West Allis Memorial Hospital, Inc.

Financial Statements as of and for the Years Ended December 31, 2010 and 2009, and Independent Auditors' Report

WEST ALLIS MEMORIAL HOSPITAL, INC.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Aurora Health Care, Inc.:

We have audited the accompanying balance sheets of West Allis Memorial Hospital, Inc. (the Hospital), an affiliate of Aurora Health Care, Inc. (Aurora), as of December 31, 2010 and 2009, and the related statements of operations and 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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, such financial statements present fairly, in all material respects, the financial position of West Allis Memorial Hospital, Inc. as of December 31, 2010 and 2009, and the results of its operations, 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.

As discussed in Note 1 to the financial statements, the financial statements present the financial position, results of operations, and cash flows of the Hospital and are not necessarily indicative of what the financial position, results of operations, and cash flows would have been if the Hospital had been operated as an unaffiliated corporation during the periods presented. Certain expenses represent allocations from Aurora.

Deloitte & Touche LLP

June 21, 2011

WEST ALLIS MEMORIAL HOSPITAL, INC.

BALANCE SHEETS
AS OF DECEMBER 31, 2010 AND 2009
(In thousands)

	2010	2009
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 44	$ 62
Accounts receivable — net of allowances for doubtful accounts of $16,570 (Note 2)	27,561	-
Inventories and other current assets	4,409	1,920
Due from affiliates	180,574	181,165
Total current assets	212,588	183,147
DUE FROM AFFILIATES	61,963	45,427
PROPERTY, PLANT, AND EQUIPMENT — Net	101,796	104,671
OTHER ASSETS	3,318	3,078
TOTAL ASSETS	$379,665	$336,323
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Current installments of long-term debt	$ 2,493	$ 2,305
Accounts payable	10,485	8,036
Estimated third-party payor settlements	3,901	1,719
Due to affiliates	7,278	8,334
Accrued salaries and benefits	6,765	6,598
Other accrued expenses	1,311	1,181
Total current liabilities	32,233	28,173
LONG-TERM DEBT — Less current installments	27,527	29,993
OTHER LONG-TERM LIABILITIES	200	195
Total liabilities	59,960	58,361
NET ASSETS:		
Unrestricted	318,516	277,000
Temporarily restricted	1,189	962
Total net assets	319,705	277,962
TOTAL LIABILITIES AND NET ASSETS	$379,665	$336,323

WEST ALLIS MEMORIAL HOSPITAL, INC.

STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009
(In thousands)

	2010	2009
REVENUE:		
Net patient service revenue	$253,958	$258,954
Other revenue	5,757	11,075
Total revenue	259,715	270,029
EXPENSES:		
Salaries	63,138	61,666
Fringe benefits	22,799	21,955
Professional fees	2,414	3,773
Supplies	31,240	31,647
Depreciation and amortization	9,148	9,087
Interest	1,841	1,896
Management services and operational support	42,035	47,636
Provision for bad debts	12,225	12,776
Hospital tax assessment	9,342	11,637
Other	23,956	27,737
Total expenses	218,138	229,810
Operating income	41,577	40,219
NONOPERATING (LOSS) INCOME — Net	(2)	1
Excess of revenue over expenses	41,575	40,220
TRANSFERS (TO) FROM AFFILIATES — Net	(29)	123
CONTRIBUTIONS	(30)	-
Increase in unrestricted net assets	41,516	40,343
TEMPORARILY RESTRICTED NET ASSETS — Change in beneficial interest in net assets of foundation	227	32
Total increase in net assets	41,743	40,375
NET ASSETS:		
Beginning of year	277,962	237,587
End of year	$319,705	$277,962

WEST ALLIS MEMORIAL HOSPITAL, INC.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009
(In thousands)

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	$ 41,743	$ 40,375
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	9,148	9,087
Provision for bad debts	12,225	12,776
Change in beneficial interest in net assets of foundation	(227)	(32)
Increase in accounts receivable	(39,786)	-
Increase in estimated third-party payor settlements	2,182	160
Other — net	281	2,796
Net cash provided by operating activities	25,566	65,162
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(6,273)	(4,112)
Transfers and amounts due from affiliates — net	(17,001)	(58,874)
Net cash used in investing activities	(23,274)	(62,986)
CASH USED IN FINANCING ACTIVITIES — Repayment of long-term debt	(2,310)	(2,213)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(18)	(37)
CASH AND CASH EQUIVALENTS:		
Beginning of year	62	99
End of year	$ 44	$ 62
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION — Cash paid for interest	$ 1,808	$ 1,886

See notes to financial statements.

1. DESCRIPTION OF ORGANIZATION

West Allis Memorial Hospital, Inc. (the Hospital) is a Wisconsin nonstock, not-for-profit corporation. The Hospital operates as an acute-care hospital and serves primarily the greater Milwaukee area, providing inpatient, outpatient, and emergency care services. Aurora Health Care, Inc. (Aurora) is the sole corporate member of the Hospital.

Aurora is a Wisconsin nonstock, not-for-profit corporation, which operates to provide and deliver a variety of health care services and activities in Eastern Wisconsin and the surrounding areas, and to carry on such educational, philanthropic, and medical research activities as may be part of an integrated health care delivery system. The Aurora system comprises 14 acute-care hospital campuses, one psychiatric hospital, a network of 155 physician clinic facilities, home health services, 82 retail pharmacies, and other health care and related services.

During 2010 and 2009, management and administrative expenses comprised 5.0% and 4.6% of total expenses, respectively. Management and administrative expenses include information technology, legal, finance, purchasing, patient billing, and human resources. The remaining expenses relate to the provision of health care services.

The accompanying financial statements present the financial position, results of operations, and cash flows of the Hospital and are not necessarily indicative of what the financial position, results of operations, and cash flows would have been if the Hospital had been operated as an unaffiliated corporation during the period presented.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Except as otherwise disclosed, the carrying value of all financial instruments of the Hospital (including cash and cash equivalents, advances to and amounts due from affiliates, accounts payable, accrued expenses, and estimated third-party settlements) approximates their fair value, due to their short-term maturities at December 31, 2010 and 2009. The fair value of the long-term debt is disclosed in Note 4.

Significant accounting policies of the Hospital are as follows:

Cash and Cash Equivalents — Cash and cash equivalents include highly liquid investments purchased with an original maturity or maturity at the date of purchase of three months or less.

Accounts Receivable — During 2009, the Hospital had an arrangement to sell all of its receivables to Aurora in connection with a system-wide revolving period securitization transaction. During 2010, Aurora adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU)

2009-16, *Transfers and Servicing (Topic 860): Accounting for Transfers of Financial Assets*, and consolidated its qualifying special purpose entity. As a result, during 2010, Aurora terminated its agreement with the Hospital to purchase all of its receivables. The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors is as follows:

- *Medicare* — Inpatient acute, most hospital outpatient services, and inpatient rehabilitation services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to patient classification systems that are based on clinical, diagnostic, and other factors. Certain inpatient non-acute and outpatient services, defined capital costs, medical education costs, select drugs, and devices related to Medicare beneficiaries are paid based on cost-reimbursement methodologies. The Hospital is reimbursed for cost-reimbursable items at a tentative rate, with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary.

- *Medicaid* — Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed primarily based upon prospectively determined rates.

- *Other Third-Party Payors* — Services rendered to patients insured by other third-party payors are reimbursed based on a discount from customary charges, prospectively determined rates per discharge or negotiated fee schedules.

At December 31, 2010, approximately 22% of the Corporation's net accounts receivable were due from the Medicare and Medicaid programs. At December 31, 2010, approximately 48% was due from patients, and 30% was due from managed care and other contracted payors.

Inventories — Medical supplies inventories are stated at the lower of cost (first-in, first-out) or market. During 2010, the Hospital changed its method of accounting for operating room supplies from directly expensing the costs of such supplies to capitalizing such costs, resulting in additional inventory of $2,770,000 at December 31, 2010.

Property, Plant, and Equipment — Property, plant, and equipment acquisitions are recorded at cost. Donated property, plant, and equipment are recorded at fair value at date of donation, which is then treated as cost. Property, plant, and equipment assets are depreciated on the straight-line method over their estimated useful lives, ranging from three to forty years. Plant and equipment are subject to the lease agreement between the Hospital and the City of West Allis (see Note 7).

The Hospital periodically assesses the impairment of long-lived assets (including property, plant, and equipment) whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. Management considers such factors as current results, trends, and future prospects, in addition to other economic factors, in determining the impairment of an asset. No such impairment adjustments were recorded in 2010 and 2009.

Deferred Financing Costs and Amortization of Bond Discount — Long-term debt issuance costs are deferred and amortized over the term of the debt along with any original issue discount. Long-term debt issuance costs and original issue discounts are amortized using methods that approximate the interest yield method.

Income Taxes — The Hospital is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code (the Code) and has been recognized as tax exempt pursuant to Section 501(a) of the Code.

The Hospital evaluates its uncertain tax positions on an annual basis. A tax benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits. There have been no uncertain tax positions recorded in 2010 or 2009.

Net Assets — Restricted net assets are used to differentiate resources, the use of which is limited by the donor or grantor, from unrestricted net assets that arise as a result of the operations of the Hospital. Temporarily restricted net assets consist of donations restricted to various specific purposes by donors. At December 31, 2010 and 2009, temporarily restricted net assets comprise assets held by an unconsolidated foundation for the benefit of the Hospital.

Net Patient Service Revenue — 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. Laws and regulations governing government and other payment programs are complex and subject to interpretation. As a result, there is a reasonable possibility that recorded estimated third-party payor settlements could change by a material amount. Changes in estimates relating to prior years decreased net patient service revenue by approximately $1,250,000 in 2010 and increased net patient service revenue by approximately $294,000 in 2009.

In February 2009, the Wisconsin legislature enacted senate Bill 62, which assessed a fee or tax on the gross patient revenues of all Wisconsin hospitals retroactive to July 1, 2008. The revenues from this assessment will be used to increase payments made to hospitals for services provided to Medicaid and other medically-indigent patients. The Corporation's net patient service revenues reflect this increase in payment for services to Medicaid and other medically-indigent patients, and other expenses reflect the fee assessed by the State. Net patient service revenue during 2010 and 2009 includes $10,177,000 and $10,382,000, respectively, related to this program, and expenses include $9,342,000 and $11,637,000 of tax assessment fees.

Other Revenue/Expense — Other revenue primarily comprises revenues from cafeteria sales, rental of hospital space, investment income, and other miscellaneous services. Other expense primarily consists of occupancy, maintenance and repairs, and other administrative costs.

Investment income, resulting primarily from interest income on advances to affiliates (see Note 6), is reported as other revenue, and is allocated from Aurora. During 2009, investment income totaled $5,699,000. Beginning January 1, 2010, Aurora no longer allocated investment income to its affiliates. Investment income on temporarily restricted net assets is recorded in the applicable category of restricted net assets, if such income is also donor restricted.

Nonoperating Income (Losses) — Net — Revenues and expenses from delivering health care services and other activities that arise from the Hospital's ongoing major or central operations are reported in operations. Income and losses that arise from transactions that are peripheral or incidental to the Hospital's main activities, such as income and losses attributable to sales of property, plant, and equipment, are included in nonoperating income (loss), net.

Charity Care and Uninsured Care — The Hospital provides care to patients who meet certain criteria under its Helping Hands program without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify under this program, they are not reported as revenue. Charges foregone relating to charity care provided were $5,585,000 and $3,277,000 in 2010 and 2009, respectively.

Excess of Revenue Over Expenses — The statement of operations and changes in net assets includes excess of revenue over expenses. Changes in unrestricted net assets that are excluded from excess of revenue over expenses, consistent with industry practice, include permanent transfers of assets to and from affiliates for other than goods and services.

Pension Plan — The Hospital participates in the Aurora Health Care, Inc. Pension Plan (the Aurora Pension Plan). The Aurora Pension Plan is a noncontributory defined benefit pension plan that is sponsored and administered by Aurora. The Aurora Pension Plan covers substantially all employees of Aurora and its participating affiliates. Periodic pension expense and the related liability for the unfunded status of the Aurora Pension Plan are reported in Aurora's financial statements. The Hospital's portion of the pension liability for the unfunded status of the Aurora Pension Plan has not been recorded in the Hospital's financial statements.

Pension expense reported by the Hospital represented a portion of the total periodic pension costs and was allocated to the Hospital based on guidelines established by the plan administrator. The Hospital's expense for the Aurora Pension Plan was $7,278,000 and $5,511,000 in 2010 and 2009, respectively, representing 7.9% and 9.1%, respectively, of the total recorded pension expense for the Aurora Pension Plan. At December 31, 2010, the Hospital's portion of the periodic pension cost is included in due to affiliates on the accompanying balance sheet. At December 31, 2010, the projected benefit obligation of the Aurora Pension Plan totaled $1,070,266,000, and the fair value of the related plan assets totaled $750,433,000.

Incentive Savings Plan — The Hospital participates in the Aurora Health Care, Inc. Incentive Savings Plan (the Aurora Savings Plan). The Aurora Savings Plan is a defined contribution plan sponsored and administered by Aurora, whereby the Hospital contributes a percentage of participants' qualifying compensation up to certain limits as outlined in the Aurora Savings Plans. The Aurora Savings Plan covers regular full or part-time employees of Aurora and its participating affiliates. The Hospital's expense for the Aurora Savings Plan was $191,000 in 2009. For 2010, contributions were not made to the Aurora Savings Plan.

Subsequent Events — For the year ended December 31, 2010, the Hospital has evaluated subsequent events for potential recognition and disclosure through June 21, 2011, the date of financial statement issuance.

New Accounting Pronouncements — In July 2010, the FASB issued ASU 2010-20, *Receivables (Topic 310): Disclosures About the Credit Quality of Financing Receivables and the Allowance for Credit Losses.* The objective in issuing this guidance is to provide greater disclosures about allowances for credit losses and the credit quality of financed receivables. The guidance will be applicable for the Hospital's reporting period beginning after December 15, 2010. Management is currently evaluating the impact of this guidance on its financial statements.

In August 2010, the FASB issued ASU 2010-23, *Health Care Entities (Topic 954): Measuring Charity Care for Disclosure,* which requires that cost be used as the measurement basis for charity care disclosure, and the disclosure should include the direct and indirect cost of providing charity care. The guidance also requires disclosure of the method used to identify such costs. ASU 2010-23 becomes effective for fiscal years beginning after December 15, 2010, and should be applied retrospectively. Management is currently evaluating the guidance and will make additional disclosures as required upon the effective date.

In August 2010, the FASB issued ASU 2010-24, *Health Care Entities (Topic 954): Presentation of Insurance Claims and Related Insurance Recoveries,* which clarifies that a healthcare entity should not net insurance recoveries against a related claim liability. Additionally, the amount of the claim liability should be determined without consideration of insurance recoveries. ASU 2010-24 becomes effective for fiscal years beginning after December 15, 2010. Management is currently evaluating the impact of this guidance on its financial statements.

Reclassification — The Hospital has historically reported accrued salaries and benefits within accrued expenses on the consolidated balance sheet. In 2010, the Hospital separately presented accrued salaries and benefits from accrued expenses and reclassified the 2009 amount of $6,598,000 to conform to the 2010 presentation.

3. PROPERTY, PLANT, AND EQUIPMENT

The summary of the components of property, plant, and equipment (see Note 7) at December 31, 2010 and 2009, is as follows (in thousands):

	2010	2009
Land and improvements	$ 2,073	$ 2,072
Buildings and fixed equipment	189,854	186,710
Movable equipment	57,481	55,460
Construction in progress	1,344	620
	250,752	244,862
Accumulated depreciation	(148,956)	(140,191)
Property, plant, and equipment — net	$ 101,796	$ 104,671

At December 31, 2010, construction in progress consisted of various improvement projects. There was no capitalized interest recorded in 2010 or 2009.

4. LONG-TERM DEBT AND LEASE COMMITMENTS

Long-term debt at December 31, 2010 and 2009, is summarized as follows (in thousands):

	2010	2009
Allocated Wisconsin Health and Educational Facilities Authority bonds	$26,093	$26,093
City of West Allis (City) general obligation bonds and promissory notes — net of unamortized discount of $8 and $40, respectively (see Note 7)	1,642	6,205
Notes payable	2,285	-
	30,020	32,298
Less current installments	(2,493)	(2,305)
Long-term debt — less current installments	$27,527	$29,993

Aurora has issued revenue bonds through the Wisconsin Health and Educational Facilities Authority (WHEFA). Such bonds are subject to a Master Trust Indenture (the Aurora Indenture). All outstanding debt under the Aurora Indenture is the general, unsecured, joint, and several obligations of the members of the Aurora Obligated Group, which comprises various affiliates of the Aurora system. The Hospital is not a member of the Obligated Group, however, it is the intent of Aurora and the Hospital that each system affiliate with allocated WHEFA debt will be responsible for its respective share of principal and interest as reflected in its financial statements.

Under terms of its borrowing agreements with Aurora, the Hospital's allocated WHEFA debt is due annually in varying amounts commencing in 2012 and extending through 2029, and bears interest at a rate of 6%.

The City general obligation bonds and promissory notes represent obligations for which repayment has been assigned to the Hospital for the financing of Hospital facilities and equipment. The bonds and notes are due in varying installments through 2013. Fixed interest rates on the two series of general obligation bonds were 3.50% and 4.50% at December 31, 2010, and 3.40 % and 4.40% at December 31, 2009 (see Note 7). During 2010, in conjunction with a refinancing of the City general obligation bonds initiated by the City, the City and the Hospital entered into a Loan Agreement to restructure a portion of the Hospital's obligations with respect to the City general obligation bonds. Pursuant to the Loan Agreement, the City loaned $2,285,000 at a rate of 4.0% to the Hospital. The Loan Agreement calls for principal payments in 2011 and 2012 such that the obligation will be repaid in full upon maturity of the Loan Agreement in 2012. These obligations are included with the Hospital's long-term debt as they relate to a lease agreement between the City and the Hospital (see Note 7).

Certain borrowing agreements require sinking fund deposits with a trustee sufficient to pay principal and interest when due. Further, certain borrowing agreements contain various covenants regarding maintenance of property, continuation of operations, issuance of additional debt, and maintenance of certain financial ratios and indicators. To the extent such funds or covenants are required under current WHEFA borrowing agreements, these are being maintained and monitored by Aurora. To the extent such funds or covenants are required under current City borrowing agreements, they are being maintained and monitored by the Hospital. At December 31, 2010 and 2009, management believes the Hospital is in compliance with the covenants contained in the debt agreements.

Scheduled maturities on all long-term debt (excluding amortization of unamortized bond discounts of $8 at December 31, 2010, are as follows (in thousands):

Years Ending December 31	
2011	$ 2,493
2012	1,072
2013	629
2014	127
2015	131
Thereafter	25,576
Total	$ 30,028

The estimated fair value of long-term debt, based on discounted cash flows at estimated current borrowing rates, approximated $29,856,000 and $32,201,000 at December 31, 2010 and 2009, respectively.

5. SELF-FUNDED HEALTH, DENTAL, AND OTHER BENEFITS

Substantially all of the Hospital's employees and their eligible dependents participate in a self-funded health and dental insurance plan sponsored and administered by Aurora. The Hospital's allocated costs under the plan, which totaled $8,801,000 and $9,389,000 in 2010 and 2009, respectively, are based upon actual claims paid, administration fees, and provisions for unpaid and unreported claims at year-end. Such costs are included with fringe benefits in the accompanying financial statements.

The Hospital also provides salary continuation payments to current and inactive employees who are eligible to receive long-term disability and workers' compensation, under self-funded arrangements. The Hospital costs under the Plan, which totaled $1,263,000 and $964,000 in 2010 and 2009, respectively, were based on actual claims paid. Such costs are included with fringe benefits in the accompanying financial statements. Aurora measures the cost of its unfunded obligations under such programs based upon actuarial calculations, however does not allocate any of the unfunded liabilities to the Hospital.

6. ADVANCES TO AND TRANSACTIONS WITH AFFILIATES

During 2009, Aurora entered into a series of agreements under which it sold certain patient accounts receivable to a qualifying special purpose entity in a revolving period securitization transaction expected to span a long-term period. In connection with this securitization, the Hospital sold, without recourse and on an ongoing basis, its patient accounts receivable to Aurora. As consideration for such sales, the Hospital recorded an amount due from affiliates equal to the net value of the patient receivables sold. At December 31, 2009, the net patient accounts receivable sold totaled $21,381,000 which is net of allowance for doubtful accounts of $15,488,000.

Aurora has a centralized cash depository and disbursement arrangement, as a means of improving investment returns and facilitating the settlement of intercompany balances. In 2009, affiliates which, on a net basis, have advanced funds, earn interest on such advances. Similarly, in 2009, affiliates which, on a net basis, have borrowed funds, incur interest expense on those borrowings. Interest rates credited or charged approximate those earned by Aurora on its centralized depository accounts. Beginning January 1, 2010, affiliates no longer earn interest on advances to Aurora or incur expense on borrowings from Aurora; rather, the interest on advances to Aurora or expenses on borrowings from Aurora are recorded as an adjustment to the expenses for management services and operational support provided by Aurora to the Hospital. At December 31, 2010 and 2009, the Hospital's portion of Aurora's cash concentration accounts totaled $242,537,000 and $205,211,000, respectively. Such amounts are classified as current and noncurrent due from affiliates in the accompanying financial statements in the same proportion as Aurora's consolidated current and noncurrent cash and investments. Interest income credited to the Hospital on its portion of Aurora's cash concentration accounts totaled $0 and $5,679,000 in 2010 and 2009, respectively, and is included in other revenue in the accompanying financial statements.

Amounts advanced by the Hospital to Aurora have been primarily used to fund advances to or investments in the various operating members of the Aurora system. Management of the Hospital believes Aurora and its affiliates have the ability and intent to repay these advances. Should some or all of these advances not be repaid by Aurora, the Hospital's net assets would be reduced and its debt to equity ratio would be increased. The fair value of the Hospital's advances to affiliates is estimated to approximate their carrying value.

Transactions with affiliates are recorded at amounts which approximate cost and are allocated based upon volume, usage, and budgeted financial operations. Aurora provides certain administrative and support services to the Hospital. Additionally, the Hospital provides operational support to certain affiliated clinics closely associated with the Hospital. Expenses for management services totaled $42,035,000 and $47,636,000 (including operational support of $6,985,000 and $8,334,000) in 2010 and 2009, respectively. At December 31, 2009, the Hospital owed $8,334,000 to affiliated organizations for such activities, included in due to affiliates in the accompanying financial statements. At December 31, 2010, the Hospital owed no amounts to affiliated organizations for such activities,

The Hospital, along with certain other Aurora affiliates, participates in the Aurora Consolidated Laboratories Co-Tenancy (the Co-Tenancy). The primary purpose of the Co-Tenancy is to operate an integrated, full-service diagnostic laboratory. Other expenses include $7,082,000 and $7,363,000 in 2010 and 2009, respectively, related to laboratory services provided by the Co-Tenancy.

Permanent transfers of assets and liabilities to and from affiliates for other than goods and services are reported as changes in unrestricted net assets. Net transfers of assets and liabilities from affiliates amounted to a decrease in unrestricted net assets of $29,000 in 2010 and an increase in unrestricted net assets of $123,000 in 2009.

The Aurora Foundation, Inc. (the Foundation) holds unrestricted assets of $1,189,000 and $962,000 at December 31, 2010 and 2009, respectively, that are expected to be used for the benefit and support of the Hospital and its activities, and are included in other assets in the accompanying balance sheet. Amounts received from the Foundation for educational and operating purposes were not significant in 2010 and 2009.

7. COMMITMENTS AND CONTINGENCIES

Lease Agreement — The Hospital has a noncancelable lease agreement with the City for the right to operate the Hospital. The City has title to all assets and any subsequent additions, with the exception of certain equipment with a net book value of $1,874,000 used by the Hospital for laboratory services. The Hospital has exclusive right to the use of the assets and the obligation to maintain and replace them over the term of the lease agreement. The historical cost of the leased facilities is included with the Hospital's property, plant, and equipment (see Note 3) and the general obligation bonds related to the leased facilities are included with the Hospital's long-term debt (see Note 4). The agreement provides for annual payments of $350,000 in lieu of annual lease payments. The lease expires in 2063.

The Hospital also has various noncancelable operating lease agreements for medical equipment, which have remaining fixed terms ranging from one to four years at December 31, 2010. Future minimum lease payments related to these operating leases that have initial or remaining lease terms in excess of one year at December 31, 2010, are as follows: $660,000 in 2011; $159,000 in 2012; $154,000 in 2013; $65,000 in 2014; $19,000 in 2015; and none thereafter.

Total rent expense on operating leases for property and equipment was $2,300,000 and $2,759,000 in 2010 and 2009, respectively.

Litigation and Potential Risks — The Hospital is subject to various regulatory investigations, legal proceedings, and claims, which are incidental to its normal business activities.

The Hospital believes it has made adequate provision for potential exposures relating to its legal matters. In the opinion of the management, the amount of ultimate liability with respect to these actions will not materially affect the financial position or results of operations of the Hospital.

Insurance Coverage — The Hospital is a qualified healthcare provider as defined by Wisconsin state statute and has professional liability insurance with limits of $1,000,000 per incident and $3,000,000 in aggregate for claims incurred during a policy year, regardless of when the claim is reported (occurrence coverage). Losses in excess of these amounts are fully covered through mandatory participation in the State of Wisconsin Injured Patients and Families Compensation Fund.

Aurora Liability Assurance, Ltd. (ALA), a wholly owned subsidiary of Aurora, assumes the primary medical professional liability and general liability risks of Aurora and its affiliates, including the Hospital. Insurance companies have issued policies covering these liabilities and ceded the risks back to ALA through reinsurance agreements. The Hospital is allocated premium expense based on loss experience and estimated total exposure.

The Hospital is commercially insured for workers' compensation stop-loss; auto, property, boiler, and machinery; directors' and officers' liability; and other customary business liabilities. There are no assurances that the Hospital will be able to renew existing policies or procure coverage on similar terms in the future.

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