	87,676	-0-
Emerging market	67,799	-0-	67,799	-0-
Fixed income	300,549	-0-	300,549	-0-
Other	178,854	-0-	178,854	-0-
Total mutual funds	959,353	\$ -0-	\$ 959,353	\$ -0-
Certificates of deposit	729,491			
	\$ 1,688,844			

	April 30, 2011			
	Total	Level 1	Level 2	Level 3
Assets				
Investments				
Funds held by Marshall County				
Community Foundation				
Mutual funds				
Large/Mid Cap	\$ 323,722	\$ -0-	\$ 323,722	\$ -0-
International equity	87,473	-0-	87,473	-0-
Emerging market	67,642	-0-	67,642	-0-
Fixed income	299,852	-0-	299,852	-0-
Other	178,439	-0-	178,439	-0-
Total mutual funds	957,128	\$ -0-	\$ 957,128	\$ -0-
Certificates of deposit	516,772			
	\$ 1,473,900			

COMMUNITY HOSPITAL OF BREMEN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS APRIL 30, 2012 AND 2011

6. PROPERTY AND EQUIPMENT

Property and equipment consist of the following as of April 30:

	2012	2011
Land and land improvements	\$ 440,039	\$ 440,039
Buildings and improvements	17,285,369	17,263,776
Equipment	6,252,977	5,796,882
Construction in progress	927,241	246,388
	<u>24,905,626</u>	<u>23,747,085</u>
Less accumulated depreciation	6,966,428	5,840,009
	<u>\$ 17,939,198</u>	<u>\$ 17,907,076</u>

There were no significant commitments related to construction in progress as of April 30, 2012 and 2011.

7. CONTRIBUTIONS RECEIVABLE

The Foundation estimates the fair value of donations that are expected to be collected after one year using present value techniques and market interest rates in effect on the date of the donation. Allowances for uncollectible contributions receivable are established based on historical collection rates and specific identification of uncollectible accounts. The fair value of donations that are expected to be collected within one year is estimated at net realizable value. The Foundation ended its Capital Campaign during 2012 and remaining past due uncollected balances were written off.

Contributions receivable as of April 30, 2011 consist of the following:

	April 30, 2011			
	Amounts due in			
	< 1 year	1 to 5 years	> 5 years	Total
Contributions receivable, gross	\$ 7,300	\$ 200	\$ -0-	\$ 7,500
Allowance for uncollectible	2,098	13	-0-	2,111
	<u>5,202</u>	<u>187</u>	<u>-0-</u>	<u>5,389</u>
Unamortized discount	-0-	36	-0-	36
Contributions receivable, net	<u>\$ 5,202</u>	<u>\$ 151</u>	<u>\$ -0-</u>	<u>\$ 5,353</u>

COMMUNITY HOSPITAL OF BREMEN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS APRIL 30, 2012 AND 2011

8. LONG-TERM DEBT

The following is the summary of long-term debt as of April 30:

	<u>2012</u>	<u>2011</u>
Loan payable to Lake City Bank dated August 4, 2004, semi-annual payments of principal and interest at variable rate (3.50% as of April 30, 2012), due January 1, 2025, secured by real estate.	\$ 4,533,835	\$ 4,882,592
Loan payable to United States Department of Agriculture dated April 25, 2005, semi-annual payments of principal and interest, interest at fixed rate of 4.25%, due April 15, 2045, secured by real estate.	11,289,536	11,444,150
Capital lease obligation, monthly principal and interest, fixed interest at 2.37%, due March 28, 2012, secured by equipment.	-0-	118,892
	<u>15,823,371</u>	<u>16,445,634</u>
Less current portion	510,011	622,262
	<u>\$ 15,313,360</u>	<u>\$ 15,823,372</u>

Annual maturities of long-term debt for the years succeeding April 30, 2012 are as follows:

Year Ending April 30,	
2013	\$ 510,011
2014	516,935
2015	524,160
2016	531,694
2017	539,551
Thereafter	<u>13,201,020</u>
	<u>\$ 15,823,371</u>

The Hospital's loan with Lake City Bank, dated August 4, 2004, bears interest at a variable rate equal to the prime rate, minus .50%, adjusted annually with a floor of 3.50% and a ceiling of 8.50%. The variable rate was 3.50% as of April 30, 2012 and 2011. The outstanding balance on the loan as of April 30, 2012 and 2011 was approximately \$4,534,000 and \$4,883,000, respectively. The loan is secured by the new facility. Additionally, the loan is guaranteed up to 90% by the United States Department of Agriculture (USDA).

COMMUNITY HOSPITAL OF BREMEN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS APRIL 30, 2012 AND 2011

The Hospital obtained a direct construction loan, dated April 25, 2005, from the USDA in the amount of \$12 million. As of April 30, 2012 and 2011, the outstanding balance on the loan was approximately \$11,290,000 and \$11,444,000, respectively. The loan bears interest at a fixed of 4.25% to be repaid over 40 years. The loan is secured by the new facility.

The above loan agreements require the Hospital to comply with certain restrictive covenants including maintenance of minimum debt service coverage. As of April 30, 2012, the Hospital was in compliance with the restrictive loan covenants.

The Hospital has two lines of credit available with local financial institutions with maximum amounts of \$200,000 and \$1,000,000. Both lines of credit are variable interest (4.0%) as of April 30, 2012 with a floor of 4.0% and a ceiling of 6.5% as determined by the financial institution's base rate. The Hospital had approximately \$795,000 and \$507,000 outstanding on the lines of credit as of April 30, 2012 and 2011, respectively. The lines of credit expire in fiscal years through 2013 and are secured by equipment.

The following is an analysis of capital lease equipment included in property and equipment as of April 30:

	<u>2012</u>	<u>2011</u>
Equipment	\$ -0-	\$ 548,932
Less accumulated depreciation	-0-	251,781
	<u>\$ -0-</u>	<u>\$ 297,151</u>

9. RETIREMENT PLAN

The Hospital has a defined contribution pension plan, which covers all eligible employees. The Hospital's contribution is limited to matching the employee's contribution up to 3% of each participant's annual salary. During 2012, the Hospital temporarily suspended the matching contribution. Pension expense was approximately \$39,000 and \$94,000 for 2012 and 2011, respectively.

10. CONCENTRATIONS OF CREDIT RISK

Hospital is located in Bremen, Indiana. The Hospital grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements.

COMMUNITY HOSPITAL OF BREMEN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS APRIL 30, 2012 AND 2011

Percentages of patient accounts receivable and patient service revenue were as follows as of and for the years ended April 30, 2012 and 2011:

	<u>Receivables</u>		<u>Revenue</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Medicare	24%	30%	33%	34%
Self pay	12%	8%	6%	6%
Commercial	37%	30%	34%	30%
Blue Cross	20%	20%	19%	20%
Medicaid	7%	12%	8%	10%
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

The Hospital maintains its cash in accounts, which at times may exceed federally insured limits. The Hospital has not experienced any losses in such accounts. The Hospital believes that it is not exposed to any significant credit risk on cash and cash equivalents.

11. COMMITMENTS AND CONTINGENCIES

Estimated Malpractice Costs

The Hospital is covered for malpractice through an insurance carrier. Additionally, claims in excess of \$250,000 are covered by the Indiana Patient's Compensation Fund.

Litigation

The Hospital is involved in litigation and regulatory investigations arising in the course of business. After consultation with legal counsel, management estimates that these matters will be resolved without a material adverse effect on the Hospital's future position, results from operations or cash flows.

12. FUNCTIONAL EXPENSES

The Hospital is an acute care hospital providing inpatient, outpatient and other ancillary services to the residents within its geographical region. Expenses related to providing these services for 2012 and 2011 approximate the following:

	<u>2012</u>	<u>2011</u>
Health care services	\$ 12,027,964	\$ 11,912,764
Administrative and general	2,740,281	2,753,457
Fundraising	89,348	49,070
Total expenses	<u>\$ 14,857,593</u>	<u>\$ 14,715,291</u>

COMMUNITY HOSPITAL OF BREMEN, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS APRIL 30, 2012 AND 2011

13. SELF FUNDED HEALTH INSURANCE

The Hospital is self-funded for medical and related health benefits provided to employees and their families. A third party administrator has been retained to process and present all benefit claims to the Hospital for payment. A stop/loss policy through commercial insurance covers individual claims in excess of \$30,000 per individual per policy year with an aggregate limit of approximately \$1,000,000 per individual.

Claim expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. Self-funded health insurance and related expenses were \$782,000 and \$700,000 in 2012 and 2011, respectively. A progression of unpaid claims included in accrued wages and related expenses on the consolidated balance sheets for 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Unpaid claims, beginning of year	\$ 162,523	\$ 91,403
Incurred claims and changes in estimates	781,634	700,033
Claim payments	<u>(793,632)</u>	<u>(628,913)</u>
Unpaid claims, end of year	<u>\$ 150,525</u>	<u>\$ 162,523</u>

14. OPERATING LEASES

The Hospital has various non-cancelable lease agreements for medical and office equipment through 2016. Equipment rent expense was approximately \$515,000 and \$519,000 for 2012 and 2011, respectively. Minimum required lease payments are as follows:

Year Ending April 30,	
2013	\$ 282,000
2014	258,000
2015	231,000
2016	<u>151,000</u>
	<u>\$ 922,000</u>

SUPPLEMENTARY INFORMATION

COMMUNITY HOSPITAL OF BREMEN, INC.

CONSOLIDATING BALANCE SHEET APRIL 30, 2012

ASSETS	Hospital	Foundation	Eliminations	Total
Current assets				
Cash and cash equivalents	\$ 344,651	\$ 476,504	\$ -0-	\$ 821,155
Investments	729,491	959,353	-0-	1,688,844
Patient accounts receivable, net	1,807,081	-0-	-0-	1,807,081
Supplies	127,510	-0-	-0-	127,510
Other current assets	658,023	-0-	(41,930)	616,093
Total current assets	<u>3,666,756</u>	<u>1,435,857</u>	<u>(41,930)</u>	<u>5,060,683</u>
Assets whose use is limited				
Board designated for capital improvements	136,890	-0-	-0-	136,890
Trustee held	672,567	-0-	-0-	672,567
Total assets whose use is limited	<u>809,457</u>	<u>-0-</u>	<u>-0-</u>	<u>809,457</u>
Property and equipment, net	17,939,198	-0-	-0-	17,939,198
Other assets	-0-	14,224	-0-	14,224
Total assets	<u>\$ 22,415,411</u>	<u>\$ 1,450,081</u>	<u>\$ (41,930)</u>	<u>\$ 23,823,562</u>
LIABILITIES AND NET ASSETS				
Current liabilities				
Accounts payable	\$ 286,997	\$ 56,411	\$ (41,930)	\$ 301,478
Accrued wages and related expenses	506,361	-0-	-0-	506,361
Accrued interest payable	67,895	-0-	-0-	67,895
Estimated third-party settlements	944,671	-0-	-0-	944,671
Lines of credit	795,281	-0-	-0-	795,281
Current portion long-term debt	510,011	-0-	-0-	510,011
Total current liabilities	<u>3,111,216</u>	<u>56,411</u>	<u>(41,930)</u>	<u>3,125,697</u>
Long-term debt, less current portion	15,313,360	-0-	-0-	15,313,360
Total liabilities	<u>18,424,576</u>	<u>56,411</u>	<u>(41,930)</u>	<u>18,439,057</u>
Net assets				
Unrestricted	3,990,835	1,393,670	-0-	5,384,505
Total liabilities and net assets	<u>\$ 22,415,411</u>	<u>\$ 1,450,081</u>	<u>\$ (41,930)</u>	<u>\$ 23,823,562</u>

See report of independent auditors on pages 1 and 2.

COMMUNITY HOSPITAL OF BREMEN, INC.

CONSOLIDATING BALANCE SHEET APRIL 30, 2011

ASSETS	Hospital	Foundation	Eliminations	Total
Current assets				
Cash and cash equivalents	\$ 91,791	\$ 617,137	\$ -0-	\$ 708,928
Investments	516,772	957,128	-0-	1,473,900
Patient accounts receivable, net	1,756,736	-0-	-0-	1,756,736
Supplies	170,350	-0-	-0-	170,350
Other current assets	435,115	-0-	(38,949)	396,166
Current portion of contributions receivable	-0-	5,202	-0-	5,202
Total current assets	<u>2,970,764</u>	<u>1,579,467</u>	<u>(38,949)</u>	<u>4,511,282</u>
Assets whose use is limited				
Board designated for capital improvements	195,610	-0-	-0-	195,610
Trustee held	673,508	-0-	-0-	673,508
Total assets whose use is limited	<u>869,118</u>	<u>-0-</u>	<u>-0-</u>	<u>869,118</u>
Property and equipment, net	17,907,076	-0-	-0-	17,907,076
Other assets	-0-	15,081	-0-	15,081
Contributions receivable, long-term	-0-	151	-0-	151
Total assets	<u>\$ 21,746,958</u>	<u>\$ 1,594,699</u>	<u>\$ (38,949)</u>	<u>\$ 23,302,708</u>
 LIABILITIES AND NET ASSETS				
Current liabilities				
Accounts payable	\$ 245,586	\$ 48,473	\$ (38,949)	\$ 255,110
Accrued wages and related expenses	503,566	-0-	-0-	503,566
Accrued interest payable	74,326	-0-	-0-	74,326
Estimated third-party settlements	120,414	-0-	-0-	120,414
Lines of credit	506,737	-0-	-0-	506,737
Current portion long-term debt	622,262	-0-	-0-	622,262
Total current liabilities	<u>2,072,891</u>	<u>48,473</u>	<u>(38,949)</u>	<u>2,082,415</u>
Long-term debt, less current portion	15,823,372	-0-	-0-	15,823,372
Total liabilities	<u>17,896,263</u>	<u>48,473</u>	<u>(38,949)</u>	<u>17,905,787</u>
Net assets				
Unrestricted	3,850,695	1,540,860	-0-	5,391,555
Temporarily restricted	-0-	5,366	-0-	5,366
Total net assets	<u>3,850,695</u>	<u>1,546,226</u>	<u>-0-</u>	<u>5,396,921</u>
Total liabilities and net assets	<u>\$ 21,746,958</u>	<u>\$ 1,594,699</u>	<u>\$ (38,949)</u>	<u>\$ 23,302,708</u>

See report of independent auditors on pages 1 and 2.

COMMUNITY HOSPITAL OF BREMEN, INC.

CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS YEAR ENDED APRIL 30, 2012

	Hospital	Foundation	Eliminations	Total
Unrestricted operating revenue and gains				
Patient service revenue, net	\$ 14,220,098	\$ -0-	\$ -0-	\$ 14,220,098
Grants and other public support	153,567	-0-	-0-	153,567
Other revenue	327,516	-0-	(1,800)	325,716
Total unrestricted operating revenue and gains	14,701,181	-0-	(1,800)	14,699,381
Unrestricted operating expenses				
Salaries and wages	5,994,188	-0-	26,872	6,021,060
Employee benefits	1,338,902	-0-	2,658	1,341,560
Physician fees	538,180	-0-	-0-	538,180
Medical and surgical supplies	1,415,547	-0-	-0-	1,415,547
Other supplies	182,230	-0-	600	182,830
Purchased services	1,610,948	-0-	-0-	1,610,948
Equipment rentals	515,301	-0-	-0-	515,301
Utilities	355,308	-0-	-0-	355,308
Bad debts	157,847	-0-	-0-	157,847
Insurance	152,068	-0-	-0-	152,068
Depreciation	1,126,418	-0-	-0-	1,126,418
Interest	683,905	-0-	-0-	683,905
HAF program	327,268	-0-	-0-	327,268
Other	340,005	-0-	-0-	340,005
Total unrestricted expenses	14,738,115	-0-	30,130	14,768,245
Operating loss	(36,934)	-0-	(31,930)	(68,864)
Nonoperating revenues (expenses)				
Foundation revenues	-0-	145,796	-0-	145,796
Foundation expenses	-0-	(298,352)	209,004	(89,348)
Total nonoperating revenues (expenses)	-0-	(152,556)	209,004	56,448
Excess expenses over revenues	(36,934)	(152,556)	177,074	(12,416)
Other changes in unrestricted net assets				
Contributions from Foundation	177,074	-0-	(177,074)	-0-
Net assets released from restrictions	-0-	5,366	-0-	5,366
Change in unrestricted net assets	140,140	(147,190)	-0-	(7,050)
Temporarily restricted net assets				
Net assets released from restrictions	-0-	(5,366)	-0-	(5,366)
Change in net assets	140,140	(152,556)	-0-	(12,416)
Net assets				
Beginning of year	3,850,695	1,546,226	-0-	5,396,921
End of year	<u>\$ 3,990,835</u>	<u>\$ 1,393,670</u>	<u>\$ -0-</u>	<u>\$ 5,384,505</u>

See report of independent auditors on pages 1 and 2.

COMMUNITY HOSPITAL OF BREMEN, INC.

CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS YEAR ENDED APRIL 30, 2011

	Hospital	Foundation	Eliminations	Total
Unrestricted operating revenue and gains				
Patient service revenue, net	\$ 13,287,376	\$ -0-	\$ -0-	\$ 13,287,376
Grants and other public support	293,364	-0-	-0-	293,364
Other revenue	337,033	-0-	(1,800)	335,233
Total unrestricted operating revenue and gains	13,917,773	-0-	(1,800)	13,915,973
Unrestricted operating expenses				
Salaries and wages	5,972,157	-0-	32,851	6,005,008
Employee benefits	1,322,614	-0-	3,285	1,325,899
Physician fees	521,802	-0-	-0-	521,802
Medical and surgical supplies	1,573,635	-0-	-0-	1,573,635
Other supplies	125,181	-0-	1,013	126,194
Purchased services	1,661,513	-0-	-0-	1,661,513
Equipment rentals	518,545	-0-	-0-	518,545
Utilities	347,795	-0-	-0-	347,795
Bad debts	388,907	-0-	-0-	388,907
Insurance	137,073	-0-	-0-	137,073
Depreciation	1,125,843	-0-	-0-	1,125,843
Interest	684,408	-0-	-0-	684,408
Other	249,599	-0-	-0-	249,599
Total unrestricted expenses	14,629,072	-0-	37,149	14,666,221
Operating loss	(711,299)	-0-	(38,949)	(750,248)
Nonoperating revenues (expenses)				
Foundation revenues	-0-	1,135,478	-0-	1,135,478
Foundation expenses	-0-	(212,236)	163,166	(49,070)
Total nonoperating revenues (expenses)	-0-	923,242	163,166	1,086,408
Excess revenues over (under) expenses	(711,299)	923,242	124,217	336,160
Other changes in unrestricted net assets				
Contributions from Foundation	124,217	-0-	(124,217)	-0-
Net assets released from restrictions	-0-	8,214	-0-	8,214
Change in unrestricted net assets	(587,082)	931,456	-0-	344,374
Temporarily restricted net assets				
Net assets released from restrictions	-0-	(8,214)	-0-	(8,214)
Change in net assets	(587,082)	923,242	-0-	336,160
Net assets				
Beginning of year	4,437,777	622,984	-0-	5,060,761
End of year	<u>\$ 3,850,695</u>	<u>\$ 1,546,226</u>	<u>\$ -0-</u>	<u>\$ 5,396,921</u>

See report of independent auditors on pages 1 and 2.



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REPORT OF INDEPENDENT AUDITORS ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

Board of Directors
Community Hospital of Bremen, Inc.
Bremen, Indiana

We have audited the consolidated financial statements of Community Hospital of Bremen, Inc. (Hospital) as of and for the year ended April 30, 2012, and have issued our report thereon dated June 18, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Hospital's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a consolidation of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Board of Directors
Community Hospital of Bremen, Inc.
Bremen, Indiana

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Hospital in a separate letter dated June 18, 2012.

This report is intended solely for the information and use of the Board of Directors, management, the cognizant audit agencies and other federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Blue & Co., LLC

June 18, 2012