LEHIGH VALLEY HEALTH NETWORK
AND COMPONENT ENTITIES

Combined Financial Statements for the Years Ended
June 30, 2012 and 2011, Schedule of Expenditures of Federal
Awards for the Year Ended June 30, 2012, and
Independent Auditors' Reports in Accordance with Government
Auditing Standards and Office of Management and Budget
Circular A-133

LEHIGH VALLEY HEALTH NETWORK AND COMPONENT ENTITIES
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Deloitte.

Deloitte & Touche LLP
1700 Market Street
Philadelphia, PA 19103-3984
USA

Tel: +1 215 246 2300
Fax: +1 215 569 2441
www.deloitte.com

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Lehigh Valley Health Network
Allentown, Pennsylvania

We have audited the accompanying combined statements of financial position of Lehigh Valley Health Network and Component Entities (the "Organization") as of June 30, 2012 and 2011, and the related combined statements of operations, changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Organization'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 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 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 procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization'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, the combined financial statements referred to previously present fairly, in all material respects, the combined financial position of Lehigh Valley Health Network and Component Entities as of June 30, 2012 and 2011, and the results of their combined operations, changes in combined net assets and combined cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic combined financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations ("Circular A-133"), is presented for the purposes of additional analysis as required by Circular A-133 and is not a required part of the basic combined financial statements. Such information is the responsibility of the Organization's management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic combined financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic combined financial statements or to the basic combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects when considered in relation to the basic combined financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 3, 2012 on our consideration of the Organization'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 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 audit.

Deloitte & Touche LLP

October 3, 2012

(January 9, 2013, as to paragraph 4)

Lehigh Valley Health Network and Component Entities
Combined Statements of Financial Position
June 30, 2012 and 2011
(In Thousands)

	2012	2011
Assets		
Current assets:		
Cash and cash equivalents	$26,062	$29,795
Patient accounts receivable, net	209,002	183,142
Other accounts receivable	19,697	9,044
Inventories	16,983	15,950
Prepaids	12,487	12,377
Assets limited under bond debt service fund - current portion	14,984	17,353
Assets limited under primary professional liability arrangements - current portion	4,790	3,066
Total current assets	304,005	270,727
Noncurrent assets:		
Assets whose use is limited or restricted:		
Assets limited by board of trustees for capital improvements	716,810	720,568
Assets limited by board of trustees for retained excess professional liability arrangements	17,755	16,290
Assets limited under primary professional liability arrangements	42,637	40,270
Assets limited by management	30,632	29,924
Assets limited under bond indenture, bond construction, debt service, and debt service reserve agreements - held by trustee	11,084	11,077
Assets restricted by donors	139,693	141,390
Assets limited to fund deferred compensation and other liabilities	39,874	39,873
Property and equipment, net	620,635	601,997
Partnership investments	10,665	15,283
Deferred financing costs, net and other noncurrent assets	35,501	22,972
Total noncurrent assets	1,665,286	1,639,644
Total assets	$1,969,291	$1,910,371
Liabilities and net assets		
Current liabilities:		
Accounts payable	$60,178	$42,757
Accrual for estimated third-party payer settlements	3,475	2,598
Accrued compensation	53,282	66,418
Other accrued expenses	34,562	35,310
Pension	3,154	2,944
Professional liability	4,790	3,066
Current portion of long-term debt	11,530	11,218
Total current liabilities	170,971	164,311
Noncurrent liabilities:		
Long-term debt, net of current portion	502,276	513,537
Deferred compensation and other liabilities funded with matching assets	39,874	39,873
Pension	267,849	155,126
Professional liability	54,177	49,598
Other liabilities	37,443	27,531
Total noncurrent liabilities	901,619	785,665
Total liabilities	1,072,590	949,976
Net assets:		
Unrestricted:		
Lehigh Valley Health Network and component entities	737,944	805,276
Noncontrolling interests in subsidiaries	19,064	13,729
Total unrestricted net assets	757,008	819,005
Temporarily restricted	93,252	98,868
Permanently restricted	46,441	42,522
Total net assets	896,701	960,395
Total liabilities and net assets	$1,969,291	$1,910,371

See notes to combined financial statements

Lehigh Valley Health Network and Component Entities
Combined Statements of Operations
Years Ended June 30, 2012 and 2011
(In Thousands)

	2012	2011
Patient services and supporting operations		
Revenues		
Net patient service revenue	$1,579,506	$1,482,711
Other supporting operations revenue	36,941	35,949
Net assets released from restrictions used for operations	4,083	5,861
Total revenues	1,620,530	1,524,521
Expenses		
Salaries and wages	688,013	619,504
Benefits	129,552	139,748
Supplies	259,176	245,112
Purchased services	148,084	142,080
Other	100,355	96,123
Depreciation and amortization	83,867	85,095
Bad debts	106,247	93,133
Interest expense	22,318	23,357
Total expenses	1,537,612	1,444,152
Operating income	82,918	80,369
Other nonoperating gains and losses		
Realized investment earnings	64,500	24,355
Change in net unrealized (losses) gains on swaps	(11,459)	3,005
Loss on refinancing of debt	(309)	(605)
Nonoperating gains (losses), net	212	(952)
Other nonoperating gains and losses, net	52,944	25,803
Revenues and gains in excess of expenses and losses before income taxes	135,862	106,172
Provision for income taxes	(3,430)	(3,889)
Revenues and gains in excess of expenses and losses attributed to Lehigh Valley Health Network and component entities	132,432	102,283
Net assets released from restrictions - capital acquisitions	3,270	3,277
Contribution of long lived assets	2,114	0
Adjustment to funded status of pension plan	(148,920)	93,652
Change in noncontrolling interests	5,335	9,088
Change in net unrealized (losses) on swaps	(170)	0
Change in net unrealized (losses) gains on investments	(56,058)	83,516
(Decrease) increase in unrestricted net assets	($61,997)	$291,816

See notes to combined financial statements

Lehigh Valley Health Network and Component Entities
Combined Statements of Changes in Net Assets
Years Ended June 30, 2012 and 2011
(In Thousands)

	2012	2011
Unrestricted net assets		
Revenues and gains in excess of expenses and losses attributed to Lehigh Valley Health Network and component entities	$132,432	$102,283
Net assets released from restrictions - capital acquisitions	3,270	3,277
Contribution of long lived assets	2,114	0
Adjustment to funded status of pension plans	(148,920)	93,652
Change in noncontrolling interests	5,335	9,088
Change in net unrealized (losses) on swaps	(170)	0
Change in net unrealized (losses) gains on investments	(56,058)	83,516
(Decrease) increase in unrestricted net assets	(61,997)	291,816
Temporarily restricted net assets		
Contributions	1,977	8,409
Reclassification from permanently restricted net assets	464	0
Increase in assets temporarily held in trust	2	260
Realized and unrealized investment gains, net	1,408	20,656
Net assets released from restrictions	(9,467)	(9,138)
(Decrease) increase in temporarily restricted net assets	(5,616)	20,187
Permanently restricted net assets		
Contributions	4,193	451
Reclassification from temporarily restricted & unrestricted net assets	185	0
(Decrease) increase in beneficial interest in perpetual trusts	(459)	1,710
Increase in permanently restricted net assets	3,919	2,161
(Decrease) increase in net assets	(63,694)	314,164
Net assets, beginning of year	960,395	646,231
Net assets, end of period	$896,701	$960,395

See notes to combined financial statements

Lehigh Valley Health Network and Component Entities
Combined Statements of Cash Flows
Years Ended June 30, 2012 and 2011
(In Thousands)

	2012	2011
Cash flows from operating activities:		
(Decrease) increase in net assets	($63,694)	$314,164
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	83,867	85,095
Loss on refinancing of debt	309	605
Net realized and unrealized losses (gains) on unrestricted investments	7,277	(94,738)
Restricted contributions received for capital and endowments and related investment (gains)	(4,810)	(20,374)
Adjustment to funded status of pension plans	148,920	(93,652)
Increase in capital leases obligation	242	271
Change in net unrealized loss (gain) on swaps	11,629	(3,005)
Provision for bad debts	106,247	93,133
Adjustment to noncontrolling interests due to a change in control of equity investee	(3,420)	(7,932)
Changes in assets and liabilities:		
Increase in patient accounts receivable, net	(130,124)	(97,529)
Increase in prepaids, inventories and other current assets	(11,595)	(1,320)
(Increase) decrease in other noncurrent assets	(7,023)	1,468
(Increase) decrease in interest earned but not received on assets whose use is limited or restricted	(147)	30
Increase (decrease) in accounts payable	10,586	(4,184)
(Decrease) increase in other accrued expenses	(748)	6,566
Decrease in accrual for estimated third party payer settlements	877	(14,933)
Decrease) increase in accrued compensation	(13,136)	4,615
(Decrease) increase in pension liability	(35,987)	19,993
Increase in professional liability	6,303	4,262
Increase in deferred compensation and other liabilities funded with matching assets, and other liabilities	1,746	10,849
Net cash provided by operating activities	107,319	203,384
Cash flows from investing activities:		
Purchases of property and equipment	(84,509)	(72,158)
Acquisition of investment in partnerships	(9,813)	0
Purchases of investments	(1,169,232)	(1,402,470)
Proceeds from sales of investments	1,162,630	1,278,985
Net cash used in investing activities	(100,924)	(195,643)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	7,512	27,720
Payment of financing costs	(274)	(400)
Repayment of debt	(18,762)	(37,796)
Proceeds from restricted contributions for capital and endowments	1,396	900
Net cash used in financing activities	(10,128)	(9,576)
Net decrease in cash and cash equivalents	(3,733)	(1,835)
Cash and cash equivalents, beginning of year	29,795	31,630
Cash and cash equivalents, end of year	$26,062	$29,795
Supplemental cash flow information:		
Cash paid for interest	$20,070	$21,520
Cash paid for income taxes	$1,408	$2,741
Non-cash increase in capital lease obligation	$242	$271
Amounts accrued for purchase of property and equipment in excess of amounts paid	$8,476	$2,440

See notes to combined financial statements

FOR THE YEARS ENDED JUNE 30, 2012 AND 2011 (AMOUNTS IN THOUSANDS OF DOLLARS)

LEHIGH VALLEY HEALTH NETWORK
AND COMPONENT ENTITIES

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Lehigh Valley Health Network ("LVHN") is a not-for-profit 501(c)(3) corporation that controls related organizations in a health care delivery network providing a wide array of health care services and products to the Lehigh Valley and surrounding communities in Pennsylvania. The combined financial statements of Lehigh Valley Health Network and Component Entities (the "Organization") at June 30, 2012 and 2011 include the accounts of the following entities:

Entity Name	**Income Tax Status**
Lehigh Valley Hospital ("LVH")	Exempt-501(c)3
Lehigh Valley Hospital - Muhlenberg ("LVHM")	Exempt-501(c)3
Lehigh Valley Health Network ("LVHN")	Exempt-501(c)3
Lehigh Valley Physician Group ("LVPG")	Exempt-501(c)3
Muhlenberg Realty Corporation ("MRC")	Exempt-501(c)3
Health Network Laboratories, L.P. ("HNL") - 97% owned by LVHN	Non-exempt
Health Network Laboratories, LLC	Non-exempt
Lehigh Valley Health Services, Inc. ("LVHS")	Non-exempt
Spectrum Administrators, Inc	Non-exempt
Spectrum Health Ventures, Inc	Non-exempt
LVHN Reciprocal Risk Retention Group ("RRG")	Non-exempt
Lehigh Valley Health Network Realty Holding Company, Inc. ("LVHNRHC")	Exempt-501(c)2
Westgate Professional Center, Inc. ("Westgate")	Non-exempt
Lehigh Valley Anesthesia Services, PC ("LVAS")	Non-exempt
Lehigh Valley Physician Hospital Organization ("LVPHO") - 50% owned by LVHN	Non-exempt
Lehigh Magnetic Imaging Center ("LMIC") - 77% owned by LVHN	Non-exempt

All significant intercompany balances and transactions have been eliminated. The Organization owned 77% of Fairgrounds Surgical Center at June 30, 2011. Fairgrounds Surgical Center became 100% owned by Lehigh Valley Hospital effective November 1, 2011.

On April 3, 2012 the Organization acquired an additional 33.18% of limited partnership interest in Lehigh Magnetic Imaging Center ("LMIC"), giving the Organization a total of 76.51% ownership interest in the entity. The acquisition was accounted for as a business combination. The allocation of the purchase price to the assets acquired was based on their fair values as of the acquisition date, with the amount of $7,092 exceeding fair value recorded as goodwill. Goodwill largely represents synergies resulting from the business combination and has been recorded in the Combined Statements of Financial Position in other noncurrent assets. The Organization has recorded in the Combined Statements of Financial Position, the fair value as of the acquisition date for property and equipment of $10,656, other assets of $4,702, and current liabilities of $799. The fair value of plant and equipment was quantified primarily using a market approach, by analyzing recent sales or offerings of comparable property consistent with assumptions market participants would use..

Prior to the acquisition date, the Organization accounted for its 43.33%interest in LMIC as an equity method investment. The acquisition date fair value of the previously held equity interest was valued at $6,308. A gain of $2,064 has been recorded as a result of revaluing the previously held equity interest to fair value as of the acquisition date. This gain is recorded in the Combined Statements of Operations in Nonoperating gains (losses), net.

Basis of Accounting

The combined financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America and in accordance with the American Institute of Certified Public Accountants' Audit and Accounting Guide, *Health Care Entities*, and other pronouncements applicable to not-for-profit healthcare organizations. The Organization evaluated subsequent events through October 3, 2012, the date the financial statements were issued, and determined there were no subsequent events requiring disclosure.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The preparation of combined 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 combined financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include the bad debts reserve, contractual allowances, estimated amounts due to third party payers, professional liabilities, liabilities for pension and other benefits, swaps, alternative investments, and asset retirement obligations.

Trusts

The Organization is the beneficiary in perpetuity of income earned on certain perpetual irrevocable trusts, the funds of which are maintained and administered by independent trustees, and are recognized at the Organization's share of the estimated fair value of the related trust assets and are included in Assets restricted by donors. The Organization's share of income earned on these trusts is unrestricted.

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments purchased with an initial maturity of three months or less, excluding amounts included in assets whose use is limited or restricted. At June 30, 2012 and 2011, the Organization had cash balances at financial institutions that exceeded federal depository insurance limits. Management believes that credit risk related to these deposits is minimal. Cash and Cash equivalents are carried at cost, which approximate fair value.

Inventories

Inventories are stated at the lower of first-in, first-out cost or market.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Organization 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 Organization or outside trustees in perpetuity.

Income Taxes

The Organization's for-profit components, which are subject to income taxes, recognize deferred tax assets and liabilities for the future tax impact of temporary differences between amounts recorded in the financial statements and their respective tax bases and the future benefit of utilizing net operating loss carryforwards.

Donor Restricted Gifts

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received, which is then treated as cost. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of operations as net assets released from restriction. In the absence of donor specification that investment income on donated funds be restricted, such income is reported as realized investment earnings of unrestricted net assets.

Property and Equipment

Property and equipment is stated at cost, or in the case of donated items, at the fair market value at the date of the gift. Depreciation is recorded over the estimated useful lives of assets, as indicated in the table below, using the straight-line method.

	Lives
Land improvements	2 - 25 years
Buildings and building equipment	5 - 40 years
Fixed and major movable equipment	2 - 20 years

Assets under capital lease are amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the assets. Such amortization is included in depreciation and amortization in the Combined Statements of Operations. Interest costs, net of related interest earnings, incurred on related funds acquired through the issuance of tax-exempt bonds is capitalized during the period of construction of capital assets as a component of the cost of acquiring those assets. No interest costs were capitalized for the years ended June 30, 2012 and 2011. Leasehold improvements and software licenses are amortized over the shorter of their useful lives or the term of the lease using the

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment (continued)
straight-line method. The cost of assets and the related accumulated depreciation are removed from the records upon retirement or other disposition and any gain or loss is included in the Combined Statements of Operations.

Asset Retirement Obligations
The Organization recognizes the fair value of a liability for legal obligations associated with conditional asset retirement obligations ("ARO's") in the period in which the liability is incurred. ARO's are accreted to their present value at the end of each reporting period. The associated estimated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset and depreciated over its useful life. ARO's are adjusted each year for any liabilities incurred or settled during the period, accretion expense, and any revisions made to the estimated cash flows. The Organization has identified ARO's related to the legally required remediation of asbestos existing within the Organization's facilities. While all hazardous materials within the Organization's facilities are currently contained and meet existing safety standards, the capitalized asset and liability recorded relate to the eventual remediation and removal that is legally required upon the ultimate repair, renovation, or demolition of facilities containing the hazardous materials. ARO liabilities recorded at June 30, 2012 and 2011 were $4,975 and $4,946, respectively.

Long-Lived Assets
The Organization assesses the recoverability of its long-lived assets whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Recoverability is based on the estimated fair value of the asset measured using the estimated future cash flows expected to result from the use of the assets and their eventual disposal.

Deferred Financing Costs
Deferred financing costs, principally legal fees and bond issuance costs, are amortized over the period of financing. Gross deferred financing costs June 30, 2012 and 2011 were $15,346 and $16,132 respectively. Accumulated amortization of deferred financing costs was $3,944 and $3,905 at June 30, 2012 and 2011, respectively.

Partnership Investments
Partnership investments, primarily joint venture investments, are accounted for at the lower of cost or market for investments in which the Organization does not have the ability to exercise significant influence. Partnership investments in which the Organization has the ability to exercise significant influence are accounted for under the equity method of accounting.

Pledges
Pledges, less an allowance for uncollectible amounts, are recorded as receivables in the year made. Pledges are reported as additions to either temporarily or permanently restricted net assets at their present value.

Estimated Third-Party Payer Settlements
The Organization has agreements with third party payers that provide for payments at amounts different than our established rates. Payment arrangements include primarily prospectively determined rates per discharge, per visit, and per diem payments and to a lesser extent, reimbursed costs at discounted charges.

Noncontrolling Interests in Subsidiaries
The Combined Statements of Financial Position include noncontrolling interests that relate to the portion of subsidiaries that are not owned by the Organization. Similarly, the Combined Statements of Operations include noncontrolling interests that reflect amounts not attributable to the Organization, which are recorded as a component of Nonoperating gains (losses), net.

Combined Statements of Operations
For purposes of display, transactions deemed to be ongoing, major or central to the provision of health care services are reported as revenue and expenses from Patient services and supporting operations. Peripheral or incidental transactions are reported as Other nonoperating gains and losses.

Patient services and supporting operations revenues and expenses are those revenues and expenses directly related to the provision of patient care and community wellness and education. Other nonoperating gains and losses includes Realized investment earnings, Change in net unrealized (losses) gains on swaps, Loss on refinancing of debt, and Nonoperating gains (losses), net.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Performance Indicator

In the Combined Statements of Operations, the primary indicator of the Organization's results is Revenues and gains in excess of expenses and losses. Changes in unrestricted net assets that are excluded from the performance indicator, consistent with industry practice, include Net assets released from restrictions – capital acquisitions, Contribution of long lived assets, Adjustment to funded status of pension plan, Change in noncontrolling interests, Change in net unrealized (losses) on swaps, and Change in net unrealized (losses) gains on investments (except for declines in fair value that are determined by management to be other-than-temporary, which are reported as realized investment losses).

Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amount from patients, third-party payers and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers. Retroactive adjustments are recorded on an estimated basis in the period the related services are rendered or when known by the Organization and adjusted in future periods as final settlements are determined. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is a reasonable possibility that recorded estimates will change by a material amount in the near term. Changes in prior year estimates increased net patient service revenue by $13,484 and $14,424 in the fiscal years ended June 30, 2012 and 2011, respectively.

Other Supporting Operations Revenue

Other supporting operations revenue primarily includes revenue from grant contracts, property rental, partnership revenue and unrestricted contributions.

Patient Accounts Receivable

Patient Accounts receivable for which the Organization receives payment under cost reimbursement, prospective payment formulas or negotiated rates, which cover the majority of patient services, are stated at the estimated net amounts receivable from payers, which are generally less than the established billing rates of the Organization. Patient accounts receivable is reported at its net realizable value and includes reserves for bad debts of $135,085 and $112,924 at June 30, 2012 and 2011, respectively. Bad debts reserves are estimated based on the Organization's belief that a patient has the ability to pay for services but payment is not expected to be received. The reserve for bad debts is based on management's assessment of historical and expected collections, business economic conditions, trends in health care coverage, and other collection indicators. Accounts receivable are written off against the reserve for bad debts when management determines that recovery is unlikely and the Organization ceases collection efforts.

Concentrations of Credit Risk

The Organization grants credit without collateral to its patients, most of who are local residents and are insured under third-party payer agreements. The mix of net receivables from patients and third-party payers was as follows at June 30:

	2012	2011
Medicare	19%	20%
Blue Cross/Blue Shield	18%	18%
Independence Blue Cross & Valley Preferred	15%	17%
Commercial, Auto & Workers Compensation	12%	12%
Medicare & Medicaid Managed Care	12%	13%
Medicaid	10%	11%
Self Pay	14%	9%
Total	100%	100%

Estimated Medical Malpractice Costs

The Organization uses a combination of commercial insurance and self-insurance arrangements to provide for medical malpractice costs. The self-insured arrangements include actuarially determined estimates of the ultimate costs for both reported claims and claims incurred but not reported (IBNR) and include the primary layer provided through the RRG, and the self-insured excess layer. The Medical Care Availability and Reduction of Error (MCARE) layer provides coverage between the self-insured primary layer and the self-insured excess layer and is provided by the Pennsylvania Insurance Department funded through direct assessments. Commercial insurance is used to provide additional excess coverage beyond the self-insured excess layer.

Estimated Medical Malpractice Costs (continued)

The June 30, 2012 and 2011 financial statements include actuarially determined self-insured medical malpractice expenses of $8,757 and $9,503, respectively, and are reported as Other expense in the Combined Statements of Operations. Corresponding reserves are reported as current and non-current Professional liability in the Combined Statements of Financial Position. Commercial excess insurance expense and MCARE assessments were $4,726 and $5,431 as of June 30, 2012 and 2011, respectively, and were recorded in Other expense in the Combined Statements of Operations.

Assets Whose Use is Limited

Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value in the Combined Statements of Financial Position. The Organization also invests in a diversified program of alternative investment funds. These investments utilize a “fund of funds” approach resulting in diversified multistrategy, multimanager investments. Certain investments include liquidation restrictions of 30 to 70 days notice prior to withdrawal. The Organization reports these investments at fair value.

Investment income or loss (including realized gains and losses on investments, interest and dividends) is reported as Realized investment earnings unless the income or loss is restricted by donor or law, in which case investment income or loss is recorded as a component of Temporarily restricted net assets. Unrealized gains and losses on investments are excluded from Revenues and gains in excess of expenses and losses but are reported as increases or decreases in Unrestricted net assets unless the income or loss is restricted by donor or law, in which case investment income or loss is recorded as a component of Temporarily restricted net assets.

Investments, in general, are exposed to various risks such as interest rate, credit and overall market volatility. As such, it is reasonably possible that changes in the value of investments will occur in the near term and that such changes could materially affect the amounts reported in the combined financial statements.

Assets whose use is limited includes (1) assets set aside by the Board of Trustees (the “Board”) for future purposes over which the Board retains control and may at its discretion subsequently use for capital improvements, (2) assets limited by the Board for retained excess professional liability arrangements, (3) assets limited under primary professional liability arrangements, (4) assets internally designated by management for various purposes and (5) assets limited to fund deferred compensation and other liabilities.

In addition, Assets whose use is limited also includes Assets limited under bond indenture, bond construction, debt service funds, and debt service reserve funds, related to the Organization’s outstanding tax exempt bonds (see note 3). Bond construction funds are held by a trustee and are established to hold bond proceeds until the Organization has incurred capital expenditures in accordance with the allowable uses of issued bonds. The Organization is required to fund to a trustee its scheduled monthly and semi-annual (January 1 and July 1) debt service payments 1-15 days in advance of the payment dates. This funding is reflected in the Combined Statements of Financial Position in the Current assets section reported as Assets limited under bond debt service fund. For certain outstanding bond issues, the Organization is required to maintain debt service reserve funds with a trustee. These funds are available to pay debt service in the event the Organization fails to make such payments.

2. ASSETS WHOSE USE IS LIMITED OR RESTRICTED AND PARTNERSHIP INVESTMENTS

Investments carried primarily at fair value and other assets carried at cost at June 30, 2012 and 2011 are summarized as follows:

	Short-term investments	U.S. government, agencies, and authorities	Corporate bonds	Marketable equity securities (C)	Equity investments in partnerships	Pledges receivable, perpetual trust & other investments (A)	Accrued interest	Total
2012								
Assets limited under bond debt service fund-current portion	$14,984	$0	$0	$0	$0	$0	$0	$14,984
Assets limited under primary professional liability arrangements - current portion	327	1,833	1,198	1,417	0	0	15	4,790
Assets limited by board of trustees for capital improvements	64,713	205,025	124,107	321,410	0	0	1,555	716,810
Assets limited by board of trustees for retained excess professional liability arrangements	1,640	4,865	3,150	8,061	0	0	39	17,755
Assets limited under primary professional liability arrangements	2,996	15,912	10,401	13,200	0	0	128	42,637
Assets limited by management (B)	1,755	3,269	2,155	14,950	0	8,477	26	30,632
Assets limited under bond indenture, bond construction, debt service, and debt service reserve agreements - held by trustee	11,084	0	0	0	0	0	0	11,084
Assets restricted by donors	9,952	16,740	11,980	85,301	0	15,586	134	139,693
Partnership investments	0	0	0	0	10,665	0	0	10,665
Assets limited to fund deferred compensation and other liabilities	3,499	6,626	5,592	21,615	0	2,478	64	39,874
Total Investments	$110,950	$254,270	$158,583	$465,954	$10,665	$26,541	$1,961	$1,028,924
2011								
Assets limited under bond debt service fund-current portion	$17,353	$0	$0	$0	$0	$0	$0	$17,353
Assets limited under primary professional liability arrangements - current portion	238	1,253	727	837	0	0	11	3,066
Assets limited by board of trustees for capital improvements	64,714	154,210	101,050	399,224	0	0	1,370	720,568
Assets limited by board of trustees for retained excess professional liability arrangements	1,489	3,288	2,345	9,136	0	0	32	16,290
Assets limited under primary professional liability arrangements	3,292	13,994	8,437	14,424	0	0	123	40,270
Assets limited by management (B)	1,722	3,092	1,843	14,763	0	8,477	27	29,924
Assets limited under bond indenture, bond construction, debt service, and debt service reserve agreements - held by trustee	11,077	0	0	0	0	0	0	11,077
Assets restricted by donors	11,676	22,982	14,457	77,911	0	14,167	197	141,390
Partnership investments	0	0	0	0	15,283	0	0	15,283
Assets limited to fund deferred compensation and other liabilities	3,048	5,143	4,597	24,839	0	2,192	54	39,873
Total Investments	$114,609	$203,962	$133,456	$541,134	$15,283	$24,836	$1,814	$1,035,094

(A) Includes $6,655 and $7,114 representing the Organization's interest in certain perpetual trusts stated at net present value at June 30, 2012 and 2011, respectively (see Note 1). Includes $6,456 and $4,588 of pledges receivable at June 30, 2012 and 2011, respectively (see Note 14). Includes other investments, primarily cash surrender value of life insurance, of $4,130 and $3,834 at June 30, 2012 and 2011, respectively, Includes an unrestricted gift of land valued at $8,250 at June 30, 2012 and 2011. Includes $1,050 representing LVH's remaining interest in the Elsa K. Farr Trust at June 30, 2012 and 2011, respectively.

(B) Assets limited by management are primarily unspent unrestricted gift proceeds invested until used, and the unrestricted gift of land described in note (A) above.

(C) Includes $89,694 and $90,497 in alternative investments at June 30, 2012 and 2011, respectively. Because alternative investments are not readily marketable, the estimated fair value is subject to uncertainty and, therefore, may differ from the fair value that would have been used had a ready market existed, and such differences could be material (see Note 13).

2. ASSETS WHOSE USE IS LIMITED OR RESTRICTED AND PARTNERSHIP AND OTHER INVESTMENTS (continued)

The following schedule summarizes the investment earnings and its classification in the Combined Statements of Operations and Combined Statements of Changes in Net Assets for the years ended June 30:

	2012	2011
Income:		
Interest and dividend income	$17,887	$15,122
Net realized gains on investments	56,367	14,537
Net unrealized (losses) gains on investments	(64,404)	98,868
Total	$9,850	$128,527
Reported as follows:		
Combined Statements of Operations:		
Other nonoperating gains and losses - Realized investment earnings	$64,500	$24,355
Change in net unrealized (losses) gains on investments	(56,058)	83,516
Combined Statements of Changes in Net Assets:		
Temporarily restricted net assets - Realized and unrealized investment gains, net	1,408	20,656
Total	$9,850	$128,527

Other Than Temporary Impairment

The Organization recognizes other than temporary impairment on equity securities when: (1) in management's judgment, a decline in value is not temporary or (2) when the Organization, through it's investment managers, has made a decision to sell the equity security at an amount below its carrying value, or (3) when the Organization determines it does not have the ability and intent to hold an investment for a sufficient period of time for a recovery of fair value.

The Organization evaluates other than temporary impairment on debt securities by determining: (1) if the Organization has the intent to sell the debt security or (2) if it is more likely than not that the Organization will be required to sell the debt security before its anticipated recovery; and (3) assessing whether a credit loss exists, that is, where the Organization believes that the present value of the cash flows expected to be collected from the security are less than the amortized cost basis of the security.

When an other than temporary impairment is recognized, the security is written down to fair value as the new cost basis, and the amount of the write-down is recorded as a realized loss.

During fiscal years 2012 and 2011, assessments of other than temporary impairment were performed on each security held by the Organization. Factors considered in determining whether an other than temporary impairment existed included: the financial condition, business prospects and creditworthiness of the issuer, and the length of time and extent to which fair value had been less than cost for equity securities or amortized cost for fixed income securities.

The other-than-temporary impairment losses recorded as of June 30, 2012 and 2011 were $4,787 and $3,143, respectively. These losses are reported in Realized investment earnings in the Combined Statements of Operations.

In addition to the above, certain other investments had fair values below cost at June 30, 2012 and 2011 but were determined to not be other-than-temporarily impaired due to the Organization's ability and intent to hold the securities until recovery of fair value. The following table presents the unrealized losses and fair value of these investments, aggregated by investment category and length of time individual securities have been in a continuous unrealized loss position.

	Less than 12 months		Greater than 12 months		Total	
	Fair Value	Unrealized loss	Fair Value	Unrealized loss	Fair Value	Unrealized loss
2012						
Marketable equity securities	$25,338	($3,890)	$103,266	($15,855)	$128,604	($19,745)
2011						
Marketable equity securities	$25,001	($254)	$96,540	($981)	$121,541	($1,235)

2. ASSETS WHOSE USE IS LIMITED OR RESTRICTED AND PARTNERSHIP AND OTHER INVESTMENTS (continued)

Other Than Temporary Impairment (continued)
The unrealized losses on investments in marketable equity securities were caused by a combination of economic, industry, and company factors. The Organization's marketable equity securities portfolios are diversified. The nature of a diversified portfolio is that at any point in time some holdings are reasonably expected to reflect market losses. Since the declines in market value of equity securities are not considered severe in nature on a security by security basis, the financial condition and near term prospects of the issuer are not in question, and the Organization has the ability and intent to hold to recovery, the Organization does not consider those investments to be other than temporarily impaired at June 30, 2012 and 2011.

3. LONG-TERM DEBT

Long-term debt consists of the following at June 30:	2012	2011
Hospital Revenue Bonds, Series of 1994 (net of unamortized bond discount of $4 and $5 at June 30, 2012 and June 30, 2011, respectively) at a fixed rate of 7.000% due in various amounts through July 1, 2016.	$6,206	$7,214
Hospital Revenue Bonds, Series A of 2001 (net of unamortized bond discount of $0 and $23 at June 30, 2012 and June 30, 2011, respectively) at fixed rates ranging from 4.800% to 5.00% due in various amounts through July 1, 2015. These bonds were refinanced with the issuance of the Hospital Revenue Bonds, Series A of 2012 (see below).	0	8,842
Hospital Revenue Bonds, Series B of 2001 (net of unamortized bond discount of $153 and $161 at June 30, 2012 and June 30, 2011, respectively) at fixed rates ranging from 4.250% to 5.375% due in various amounts through July 1, 2031. Subsequent to June 30, 2012, a portion of these bonds were refinanced with the issuance of the Hospital Revenue Bonds, Series A of 2012 (see below).	27,242	28,029
Hospital Revenue Bonds, Series A of 2003 (net of unamortized bond discount of $445 and $466 at June 30, 2012 and June 30, 2011, respectively) at fixed rates ranging from 5.000% to 5.250% due in various amounts through July 1, 2033.	60,380	60,359
Hospital Revenue Bonds, Series A of 2005 At variable rates of interest (0.167% at June 30, 2012) due in various amounts through July 1, 2025. These bonds are privately held and the interest rate is indexed and resets on a monthly basis. See Page 14 "Swap Agreements".	49,850	51,250
Hospital Revenue Bonds, Series B of 2005 At a fixed rate of 5.000% due in various amounts through July 1, 2035.	81,000	81,000
Hospital Revenue Bonds, Series A of 2008 (net of unamortized bond premium of $304 and $315 at June 30, 2012 and June 30, 2011, respectively) at fixed rates ranging from 4.000% to 5.000% due in various amounts through July 1, 2038.	69,024	70,261
Hospital Revenue Bonds, Series B of 2008 At variable rates of interest (0.167% at June 30, 2012) due in various amounts through July 1, 2028. These bonds are privately held and the interest rate is indexed and resets on a montly basis. See Page 14 "Swap Agreements".	88,235	90,775
Hospital Revenue Bonds, Series C of 2008 At variable rates of interest (0.176% at June 30, 2012) due in various amounts through July 1, 2029. These bonds reprice daily.	58,790	59,030
Hospital Revenue Bonds, Series A of 2011 At variable rates of interest (0.167% at June 30, 2012) due in various amounts through July 1, 2029. These bonds reprice daily.	25,755	27,720
Hospital Revenue Bonds, Series A of 2012 At variable rates of interest (0.185% at June 30, 2012) due in various amounts through July 1, 2021. These bonds are privately held and the interest rate is indexed and resets on a monthly basis. See Page 14 "Swap Agreements".	7,512	0

3. LONG-TERM DEBT (continued)

	2012	2011
Capital Lease Liability on parking deck and The Center for Advanced Health Care MOB located on LVH campus at Cedar Crest & I78. Payable in monthly installments through February 2027 with subsequent renewal options.	34,605	34,363
Mortgage liability to Firstrust Bank on property located at 2649 Schoenersville Rd., Bethlehem, PA containing a medical office building on the LVHM campus. At a fixed rate of 5.5% with monthly payments of $37 through March 2016.	$5,189	$5,337
Other long-term debt	18	575
Subtotal (net of unamortized bond discount of $298 and $340 at June 30, 2012 and June 30, 2011, respectively)	513,806	524,755
Less current maturities	(11,530)	(11,218)
Total long-term debt	$502,276	$513,537

Maturities of Long-Term Debt

Scheduled principal maturities on long-term debt (excluding capital lease obligations) for the next five fiscal years and thereafter are as follows:

2013	$11,530
2014	12,226
2015	12,680
2016	17,721
2017	13,595
Thereafter	411,747
Total principal for long-term debt	$479,499

Long-Term Debt – Authority Bond Issues

LVHN, LVH, and LVHM (the "Obligated Group") have borrowed funds through revenue bonds issued by the Lehigh County General Purpose Authority (the "Authority"). The proceeds were used in part to finance certain facilities of the Obligated Group. The bonds are secured by a pledge of revenue of the Obligated Group. For accounting purposes, the revenue bonds are treated as though they are the debt of the entity which received the proceeds.

Swap Agreements

The Organization has hedged its long term exposure to rising interest rates on portions of its variable rate debt through the participation in interest rate swaps. As of June 30, 2012, interest rate swap agreements with external counter parties were in place on the Series A of 2005 Bonds (the "2005 Swap"), the Series B of 2008 Bonds (the "2006 Swaps"), and Series A of 2012 (the "2012 Swap") bonds. These interest rate swaps effectively convert these variable rate bonds to a fixed rate. The swaps carry a fair value based on long term interest rates and are further described in the table below:

	Liability Derivatives		
		Fair Value	
Derivatives not designated as hedging instruments	Combined Statements of Financial Position - location	2012	2011
Interest rate contracts - 2005 Swap	Other liabilities	$9,280	$5,103
Interest rate contracts - 2006 Swaps	Other liabilities	17,358	10,076
Total derivatives not designated as hedging instruments		$26,638	$15,179
Derivatives designated as hedging instruments			
Interest rate contracts - 2012 Swaps	Other liabilities	$170	$0
Total derivatives		$26,808	$15,179

For the years ended June 30, 2012 and 2011, the 2005 and 2006 Swaps were determined to be ineffective hedges for accounting purposes and as a result did not qualify for hedge accounting treatment. Consequently, changes in the swaps fair values are reported as a component of Other nonoperating gains and losses. The 2012 Swaps are considered to be effective hedges and qualify for hedge accounting treatment where all changes in the swaps' fair values are reported below Revenues and gains in excess of expenses and losses.

3. LONG-TERM DEBT (continued)

Swap Agreements (continued)
The below table presents the unrealized gains and losses on the 2005, 2006, and 2012 swap derivatives within the Combined Statements of Operations as of June 30, 2012 and 2011, respectively.

Derivatives not designated as hedging instruments	Location of losses on ineffective portion	Amount of unrealized (losses) gains recognized in 2012	2011
Interest rate contracts - 2005 Swap	Other nonoperating gains and losses - Change in net unrealized (losses) gains on swaps	($4,177)	$1,056
Interest rate contracts - 2006 Swaps	Other nonoperating gains and losses - Change in net unrealized (losses) gains on swaps	(7,282)	1,949
Total derivatives not designated as hedging instruments		($11,459)	$3,005
Derivatives designated as hedging instruments	Location of losses on effective portion		
Interest rate contracts - 2012 Swaps	Change in net unrealized losses on swaps	($170)	$0
Total derivatives		($11,629)	$3,005

In addition to the above, the 2005, 2006, and 2012 interest rate swaps also impose collateralization requirements on both parties if certain conditions occur. Collateralization for the 2005, 2006, or 2012 swaps was not required as of June 30, 2012 and 2011.

For the 2005 and 2006 swaps where Merrill Lynch is the counter party no collateralization is required as long as LVHN maintains its current credit rating of A1 (Moody's) and A+ (S & P), regardless of the market value of the swaps. In addition, a change in the credit ratings of LVHN will trigger increasing or decreasing alternate collateral thresholds. For example, if LVHN's credit rating drops one notch to A2/A, a combined threshold of negative $15 million would activate. Should the combined market value of both swaps drop below the combined threshold, the difference between the market value and threshold would need to be established as collateral.

For the 2006 swap where Goldman Sachs is the counter party a $10 million collateral threshold is in place as long as LVHN maintains its current credit rating of A1 (Moody's) and A+ (S & P). Should the market value of the swap drop below negative $10 million, the difference between the market value and threshold would need to be established as collateral. In addition, a change in the credit ratings of LVHN will trigger alternate collateral thresholds. For example a credit rating drop to A2/A lowers the collateral threshold to $7M for which a swap market value less than the $7 million would require collateralization by the difference between the market value and the threshold.

For the 2012 A and B swaps where JPMorgan is the counter party a combined $5 million collateral threshold is in place as long as LVHN maintains its current credit rating of A1 (Moody's) and A+ (S & P). Should the combined market value of the 2012 A and B swaps drop below negative $5 million the difference between the individual market values and corresponding thresholds would need to be established as collateral. In addition, a change in the credit ratings of LVHN will trigger increasing or decreasing alternate collateral thresholds.

As of June 30, 2012 the 2005 and 2006 swaps where Merrill Lynch is the counter party had negative market values of $9.2 million and $8.7 million respectively, and the 2006 swap where Goldman Sachs is the counter party had a market value of negative $8.7 million, and the 2012 Swaps where JPMorgan is the counterpart had negative market values of $46 and $124 for the 2012A and 2012B, respectively. Accordingly collateralization for the 2005, 2006, and 2012 swaps was not required as of June 30, 2012.

Issuance of Tax exempt Bonds – Series A of 2011
In April 2011, the Obligated Group issued $27,720 in variable rate Hospital Revenue Bonds, Series A of 2011 to refinance $9,240 in fixed rate Hospital Revenue Bonds Series A of 1996, and $18,240 in fixed rate Hospital Revenue Bonds Series A of 1999, and to pay costs of issuance of $240. In accordance with accounting standards for modification or extinguishment of debt the refinancing was determined to represent an extinguishment of the 1996 and 1999 Series A Bonds. A loss on refinancing of $605 was recorded and is reported as "Loss on refinancing of debt" within Other nonoperating gains and losses in 2011.

3. LONG-TERM DEBT (continued)

Restructure of Tax-Exempt Bonds – Series A of 2005
In April 2011, the Obligated Group restructured $51,250 in variable rate Hospital Revenue Bonds, Series A of 2005 by converting the interest mode from variable rate demand bonds to variable index rate bonds. In accordance with accounting standards for modification or extinguishment of debt the refinancing was determined to represent a modification of the debt instrument and therefore no loss on refinancing was recorded.

Restructure of Tax-Exempt Bonds – Series B of 2008
In April 2011, the Obligated Group restructured $90,775 in variable rate Hospital Revenue Bonds, Series B of 2008 by converting the interest mode from variable rate demand bonds to variable index rate bonds. In accordance with accounting standards for modification or extinguishment of debt the refinancing was determined to represent a modification of the debt instrument and therefore no loss on refinancing was recorded.

Issuance of Tax-Exempt Bonds – Series A of 2012
In February 2012, the Obligated Group issued $7,512 in variable rate Hospital Revenue Bonds, Series A of 2012 to refinance $7,255 of fixed rate Hospital Revenue Bonds, Series 01A and pay for cost of issuance fees of $334. A loss on refinancing of $309 was recorded and is reported as “Loss on refinancing of debt” within Other nonoperating gains and losses in 2012. The Obligated Group issued an additional $10,905 in variable rate Hospital Revenue Bonds, Series A of 2012, on July 2, 2012 to refinance $10,905 of fixed rate Hospital Revenue Bonds, Series 01B. A loss on refinancing of $547 will be recorded in FY13.

Issuance of Tax-Exempt Bonds – Series C of 2008
In June 2012, the Obligated Group restructured $58,790 in variable rate Hospital Revenue Bonds, Series C of 2008 by converting the interest mode from variable rate demand bonds to variable index rate bonds. In accordance with accounting standards for modification or extinguishment of debt the refinancing was determined to represent a modification of the debt instrument and therefore no loss on refinancing was recorded.

Capital Lease
In August 2005 LVH entered into a lease arrangement with a third party to finance the construction of a 133,000 square foot medical office building to house The Center for Advanced Health Care and an adjacent 892 space parking deck (the “project”). The lease has an initial term of 20 years with an optional renewal for 9 years and an additional optional renewal for another 11 years with a bargain purchase price option at the end of the second renewal.

Lease payments are approximately $2,271 to $2,472 annually over the next five years and are subject to annual adjustments. Interest expense related to this financing is recorded throughout the life of the financing.

Scheduled principal maturities on capital lease obligation for the next five fiscal years and thereafter are as follows:

	Principal	Interest	Scheduled Payments
2013	$0	$2,271	$2,271
2014	0	2,319	2,319
2015	0	2,369	2,369
2016	0	2,420	2,420
2017	0	2,472	2,472
Thereafter	34,605	52,933	87,538
Totals for capital lease	$34,605	$64,784	$99,389

Lines of Credit
LVHN and LVH have a combined line of credit, expiring January 31, 2013, available which provided for borrowings and letters of credit up to an aggregate of $19,000 at June 30, 2012. Although no borrowings were outstanding against this line of credit at June 30, 2012, a total of $5,714 in the form of letters of credit was committed and is described further in the table below. The remaining amount available under the line of credit at June 30, 2012 was $13,286. At June 30, 2011, LVHN and LVH had a combined line of credit available which provided for borrowings and letters of credit up to an aggregate of $19,000. Although no borrowings were outstanding against this line of credit at June 30, 2011, a total of $5,714 in the form of letters of credit was committed. The remaining amount available under the line of credit at June 30, 2011 was $13,286.

3. LONG-TERM DEBT (continued)

Lines of Credit (continued)
The following schedule summarizes the letters of credit commitments outstanding at June 30:

Beneficiary	Purpose	2012	2011
South Carolina Dept Of Insurance	RRG capitalization collateral	$4,980	$4,980
Commonwealth of PA	LVH Cedar Crest highway expansion collateral	648	648
City of Bethlehem, PA	LVHM North Campus expansion collateral	35	35
Township of Salisbury	LVH Cedar Crest Family Lodging Center collateral	51	51
Total letters of credit commitments outstanding		$5,714	$5,714

Restrictive Covenants
The indentures for the Obligated Group's bonds incorporate certain restrictive covenants as provided in the 1987 Master Trust Bond Indenture regarding issuance of additional indebtedness on behalf of the Obligated Group. Additional long-term indebtedness, including, among other things, long-term indebtedness which may be secured on a parity with the 1987 bonds, may be incurred if either: (i) the revenues available for debt service of the Obligated Group for the fiscal year immediately preceding the incurrence of the proposed long-term indebtedness were at least equal to 125% of the sum of (a) the debt service requirements on all long-term indebtedness of the Obligated Group outstanding immediately preceding the incurrence of the proposed long-term indebtedness, and (b) the maximum annual debt service requirements on the long-term indebtedness to be incurred; or (ii) immediately after the incurrence of the proposed long-term indebtedness, the total outstanding long-term indebtedness of the Obligated Group will not exceed 66 2/3% of principal amount of all long-term indebtedness plus the unrestricted net assets of the Obligated Group.

The 2001 Series B bonds include requirements to (a) maintain a Debt Service Coverage Ratio of 1.25 and (b) maintain Days Cash on Hand of at least 60 days. If the preceding covenants are not met, the engagement of a consultant is required. Also, failure to maintain a Debt Service Coverage ratio of at least 1.75 or maintain Days Cash on Hand of at least 90 days will result in the requirement to immediately fund a Debt Service Reserve account for the 2001 Series B bonds in the amount of $2.2 million.

The 2003 Series A bonds include requirements to maintain a Debt Service Coverage Ratio of 1.25. If this ratio is not met the engagement of a consultant is required. In addition, failure to maintain a Debt Service Coverage ratio of at least 1.00 is an event of default. Also, the 2003 bonds include a requirement to maintain Days Cash on Hand of at least 50 days. If this covenant is not met the engagement of a consultant is required. Upon issuance the 2003 Series A bonds required the establishment of a Debt Service Reserve account in the amount of $6.1 million which remained in place at June 30, 2012 and 2011. This debt service account is reported under Noncurrent assets "Assets limited under bond indenture, bond construction, debt service, and debt service reserve agreements – held by trustee".

The 2005 Series A bonds include requirements to (a) maintain a Debt Service Coverage Ratio of 1.25, (b) maintain Days Cash on Hand of at least 70 days and (c) maintain an Indebtedness Ratio not to exceed 66 2/3%. However, failure to maintain any of these covenants will not be a violation if it is remedied by the end of the next fiscal quarter. Failure to maintain a Debt Service Coverage Ratio of 1.00, Days Cash on Hand of at least 60 days or an Indebtedness Ratio of not greater than 70% is an event of default and LVHN would have 30 days to cure the default. In the event of default, Wells Fargo has the right to accelerate the bonds, at which time LVHN would have at least 30 days to repurchase some or all of the bonds from the bank or remarket the bonds. Failure to maintain a Debt Service Coverage Ratio of 1.25, Days Cash on Hand of at least 60 days or an Indebtedness Ratio of not greater than 0.67 to 1 requires the engagement of a consultant. Also, failure to maintain a Debt Service Coverage ratio of at least 1.75 or maintain Days Cash on Hand of at least 90 days will result in the requirement to immediately fund a Debt Service Reserve account in the amount of $5.9 million.

The 2005 Series B bonds include requirements to (a) maintain a Debt Service Coverage Ratio of 1.25, (b) maintain Days Cash on Hand of at least 60 days and (c) maintain an Indebtedness Ratio not to exceed 0.67 to 1. If any of the preceding covenants are not met, the engagement of a consultant is required. Also, failure to maintain a Debt Service Coverage ratio of at least 1.75 or maintain Days Cash on Hand of at least 90 days will result in the requirement to immediately fund a Debt Service Reserve account in the amount of $8.1 million. Upon issuance the 2005 Series B bonds required the establishment of a Debt Service Reserve account in the amount of $5.0 million which remained in place at June 30, 2012 and 2011. If additional funding of the Series B Debt Service Reserve is required as described above, the amount of funding required will be reduced by the current $5.0 million Series 2005 B Debt Service Reserve, resulting in an additional funding requirement of $3.1 million. This debt service account is reported under Noncurrent assets "Assets limited under bond indenture, bond construction, debt service, and debt service reserve agreements – held by trustee".

3. LONG-TERM DEBT (continued)

Restrictive Covenants (continued)

The 2008 Series A bonds include requirements to (a) maintain a Debt Service Coverage Ratio of 1.25, (b) maintain Days Cash on Hand of at least 60 days and (c) maintain an Indebtedness Ratio not to exceed 0.67 to 1. If any of the preceding covenants are not met the engagement of a consultant is required. Also, failure to maintain a Debt Service Coverage ratio of at least 1.75 or maintain Days Cash on Hand of at least 90 days will result in the requirement to immediately fund a Debt Service Reserve account in the amount of $4.7 million.

The 2008 Series B bonds include requirements to (a) maintain a Debt Service Coverage Ratio of 1.25, (b) maintain Days Cash on Hand of at least 70 days and (c) maintain an Indebtedness Ratio not to exceed 66 2/3%. However, failure to maintain any of these covenants will not be a violation if it is remedied by the end of the next fiscal quarter. Failure to maintain a Debt Service Coverage Ratio of 1.00, Days Cash on Hand of at least 60 days or an Indebtedness Ratio of not greater than 70% is an event of default and LVHN would have 30 days to cure the default. In the event of default, Wells Fargo has the right to accelerate the bonds, at which time LVHN would have at least 30 days to repurchase some or all of the bonds from the bank or remarket the bonds. Failure to maintain a Debt Service Coverage Ratio of 1.25, Days Cash on Hand of at least 65 days or an Indebtedness Ratio of not greater than 0.67 to 1 requires the engagement of a consultant. Also, failure to maintain a Debt Service Coverage ratio of at least 1.75 or maintain Days Cash on Hand of at least 90 days will result in the requirement to immediately fund a Debt Service Reserve account in the amount of $8.8 million.

The 2008 Series C bonds include requirements to (a) maintain a Debt Service Coverage Ratio of 1.25, (b) maintain Days Cash on Hand of at least 70 days and (c) maintain an Indebtedness Ratio not to exceed 70%. However, failure to maintain the Debt Service Coverage or Days Cash on Hand covenants will not be a violation if it is remedied by the end of the next fiscal quarter. Failure to maintain a Debt Service Coverage Ratio of 1.00, Days Cash on Hand of at least 60 days or an Indebtedness Ratio of not greater than 70% is an event of default and LVHN would have 30 days to cure the default. In the event of default, JPMorgan Chase has the right to accelerate the bonds, at which time LVHN would have to repurchase some or all of the bonds from the bank or remarket the bonds.

The 2011 Series A bonds include requirements to (a) maintain a Debt Service Coverage Ratio of 1.25, (b) maintain Days Cash on Hand of at least 70 days and (c) maintain an Indebtedness Ratio not to exceed 66 2/3%. However, failure to maintain any of these covenants will not be a violation if it is remedied by the end of the next fiscal quarter. Failure to maintain a Debt Service Coverage Ratio of 1.00, Days Cash on Hand of at least 60 days or an Indebtedness Ratio of not greater than 70% is an event of default and LVHN would have 30 days to cure the default. In the event of default, the bank has the right to accelerate the bonds, at which time LVHN would have at least 30 days to repurchase some or all of the bonds from the bank or remarket the bonds.

The 2012 Series A bonds include requirements to (a) maintain a Debt Service Coverage Ratio of 1.25, (b) maintain Days Cash on Hand of at least 70 days and (c) maintain an Indebtedness Ratio not to exceed 70%. However, failure to maintain the Debt Service Coverage or Days Cash on Hand covenants will not be a violation if it is remedied by the end of the next fiscal quarter. Failure to maintain a Debt Service Coverage Ratio of 1.00, Days Cash on Hand of at least 60 days or an Indebtedness Ratio of not greater than 70% is an event of default and LVHN would have 30 days to cure the default. In the event of default, the bank has the right to accelerate the bonds, at which time LVHN would have to repurchase some or all of the bonds from the bank or remarket the bonds.

For the years ended June 30, 2012 and 2011, the financial covenants noted above were met and the Obligated Group was not aware of any instances of non-compliance with its other covenants.

4. PROPERTY AND EQUIPMENT, NET

Property and equipment and accumulated depreciation consist of the following at June 30:

	2012	2011
Land and land improvements	$66,332	$65,282
Buildings and building equipment	819,061	783,464
Fixed and major movable equipment	418,621	372,705
Assets under capital lease	32,188	32,188
Construction in progress	31,681	23,984
Total original cost	1,367,883	1,277,623
Accumulated depreciation	(747,248)	(675,626)
Property and equipment, net	$620,635	$601,997

Depreciation expense for the years ended June 30, 2012 and 2011 was $82,498 and $83,271, respectively. Depreciation of assets under capital lease included in depreciation expense was $1,414 at June 30, 2012 and 2011. Accumulated depreciation relating to the assets under capital lease was $7,768 and $6,354 at June 30, 2012 and 2011, respectively, and is included in accumulated depreciation.

5. FUNCTIONAL EXPENSES

The Organization provides a wide array of health care services to patients and members of the community within its service area. Expenses related to providing these services, including provision for income taxes, were as follows for the years ended June 30:

	2012	%	2011	%
Health care services	$1,448,658	94%	$1,373,673	95%
General and administrative	92,384	6%	74,368	5%
Total	$1,541,042	100%	$1,448,041	100%

General and administrative expenses include expenses for organizational administrative activities, primarily human resources, management, legal, and financial services. The categorization of expenses as health care services versus general and administrative follows the guidance provided for similar expense reporting in the annual IRS 990 tax return.

6. FUNDS HELD BY FIDUCIARY

LVH is the primary beneficiary of the Dorothy Rider Pool Health Care Trust (the "Pool Trust") which was established through the estate of a former director of LVH. The fair value of the Pool Trust at June 30, 2012 and 2011 was $76,336 and $72,991, respectively. The assets of the Pool Trust are not included in the accompanying combined financial statements. Under the general provisions of the Trust, distributions from the Pool Trust are to be made to or for the benefit of LVH to supplement, not replace, LVH's ordinary operating expenses, so that LVH can be operated and managed in a manner that will improve its medical standards, knowledge and procedures, and sustain at the highest level of quality the health maintenance and hospital care it provides to members of the community it serves. Under certain circumstances, distributions from the Pool Trust may be made to other designated health care related organizations. Distributions to LVH from the Pool Trust were $3,531 and $4,127 during the years ended June 30, 2012 and 2011, respectively, and are reported as a component of Other supporting operations revenue.

7. CHARITY CARE

As a community organization, all revenues and gains in excess of expenses and losses of the Organization are, or will be, used for the repayment of debt, acquisition of equipment and facilities, and to provide for the present and future health care needs of the patients and communities it serves. The Organization provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates regardless of their ability to pay. Because the Organization does not pursue collection of amounts determined to qualify as charity care, they are not reported as patient service revenues. As required, the Organization adopted ASU 2010-23 (See Note 15) for 2012. The amount of charity care to patients for the years ended June 30, 2012 and 2011, at cost, was $23,903 and $17,130 respectively. Costs of these services were estimated by calculating a ratio of overall cost to gross charges for all patients and then applying this ratio to gross charges for patients receiving charity care. Prior to 2012, this footnote disclosed charity care at charges. There was no impact to the Organization's financial statements.

8. BAD DEBTS

In instances where the Organization believes a patient has the ability to pay for services and, after appropriate collection effort, payment is not made, the amount of services not paid is written-off, at charges, as bad debts. Amounts recorded as bad debts expense do not include charity care. The amount of bad debts expense for the years ended June 30, 2012 and 2011, at charges, was $106,247 and $93,133, respectively, and is reported as Bad debts expense on the Combined Statements of Operations.

9. RETIREMENT PLAN

The Organization provides employees with a variety of retirement plan options through a combination of defined benefit and defined contribution benefits based on an employee's hire date. Prior to July 1, 2006, the Organization's retirement plan ("the Plan") was a noncontributory defined benefit plan that covered all full-time and certain part-time employees. In order to provide increased flexibility to employees, effective July 1, 2006, additional retirement plan options were implemented. Employees hired prior to April 1, 2006, had the choice of selecting between 1) a noncontributory defined benefit option (the previous plan), 2) a combination of noncontributory defined benefit option with reduced benefits plus a contributory matched savings plan benefit in accordance with the Plan, or 3) a noncontributory defined contribution benefit with a matched savings plan benefit in accordance with the Plan. Employees hired on April 1, 2006 or later have the choice of selecting between options 2 and 3 above, the previous noncontributory defined benefit option (option 1 above) is not available to employees hired after April 1, 2006. During 2011 the Organization further modified pension plan options available to employees in the future. Employees hired on or after October 1, 2011 can participate only in option 3 above. In addition, future benefit accruals for active participants in the defined benefit plan are phased to frozen status in the future with all active employees transitioning to the defined contribution plan as of January 1, 2017. The effect of these changes adopted in 2011 was the recognition of a curtailment gain of $21,201 in 2011.

The following applies to the defined benefit component of the retirement plan:

Information for the noncontributory defined benefit option regarding funded status, net periodic pension cost, benefit obligation, assumptions, etc., as of June 30, 2012 and 2011, is presented below and on the following pages and includes the impact of employee selection of pension benefit options. The Plan's assets described below and on the following pages are not included in the combined financial statements of the Organization.

Description of Investment Policies

The primary investment objective for the Plan's assets is to achieve long term growth subject to prudent risk constraints.

Plan Assets

Asset allocation targets, which are permitted to be +/- 3-5%, approved by the Finance Committee of the LVHN Board of Trustees, and the Plan's actual asset allocation, by investment category, at June 30 were:

	2012		2011	
Investment category	Actual	Target	Actual	Target
Domestic equity	33.0%	30.0%	40.5%	35.0%
International equity	20.5%	20.0%	17.4%	15.0%
Private equity	2.5%	5.0%	3.0%	5.0%
Hedge funds	4.4%	5.0%	5.0%	5.0%
Real estate securities	5.1%	5.0%	2.9%	5.0%
Commodities contracts	5.1%	5.0%	5.4%	5.0%
Fixed income	29.4%	30.0%	25.8%	30.0%
Total	100.0%	100.0%	100.0%	100.0%

Determination of Expected Return on Plan Assets

To develop the expected return on Plan assets assumption reported below, the Organization considered the current level of expected returns on risk free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each class. The expected return for each asset class was weighted based on the target asset allocation to develop the expected long-term rate of return on assets assumption for the portfolio. This resulted in the selection of the 7.0% return on plan assets assumptions for 2012 and 2011.

9. RETIREMENT PLAN (continued)

The following tables present the categorization of the Plan's assets according to the levels of valuation risk described in footnote 13 at June 30:

2012

Type of Investment	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$0	$16,370	$0	$16,370
Equity securities:				
Domestic equity	171,275	0	0	171,275
International equity	106,290	0	0	106,290
Real estate equity	26,100	0	0	26,100
Fixed income:				
U.S. Treasury securities and obligations of U.S. Government agencies	85,947	14,961	0	100,908
Corporate bonds	0	39,759	0	39,759
Asset-backed securities	0	0	0	0
Collateralized mortgage obligations	0	288	0	288
Hedge funds (multi-strategy)	0	0	21,926	21,926
Commodities contracts	0	23,098	0	23,098
Private equity	0	0	13,602	13,602
Total assets at fair value	$389,612	$94,476	$35,528	$519,616

2011

Type of Investment	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$0	$5,678	$0	$5,678
Equity securities:				
Domestic equity	171,284	0	0	171,284
International equity	73,447	0	0	73,447
Real estate equity	12,077	0	0	12,077
Fixed income:				
U.S. Treasury securities and obligations of U.S. Government agencies	62,014	11,261	0	73,275
Corporate bonds	0	29,898	0	29,898
Asset-backed securities	0	3	0	3
Collateralized mortgage obligations	0	585	0	585
Hedge funds (multi-strategy)	0	0	20,971	20,971
Commodities contracts	0	22,794	0	22,794
Private equity	0	0	13,058	13,058
Total assets at fair value	$318,822	$70,219	$34,029	$423,070

The Plan's use of Level 3 unobservable inputs as of June 30, 2012 and 2011 accounted for 6.8% and 8.0%, respectively, of the total fair value of investments. The following table summarizes changes in Level 3 assets measured at fair value at June 30:

2012	Private equity	Hedge funds	Total
Beginning balance at July 1, 2011	$13,058	$20,971	$34,029
Net appreciation in market value of investments	1,484	(395)	1,089
Purchases	576	1,350	1,926
Sales	(1,516)	0	(1,516)
Ending balance at June 30, 2012	$13,602	$21,926	$35,528

9. RETIREMENT PLAN (continued)

2011	Private equity	Hedge funds	Total
Beginning balance at July 1, 2010	$10,227	$15,518	$25,745
Net appreciation in market value of investments	2,958	1,395	4,353
Purchases	824	4,058	4,882
Sales	(951)	0	(951)
Ending balance at June 30, 2011	$13,058	$20,971	$34,029

Additional Pension Information

The Organization uses a June 30 measurement date for the plan. The following tables set forth the Plan's funded status at June 30, benefits paid, and employer contributions made during the fiscal years ended June 30, 2012 and 2011 and certain other information and amounts recognized in the financial statements at June 30:

	2012	2011
Change in benefit obligation		
Projected benefit obligation at beginning of year	$578,196	$575,571
Service cost	21,097	22,892
Interest cost	35,281	33,884
Curtailment gain	0	(21,201)
Actuarial loss (gain)	164,411	(22,924)
Benefits paid	(11,520)	(10,026)
Projected benefit obligation at end of year	$787,465	$578,196
Change in plan assets		
Fair value of plan assets at beginning of year	$423,070	$346,398
Actual return on plan assets	46,732	66,804
Employer contributions	61,334	19,894
Benefits paid	(11,520)	(10,026)
Fair value of plan assets at end of year	$519,616	$423,070
Funded status at end of year	($267,849)	($155,126)
Amounts recognized in the statements of financial position consists of:		
Accrued pension liability - current portion	$0	$0
Accrued pension liability - noncurrent portion	(267,849)	(155,126)
Net amount recognized	($267,849)	($155,126)
Amounts recognized in unrestricted net assets but not yet recognized in net periodic benefit cost		
Prior service costs	$14	$23
Net loss	205,993	57,177
Total amount recognized in unrestricted net assets	$206,007	$57,200
Components of net periodic benefit cost (NPBC)		
Service cost	$21,097	$22,892
Interest cost	35,281	33,884
Expected return on plan assets	(31,786)	(24,546)
Amortization of prior service cost	9	25
Recognized actuarial loss	649	7,200
Curtailment loss recognized	0	43
Net periodic benefit cost (pension expense)	$25,250	$39,498
Other changes in plan assets and benefit obligation recognized in unrestricted net assets		
Net actuarial loss (gain)	$149,465	($86,383)
Amortization of loss	(649)	(7,200)
Amortization of prior service cost	(9)	(25)
Curtailment loss recognized	0	(43)
Total loss (gain) recognized in unrestricted net assets	$148,807	($93,651)

9. RETIREMENT PLAN (continued)

Additional Pension Information (continued)

	2012	2011
Reconciliation of accrued pension cost		
Balance at beginning of year	($155,126)	($229,173)
Annual pension expense	(25,250)	(39,498)
Adjustments to funded status of pension plan	(148,807)	93,651
Annual contributions	61,334	19,894
Balance at end of year	($267,849)	($155,126)
Accumulated benefit obligation at year end	$699,551	$511,470
Weighted - average assumptions used to determine projected benefit obligation		
Discount rate	4.69%	6.08%
Rate of compensation increase	3.50%	4.00% *
* (used 4% for 2 years, 3.5% thereafter)		
Weighted - average assumptions used for NPBC development		
Discount rate	6.08%	6.01%
Expected return on plan assets	7.00%	7.00%
Rate of compensation increase	4.00% *	4.00%
* (used 4% for 2 years, 3.5% thereafter)		

The actuarial net loss and prior service cost that will be amortized from unrestricted net assets into net periodic benefit cost over the next fiscal year are $10,720 and $0, respectively.

Estimated Future Benefit Payments

Future payments on an undiscounted basis to participants in the Plan are expected to occur as follows:

Estimated benefit payments	
Fiscal 2013	$16,161
Fiscal 2014	18,649
Fiscal 2015	21,571
Fiscal 2016	24,774
Fiscal 2017	28,125
Fiscal 2018-2022	202,430
Total	$311,710

The following applies to the defined contribution and matched savings components of the retirement plan:

Fiscal Year 2012 Activity

During the years ended June 30, 2012 and 2011, the Organization made contributions of $10.5 million and $8.6 million, respectively, to the defined contribution component of the Plan and recorded $11.0 million and $9.0 million, respectively, in related pension expense. The liability recognized under the Current portion “Pension” in the Combined Statements of Financial Position at June 30, 2012 and 2011 for the defined contribution component of the Plan was $3.1 million and $2.6 million, respectively. Total expected contributions to the defined contribution component of the Plan in fiscal year 2013 are $12.7 million.

During the years ended June 30, 2012 and 2011, the Organization made contributions of $6.1 million and $5.1 million, respectively, to the matched savings benefit component of the Plan and recorded $5.8 million and $5.1 million, respectively, in related pension expense. The liability recognized under the Current portion “Pension” in the Combined Statements of Financial Position at June 30, 2012 and 2011 for the matched savings benefit component of the Plan was $0.1 million and $0.4 million, respectively. Total expected contributions to the matched savings component of the Plan in fiscal year 2013 are $5.1 million.

10. COMMITMENTS AND CONTINGENCIES

Operating Leases
Rental expense reported on the Other expense line of the Combined Statements of Operations for the years ended June 30, 2012 and 2011 was $23,784 and $21,347, respectively.

Minimum future rentals under non-cancelable operating leases with terms in excess of one year as of June 30, 2012 are as follows:

Fiscal Year	Real Estate	Vehicles	Equipment	Total
2013	$12,171	$285	$162	$12,618
2014	11,450	201	114	11,765
2015	9,325	61	66	9,452
2016	8,265	13	12	8,290
2017	6,652	1	0	6,653
Thereafter	45,412	0	0	45,412

Litigation
The Organization is involved in litigation and regulatory investigations arising in the course of business. Based on the opinion of in-house legal counsel and risk management, who routinely consult and work with external legal counsel, management estimates that these matters will be resolved without material adverse effect on the Organization's future financial position or results from operations.

11. TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets were available for the following purposes at June 30:

	2012	2011
Purchase of capital assets	$244	$266
Specific health care services and education	93,008	98,602
Total temporarily restricted net assets	$93,252	$98,868

Permanently restricted net assets, which total $46,441 and $42,522 at June 30, 2012 and 2011, respectively, are required to be held in perpetuity with the expendable income earned thereon to be used to support health care services and education.

12. ENDOWMENT FUNDS

Endowment funds are defined as funds established by donors or the Board of Trustees to provide the Organization with either a permanent source of income or a source of income for a specified period of time. The Organization's endowment funds consist of 108 and 103 individual donor-restricted funds at June 30, 2012 and 2011, respectively, established for a variety of purposes hereinafter referred to as the "LVHN Endowment Fund". The Organization does not have Board Designated endowment funds or unrestricted endowment funds.

Interpretation of Relevant Law
The Organization has interpreted Pennsylvania law as requiring preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds when explicit donor stipulations requiring permanent maintenance of the historical fair value are present. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment when explicit donor stipulations requiring permanent maintenance of the historical fair value are present, (b) the original value of the subsequent gifts to the permanent endowment when explicit donor stipulations requiring permanent maintenance of the historical fair value are present, and (c) accumulations of investment earnings to the permanent endowment in cases where the donor explicitly instructed a portion of investment earnings be added to the permanent fund. The remaining portion of the donor-restricted endowment fund comprised of accumulated investment earnings not required to be maintained in perpetuity is classified

12. ENDOWMENT FUNDS (continued)

Interpretation of Relevant Law (continued)
as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with donors' stipulations. The Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: duration and preservation of the fund, purposes of the donor-restricted endowment fund, general economic conditions, the possible effect of inflation and deflation, the expected total return from income and the appreciation of investments, other resources of the Organization, and the investment policies of the Organization.

The net asset composition of the LVHN Endowment Fund at June 30, 2012 and 2011 was as follows:

	Temporarily restricted	Permanently restricted	Total
2012			
Donor restricted endowment funds	$71,329	$39,786	$111,115
2011			
Donor restricted endowment funds	$71,088	$35,408	$106,496

Changes in the LVHN Endowment Fund Net Assets at June 30, 2012 and 2011 were as follows:

2012	Temporarily restricted	Permanently restricted	Total
Endowment net assets, beginning of year	$71,088	$35,408	$106,496
Investment Return:			
Investment income	2,026	0	2,026
Net appreciation (realized and unrealized)	553	0	553
Total investment return	2,579	0	2,579
Contributions	113	4,193	4,306
Reclassification from permanently restricted to temporarily restricted and unrestricted net assets - other supporting operations revenue	(37)	185	148
Appropriation of endowment assets for expenditures (expense)	(2,414)	0	(2,414)
Endowment net assets, end of year	$71,329	$39,786	$111,115

2011	Temporarily restricted	Permanently restricted	Total
Endowment net assets, beginning of year	$55,104	$34,956	$90,060
Investment Return:			
Investment income	1,986	0	1,986
Net depreciation (realized and unrealized)	14,970	0	14,970
Total investment return	16,956	0	16,956
Contributions	990	452	1,442
Appropriation of endowment assets for expenditures (expense)	(1,962)	0	(1,962)
Endowment net assets, end of year	$71,088	$35,408	$106,496

12. ENDOWMENT FUNDS (continued)

Investment Return Objectives
The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity and assets with donor specified annual spending limitations and in some cases purpose restrictions applicable for a specified period of time after which any remaining assets become unrestricted. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a diversified manner that is intended to produce results that over the long term will average 3 to 4 percentage points above the consumer price index while assuming a moderate level of investment risk. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The actual and target investment allocations were as follows for the LVHN Endowment Fund Assets as of June, 30, 2012:

LVHN Endowment assets	Actual %	Target %
Domestic equity	34%	34%
International equity	23%	23%
Real estate	6%	6%
Fixed income	25%	25%
Hedge funds	6%	6%
Commodities	6%	6%
Total	100%	100%

Spending Policy and How the Investment Objectives Relate to Spending Policy
The Organization has a policy of appropriating for distribution each year between 4 and 5 percent of the LVHN Endowment Fund's total fair value, including accumulated total investment returns. In establishing this policy, the Organization considered the long-term expected return on its endowments which is expected to exceed the allowable spending, and therefore over the long term, the Organization expects its endowment funds to grow. This is consistent with the Organization's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

13. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used by the Organization in estimating the fair value of its financial instruments:

Cash and cash equivalents, patient accounts receivables, prepaid expenses, accounts payable, estimated third party settlements, and all other current liabilities are reported at carrying values which approximate fair value because of the short term nature of these accounts.

Assets whose use is limited or restricted is comprised of short-term investments, marketable equity securities, corporate and U.S. Government obligations, real estate securities, and commodities contracts which are reported at amounts which approximate fair value based on quoted market prices and other relevant information. Alternative investments, which include hedge funds, are carried at the estimated market value provided by the management of the alternative investment partnerships or funds.

Assets and liabilities recorded at fair value in the Combined Statements of Financial Position are categorized based upon the level of judgment associated with the inputs used to measure their fair value. In situations where more than one level of input is used to determine the fair value of an asset or liability, the asset or liability's categorization within the fair value hierarchy is based on the lowest (that requiring the most judgment) level of significant input to its valuation. Hierarchical levels directly related to the amount of subjectivity associated with the inputs to fair valuation of these assets and liabilities are described below.

The availability of observable inputs for valuation of investments varies and is affected by a wide variety of factors. When the valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires significantly more judgment. The degree of judgment exercised by management in determining fair

13. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

value is greatest for investments categorized as Level 3. For investments in this category, the Organization considers prices and inputs that are current as of the measurement date. In periods of market dislocation the observability of prices and inputs may be reduced.

Level 1 – Valuations based on quoted prices in active markets for *identical* assets or liabilities that the organization has the ability to access. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these products do not entail a significant degree of judgment. Level 1 primarily includes those investments traded on active exchanges or markets.

Level 2 – Valuations based on quoted prices in active markets for *similar* assets or liabilities, quoted in markets that are not active or for which an identical asset or liability was not traded on the financial statement date or where all significant inputs are not observable, directly or indirectly. Level 2 primarily includes investments in U.S. Treasury securities and obligations of U.S. government agencies, together with municipal bonds, corporate debt securities, commercial mortgage and asset-backed securities, certain residential mortgage-backed securities that are generally investment grade, certain equity securities, and commodities.

Level 3 – Valuations based on inputs that are unobservable and significant to the overall fair value measurement. These are generally organization or individual investment manager generated inputs and are not observable market based inputs. Material assumptions and factors considered in the valuation may include, but are not limited to, operational activity of private equity holdings, reliance on third party estimates, share valuations, and appraisals. Level 3 investments include investments in hedge funds. The Organization based the fair value of Hedge funds, a fund of funds investment of $89,694 and $90,497 at June 30, 2012 and 2011, respectively, on the fair value of the underlying reported net asset values of each fund held.

The following tables present the categorization of the Organization's investments according to the valuation levels described above at June 30:

2012

Type of Investment	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$1,700	$41,517	$0	$43,217
Equity securities:				
Domestic equity	200,376	0	0	200,376
International equity	129,444	0	0	129,444
Real estate equity	45,352	0	0	45,352
Fixed income:				
U.S. Treasury securities and obligations of U.S. Government agencies	127,668	60,463	0	188,131
Corporate bonds	13,354	114,345	0	127,699
Asset-backed securities	0	86,863	0	86,863
Collateralized mortgage obligations	0	40,751	0	40,751
Hedge funds (multi-strategy)	0	0	89,694	89,694
Commodities contracts	0	40,256	0	40,256
Perpetual trust	0	6,655	0	6,655
Other	0	3,903	0	3,903
Total assets at fair value	$517,894	$394,753	$89,694	$1,002,341
Liabilities at Fair Value				
Deferred compensation and other liabilities funded with matching assets	$24,803	$15,071	$0	$39,874
Other liabilities - swap liabilities	0	26,808	0	26,808
Total liabilities at fair value	$24,803	$41,879	$0	$66,682

13. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

2011

Type of Investment	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$226	$60,500	$0	$60,726
Equity securities:				
Domestic equity	299,017	0	0	299,017
International equity	123,492	0	0	123,492
Real estate equity	32,603	0	0	32,603
Fixed income :				
U.S. Treasury securities and obligations of U.S. Government agencies	76,045	60,686	0	136,731
Corporate bonds	15,803	94,064	0	109,867
Asset-backed securities	0	64,690	0	64,690
Collateralized mortgage obligations	0	32,719	0	32,719
Hedge funds (multi-strategy)	0	0	90,497	90,497
Commodities contracts	0	51,757	0	51,757
Other	54	3,608	0	3,662
Total assets at fair value	$547,240	$368,024	$90,497	$1,005,761
Liabilities at Fair Value				
Deferred compensation and other liabilities funded with matching assets	$27,006	$12,867	$0	$39,873
Other liabilities - swap liabilities	0	15,179	0	15,179
Total liabilities at fair value	$27,006	$28,046	$0	$55,052

The fair value of the Organizations interest rate swaps was determined based on the comparison of the present value of the fixed rate payments the Organization is committed to make to the present value of the variable rate payments the Organization is expected to receive from the swap counterparties. The variable payments were based on estimated future interest rates using current LIBOR based interest rate models.

The Organization's use of Level 3 unobservable inputs at June 30, 2012 and 2011 accounted for 8.95% and 9.0%, respectively, of the total fair value of investments. The following tables summarize changes in Level 3 assets measured at fair value at June 30, 2012 and 2011:

2012	Hedge Funds
Balance at July 1, 2011	$90,497
Included in Change in net unrealized gains on investments	(1,803)
Purchases	1,000
Balance at June 30, 2012	$89,694

2011	Hedge Funds
Balance at July 1, 2010	$61,832
Included in Change in net unrealized gains on investments	5,813
Purchases	22,852
Balance at June 30, 2011	$90,497

13. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

The fair value of long-term debt, which was estimated at $525,208 and $523,657 at June 30, 2012 and 2011 respectively, was determined using the Organization's current borrowing rates for similar types of borrowing arrangements. The recorded value of long-term debt reported in the combined Statements of Financial Position at June 30, 2012 and 2011 was $513,806 and $524,755, respectively. The excess of recorded value over fair value for long-term debt at June 30, 2012 and 2011 indicates market interest rates for debt of similar term and quality were higher than the weighted average interest rates of the Organization's outstanding debt. The excess of fair value over recorded value for long-term debt at June 30, 2012 and 2011 indicates market interest rates for debt of similar term and quality were lower than the weighted average interest rates of the Organization's outstanding debt.

14. PLEDGES RECEIVABLE

Included in assets restricted by donors in the Combined Statements of Financial Position are the following pledges receivable at June 30:

	2012	2011
Pledges receivable within next fiscal year	$3,125	$2,942
Pledges receivable in future periods beyond next fiscal year	3,943	2,262
Total pledges receivable before unamortized discount and allowance for uncollectible pledges	7,068	5,204
Less: unamortized discount	(360)	(411)
Less: allowance for uncollectible pledges	(252)	(205)
Net pledges receivable	$6,456	$4,588
Amounts due in:		
Less than one year	$3,125	$2,942
One to five years	3,204	2,262
More than five years	739	0
Total	$7,068	$5,204

Cash payments received applicable to prior pledges were $2,825 and $2,723 for the years ended June 30, 2012 and 2011, respectively. Pledges written off as uncollectible were $31 and $239 for the years ended June 30, 2012 and 2011, respectively. The Organization's policy regarding the recording of pledges receivable in the financial statements requires pledges to be in writing, signed by the donor, and to indicate the specific amount of the pledge and expected timing the pledge payment will be received. LVHN does not record pledges based on bequests or life insurance. The Organization's historical write off of pledges receivable has been in the 1-5% range. The allowance for uncollectible pledges as of June 30, 2012 and 2011 was $252 (4%) and $205 (4%), respectively.

15. RECENT ACCOUNTING PRONOUNCEMENTS

In June 2009, the FASB issued SFAS No. 167, "Amendments to FASB Interpretation No. 46R" ("SFAS No. 167"), which was effective for fiscal years beginning after November 15, 2009. SFAS No. 167 retains the scope of Interpretation 46R "Consolidation of Variable Interest Entities" with the addition of entities previously considered qualifying special-purpose entities. On July 1, 2010, the Organization adopted this guidance, which resulted in the combination of the LVPHO into its combined financial statements. The effect of this change resulted in a $7,932 increase in noncontrolling interests due to a change in control of this equity investee.

15. RECENT ACCOUNTING PRONOUNCEMENTS (continued)

In January 2010, the FASB issued ASU 2010-07, “Not-for-Profit Entities: Mergers and Acquisitions (Originally issued as Statement 164, Not-for-Profit Entities: Mergers and Acquisitions — including an amendment of FASB Statement No. 142).” This ASU amends the Accounting Standards Codification for the issuance of FASB Statement No. 164, Not-for-Profit Entities: Mergers and Acquisitions. The amendments provide guidance on accounting for combinations of not-for-profit entities. Those transactions or other events include mergers of two or more not-for-profit entities and acquisitions by a not-for-profit entity that result in its initially recognizing another not-for-profit entity, a business, or a nonprofit activity in its financial statements. This ASU also amends previously issued guidance related to goodwill, intangible assets, and noncontrolling interests in consolidated financial statements to make their provisions applicable to not-for-profit entities. This ASU was effective prospectively for mergers that occur at or after the beginning of an initial reporting period that begins on or after December 15, 2009, and acquisitions that occur at or after the beginning of the first annual reporting period that begins on or after December 15, 2009. On July 1, 2010 the Organization adopted the provisions of ASU 2010-07 which did not have a material impact on the Organization’s combined financial statements as it relates to mergers and acquisitions or accounting for goodwill and intangible assets.

In January 2010, the Financial Accounting Standards Board (“FASB”) issued ASU 2010-06, “Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements.” This ASU amends ASC 820 to add new requirements for disclosures about transfers into and out of Levels 1 and 2 and separate disclosures about purchases, sales, issuances, and settlements relating to Level 3 measurements. The ASU also clarifies existing fair value disclosures about the level of disaggregation and about inputs and valuation techniques used to measure fair value. Further, the ASU amends guidance on employers’ disclosures about postretirement benefit plan assets under ASC 715 to require that disclosures be provided by classes of assets instead of by major categories of assets. The new disclosures and clarifications to existing disclosures were effective for annual reporting periods beginning after December 15, 2009, except for disclosures about purchases, sales, issuances, and settlements in the rollforward of activity in Level 3 fair value measurements. Those disclosures are effective for annual reporting periods beginning after December 15, 2010. The Organization has adopted this ASU and has included the enhanced disclosures in Notes 9 and 13.

In August 2010, the FASB issued ASU 2010-23, “Health Care Entities (Topic 954): Measure Charity Care for Disclosure.” This ASU requires a Healthcare Organization (“HCO”) to disclose its policy for providing charity care and the amount of charity care provided. In addition, the ASU requires that the amount of charity care be based on the direct and indirect costs of providing charity care, eliminating the other measurement attributes available under ASC 954-605-50-3, and also requires disclosure of cost reimbursements associated with providing charity care. This guidance is effective for annual reporting periods beginning after December 15, 2010, and must be applied retrospectively. On July 1, 2011, the Organization adopted this guidance and has included the enhanced disclosures in Note 7.

In August 2010, the FASB issued ASU 2010-24, “Health Care Entities (Topic 954): Presentation of Insurance Claims and Related Insurance Recoveries.” This ASU requires a HCO to present a liability related to medical malpractice claims (and other contingent claims) gross; such a liability would not be offset against related insurance recoveries unless the criteria in ASC 210-20 for offsetting were met. Also, the industry specific guidance for the accrual of legal fees associated with resolving contingent claims would be eliminated and HCO’s should follow the guidance for such fees in ASC 450-20-S99-2. This guidance is effective for annual reporting periods beginning after December 15, 2010. The Organization has adopted this guidance which did not have a material impact on the financial statements.

In May 2011, the FASB issued ASU 2011-04, “Fair Value Measurement (Topic 820), Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements.” This ASU amended ASC 820 to change the wording used to describe many of the requirements for measuring fair value and for disclosing information about fair value measurements. The adoption of ASU 2011-04 is effective for fiscal years beginning after December 15, 2011. The Organization has adopted this guidance and has included the enhanced disclosures in Note 9 and 13.

In July 2011, the FASB issued ASU 2011-07, “Health Care Entities (Topic 954): Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities. This ASU requires a HCO to change the presentation of their statement of operations by reclassifying the provision for bad debts associated with patient service revenue from an operating expense to a deduction from patient service revenue (net of contractual allowances and discounts). Additionally, a HCO is required to provide enhanced disclosure about their policies for recognizing revenue and assessing bad debts. The ASU also requires disclosures of patient service revenue (net of contractual allowances and discounts) as well as qualitative and quantitative information about changes in the allowance for doubtful accounts. This guidance is effective for annual reporting periods ending after December 15, 2012. The Organization is currently assessing the impact of adopting this guidance on its combined financial statements.

Deloitte.

Deloitte & Touche LLP
1700 Market Street
Philadelphia, PA 19103-3984
USA

Tel: +1 215 246 2300
Fax: +1 215 569 2441
www.deloitte.com

INDEPENDENT AUDITORS' REPORT 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*

To the Board of Trustees
Lehigh Valley Health Network
Allentown, Pennsylvania

We have audited the combined financial statements of Lehigh Valley Health Network and Component Entities (the "Organization") as of and for the year ended June 30, 2012, and have issued our report thereon dated October 3, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards,* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Organization is responsible for establishing and maintaining effective internal over financial reporting. In planning and performing our audit, we considered the Organization's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the combined financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 combination 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 was not designed to identify all deficiencies in internal control 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 previously.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's combined 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 combined 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.*

This report is intended solely for the information and use of management, the Audit Committee, 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.

Deloitte & Touche LLP

October 3, 2012

Deloitte & Touche LLP
1700 Market Street
Philadelphia, PA 19103-3984
USA

Tel: +1 215 246 2300
Fax: +1 215 569 2441
www.deloitte.com

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Trustees
Lehigh Valley Health Network
Allentown, Pennsylvania

Compliance

We have audited Lehigh Valley Health Network and Component Entities' (the "Organization") compliance with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended June 30, 2012. The Organization's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Organization's management. Our responsibility is to express an opinion on the Organization's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Organization's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Organization's compliance with those requirements.

In our opinion, the Organization complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

Management of the Organization is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Organization's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

This report is intended solely for the information and use of management, the Audit Committee, others within the organization, 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.

Deloitte & Touche LLP

January 9, 2013

LEHIGH VALLEY HEALTH NETWORK AND COMPONENT ENTITIES

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012

Program Title	Federal CFDA Number	Pass-Through Entity Identifying No.	Expenditures
RESEARCH AND DEVELOPMENT-CLUSTER			
PASS-THROUGH FUNDS:			
Pass-through from The University of Tennessee			
Multicenter Prospective Evaluation of the Ventilator Bundle in Injured Patients	12.420	N/A	$ 22,354
Pass-through from American College of Radiology			
Radiation Therapy Oncology Group	93.395	N/A	150
Pass-through from Brigham and Women's Hospital, Inc.			
ACOSOG Competing Renewal	93.395	7U10CA076001	1,994
Pass-through from Children's Hospital of Philadelphia			
Children's Oncology Group	93.395	FP00013087_ SUB145_01	18,300
Pass-through from The Pennsylvania State University			
Gynecologic Oncology Group Clinical Trials	93.395	LVH-1	5,780
Eastern Cooperative Oncology Group	93.395	N/A	22,300
Pass-through from Mayo Clinic Rochester			
North Central Cancer Treatment Group	93.395	5U01CA025224-31	18,800
Pass-through from National Surgical Adjuvant Breast and Bowel Project Foundation, Inc.			
Community Clinical Oncology Program	93.399	TFED41S2-064	9,450
Community Clinical Oncology Program Research Base	93.399	PFED26-ALL-01	11,700
Pass-through from EMMES Corporation			
ARRA-Platelet-Oriented Inhibition in New TIA	93.701	3310-101	11,700

(Continued)

LEHIGH VALLEY HEALTH NETWORK AND COMPONENT ENTITIES

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012

Program Title	Federal CFDA Number	Pass-Through Entity Identifying No.	Expenditures
Pass-through from Columbia University			
Warfarin vs. Aspirin in Reduced Cardiac Ejection Fraction	93.853	1 & 10	3,871
Pass-through from University of Cincinnati			
Interventional Management of Stroke Study III	93.853	COEUS #7753	30,608
Pass-through from University of Medicine & Dentistry of NJ			
Carotid Revascularization Endarterectomy vs Stenting Trial	93.853	99-705	8,000
Pass-through from The Feinstein Institute for Medical Research			
ARRA-Recovery After Initial Schizophrenia Episode (RAISE)	93.853	LEH01	33,497
Pass-through from Regents of the University of Minnesota			
Anihypertensive Treatment of Acute Cerebral Hemorrhage	93.853	N000936914	23,590
TOTAL RESEARCH AND DEVELOPMENT CLUSTER			**$ 222,094**
DIRECT FUNDING:			
U.S. Department Of Health And Human Services:			
AHRQ-Data Flow & Clinical Outcomes in Perinatal Cotinuum of Care System	93.226	N/A	174,646
Health Care and Other Facilities	93.887	N/A	99,000
Ryan White Part C Outpatient EIS Program	93.918	N/A	775,532
Dental Reimbursement Program	93.924	N/A	12,350
Total U.S. Department Of Health And Human Services			**$ 1,061,528**
TOTAL DIRECT FUNDING			**$ 1,061,528**
OTHER PASS-THROUGH FUNDS:			
U.S. Department Of Agriculture:			
Pass-through from Pennsylvania Dept. of Education			
Child and Adult Care Food Program	10.558	300-39-380-0	10,196

(Continued)

LEHIGH VALLEY HEALTH NETWORK AND COMPONENT ENTITIES

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012

Program Title	Federal CFDA Number	Pass-Through Entity Identifying No.		Expenditures
U.S. Department Of Housing And Urban Development:				
Pass-through from AIDSNET				
HOPWA Housing Services	14.241	11-001		184,604
U.S. Department Of Justice:				
Pass-through from City of Allentown				
Allentown Gang Prevention Initiative	16.753	N/A		699
U.S. Department Of Health and Human Services:				
Pass-through from Pennsylvania Chapter of the American Academy of Pediatrics				
Transitional Care	93.110	N/A		3,613
Pass-through from Children's Hospital Of Philadelphia				
Hemophilia Treatment Centers	93.110	330179-03-10		2,949
Prevention of Complications of Bleeding Disorders through HTCS	93.283	950970RSUB		6,752
Pass-through from Cedar Crest College				
Clinical Associates Program	93.359	N/A		29,000
Pass-through from PA Department of Health				
Hospital Preparedness Program - LVH	93.889	4100051140		77,056
Hospital Preparedness Program - LVHM	93.889	4100051073		64,292
HIV Prevention Project	93.940	08347		4,999
Pass-through from AIDSNET				
Ryan White Care Act Title II Funds for Case Mgmt	93.917	11-001		329,316
Ryan White Care Act Title II Funds for Adherence Education	93.917	11-001		28,181
Ryan White Care Act Title II Funds for Patient Care	93.917	11-001		49,893
Total U.S. Department Of Health and Human Services			**$**	**596,051**
TOTAL OTHER PASS-THROUGH FUNDS			**$**	**791,550**
TOTAL FEDERAL AWARDS			**$**	**2,075,172**

(concluded)

1. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") presents the activity of all federal financial assistance programs administered by Lehigh Valley Health Network and Component Entities for the year ended June 30, 2012. The information in this Schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Government, and Non-Profit Organizations*. Expenditures are reported on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

2. FEDERAL CFDA NUMBERS

The Catalog of Federal Domestic Assistance ("CFDA") numbers listed on the Schedule were obtained from the grant/contract agreements. Program titles preceded by "ARRA" represent programs administered under the American Recovery and Reinvestment Act.

* * * * * *

LEHIGH VALLEY HEALTH NETWORK AND COMPONENT ENTITIES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012

Section I - Summary of Auditors' Results

Combined Financial Statements

The independent auditors' report on the combined financial statements expressed an unqualified opinion.

Internal control over financial reporting:

• Material weakness(es) identified?	_____ yes	__X__ no
• Significant deficiency(ies) identified?	_____ yes	__X__ none reported
Noncompliance material to combined financial statements noted?	_____ yes	__X__ no

Federal Awards

Internal control over Major Programs:

• Material weakness(es) identified?	_____ yes	__X__ no
• Significant deficiency(ies) identified?	_____ yes	__X__ none reported

The independent auditors' report on compliance with requirements applicable to major federal award programs expressed an unqualified opinion.

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?	_____ yes	__X__ no

Identification of Major Programs:

CFDA Number(s)	Name of Federal Program
93.918	Ryan White Part C Outpatient EIS Program

Dollar threshold used to distinguish between Type A and Type B programs:	$300,000	
Auditee qualified as low-risk auditee?	__X__ yes	______ no

Section II — Financial Statement Findings

There were no findings related to the combined financial statements for the year ended June 30, 2012, which were required to be reported by OMB Circular A-133.

Section III —Federal Award Findings and Questioned Costs

There were no findings related to federal awards for the year ended June 30, 2012.