

St. Luke's University Health Network, Inc. and Controlled Entities

**Report on Federal Awards in Accordance with
OMB Circular A-133
June 30, 2014
EIN 23-1352213**

St. Luke's University Health Network, Inc. and Controlled Entities

Index

June 30, 2014

	Page(s)
Independent Auditor's Report	1–2
Part I: Consolidated Financial Statements and Schedule of Expenditures of Federal Awards	
Balance Sheets	3
Statements of Operations	4
Statements of Changes in Net Assets	5
Statements of Cash Flows	6
Notes to Financial Statements	7–33
Consolidating Supplemental Information	34–45
Schedule of Expenditures of Federal Awards	46
Notes to Schedule of Expenditures of Federal Awards	47
Part II: Report on Internal Control and Compliance	
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	48–49
Independent Auditor's 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.....	50–52
Part III: Findings	
Schedule of Findings and Questioned Costs	53
Summary Schedule of Findings and Questioned Costs	54
Summary Schedule of Prior Audit Findings and Status	55–56
Management's Views and Corrective Action Plan.....	57



Independent Auditor's Report

To The Board of Trustees
St. Luke's University Health Network, Inc.

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of St. Luke's University Health Network, Inc. and its controlled entities (collectively, the "Network"), which comprise the consolidated balance sheets as of June 30, 2014 and 2013, and the related consolidated statements of operations, changes in net assets and its cash flows for the years then ended and the related notes to the financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Network's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Network's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of St. Luke's University Health Network, Inc. and its controlled entities at June 30, 2014 and 2013, and the changes in their net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



Other Matters

Supplementary and Other Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2014 on our consideration of St. Luke's University Health Network'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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering St. Luke's University Health Network's internal control over financial reporting and compliance.

PricewaterhouseCoopers LLP

Philadelphia, Pennsylvania
October 31, 2014

St. Luke's University Health Network, Inc. and Controlled Entities
Consolidated Balance Sheet
June 30, 2014 and 2013

	2014	2013
Assets		
Current		
Cash and cash equivalents	\$ 79,281,175	\$ 76,885,975
Patient accounts receivable, net of allowance for uncollectible accounts of \$45,097,227 and \$64,108,720, respectively	201,064,314	200,352,091
Other accounts receivable	12,555,169	7,922,929
Investments	88,431,526	64,339,935
Inventories	16,104,632	18,020,219
Prepaid expenses	21,107,295	17,939,420
Total current assets	<u>418,544,111</u>	<u>385,460,569</u>
Assets limited as to use, net of current portion		
Funds held by trustee	30,694,585	55,721,443
Under bond indenture	31,865,328	35,975,983
Board designated funds	280,290,293	245,808,543
	<u>342,850,206</u>	<u>337,505,969</u>
Property and equipment, net	629,387,369	618,382,126
Goodwill, net	34,886,729	31,836,348
Investments temporarily restricted as to use	29,112,021	23,246,639
Investments permanently restricted as to use	30,813,985	27,564,669
Deferred financing costs	6,772,124	6,872,570
Annuity contracts	15,347,341	11,497,695
Other assets	39,786,428	28,286,665
Total assets	<u>\$ 1,547,500,314</u>	<u>\$ 1,470,653,250</u>
Liabilities and Net Assets		
Current		
Accounts payable	\$ 61,182,819	\$ 57,821,988
Accrued salaries, wages and taxes	29,446,719	27,010,449
Accrued vacation and bonus	35,520,445	33,068,755
Current portion of self insurance reserves	19,404,786	19,059,744
Deferred income	4,441,143	3,744,655
Advance from third-party payors	2,398,101	2,398,101
Patient credit balances	10,935,159	18,312,107
Current portion of long-term debt	11,758,905	10,943,434
Current portion of accrued compensation payable	3,812,853	3,755,831
Accrued interest on long-term debt	10,093,300	8,625,460
Other Current Liabilities	14,808,683	5,576,580
Estimated third-party payor settlements	5,431,319	13,019,923
Total current liabilities	<u>209,234,232</u>	<u>203,337,027</u>
Long-term debt, net of current portion	502,918,395	509,838,008
Asset retirement obligation	3,561,211	3,560,486
Accrued compensation payable	91,508,461	90,139,947
Self insurance reserves	39,397,596	38,697,057
Swap contracts	67,932,360	66,942,036
Other noncurrent liabilities	13,637,798	10,987,224
Total liabilities	<u>928,190,053</u>	<u>923,501,785</u>
Net assets		
Unrestricted net assets	550,604,391	485,141,398
Temporarily restricted net assets	37,891,885	34,445,398
Permanently restricted net assets	30,813,985	27,564,669
Total net assets	<u>619,310,261</u>	<u>547,151,465</u>
Total liabilities and net assets	<u>\$ 1,547,500,314</u>	<u>\$ 1,470,653,250</u>

The accompanying notes are an integral part of these consolidated financial statements.

St. Luke's University Health Network, Inc. and Controlled Entities
Consolidated Statement of Operations
Years Ended June 30, 2014 and 2013

	2014	2013
Revenues and gains		
Patient service revenue (net of contractual allowances and discounts)	\$1,235,483,095	\$1,183,242,414
Provision for bad debts	(123,382,063)	(100,673,411)
Net patient service revenue less provision for bad debts	1,112,101,032	1,082,569,003
Other operating revenue and gains	35,106,782	38,041,186
Net assets released from restrictions used for operations	2,472,852	1,439,002
Total revenue and gains	<u>1,149,680,666</u>	<u>1,122,049,191</u>
Operating expenses		
Salaries and employee benefits	633,842,716	616,820,978
Supplies and other	392,429,721	386,672,107
Depreciation and amortization	73,569,540	66,850,152
Interest	24,556,392	23,366,221
Total expenses	<u>1,124,398,369</u>	<u>1,093,709,458</u>
Income from operations	<u>25,282,297</u>	<u>28,339,733</u>
Nonoperating gains (losses)		
Unrestricted investment income from assets limited as to use	6,971,040	7,389,399
Realized gains on unrestricted investment	1,969,155	1,105,410
Gifts, grants and bequests	112,321	214,059
Unrestricted investment income from restricted net assets	263,059	249,493
Income from equity method investments	17,677,259	3,214,438
Gain/(loss) on disposal of property and equipment	1,991,700	(38,336)
Restructuring costs	(2,317,206)	(974,968)
Pre-acquisition/merger costs	-	(138)
Donations to other organizations	(606,785)	(498,834)
Change in fair value of derivative instruments	1,888,763	2,006,392
Goodwill impairment	(15,031)	(547,850)
Gain on retirement/purchase of bonds	-	1,088,875
Nonoperating gains	<u>27,934,275</u>	<u>13,207,940</u>
Excess of revenue and gains over expenses	<u>53,216,572</u>	<u>41,547,673</u>
Net assets released from restrictions used for purchase of property and equipment	9,322,002	1,799,151
Contribution of building	-	722,300
Other Changes in Unrestricted Assets	(2,224,120)	(886,251)
Loss on sale of joint venture	(19,312)	(2,661,253)
Net assets released to specific purpose fund	(163,817)	(89,873)
Pension adjustment	(23,621,237)	72,293,018
Beginning unrestricted net assets	-	293,351
Change in unrealized gains on investments	31,831,993	16,065,163
Change in fair market value of interest rate swaps	(2,879,088)	26,862,226
Increase in unrestricted net assets	<u>\$ 65,462,993</u>	<u>\$ 155,945,505</u>

The accompanying notes are an integral part of these consolidated financial statements.

St. Luke's University Health Network, Inc. and Controlled Entities
Consolidated Statements of Changes in Net Assets
Years Ended June 30, 2014 and 2013

	2014	2013
Unrestricted net assets		
Excess of revenue and gains over expenses	\$ 53,216,572	\$ 41,547,673
Beginning unrestricted net assets	-	293,351
Net assets contributed and released from restrictions used for purchase of property and equipment	9,322,002	1,799,151
Contribution of building	-	722,300
Loss on sale of joint venture	(19,312)	(2,661,253)
Net assets released to specific purpose fund	(163,817)	(89,873)
Pension adjustment	(23,621,237)	72,293,018
Other changes in unrestricted assets	(2,224,120)	(886,251)
Change in unrealized gains on investments	31,831,993	16,065,163
Change in fair market value of derivatives	(2,879,088)	26,862,226
Increase in unrestricted net assets	<u>65,462,993</u>	<u>155,945,505</u>
Temporarily restricted net assets		
Contributions received	5,569,615	11,927,550
Net realized/unrealized gains on investments	7,265,417	4,159,787
Net assets released from restrictions	(9,388,545)	(2,804,069)
Increase in temporarily restricted net assets	<u>3,446,487</u>	<u>13,283,268</u>
Permanently restricted net assets		
Contributions received	2,836,308	1,434,687
Net realized/unrealized losses on investments	413,008	(317,653)
Increase in permanently restricted net assets	<u>3,249,316</u>	<u>1,117,034</u>
Increase in net assets	72,158,796	170,345,807
Net assets		
Beginning of year	<u>547,151,465</u>	<u>376,805,658</u>
End of year	<u>\$ 619,310,261</u>	<u>\$ 547,151,465</u>

The accompanying notes are an integral part of these consolidated financial statements.

St. Luke's University Health Network, Inc. and Controlled Entities
Consolidated Statements of Cash Flows
Years Ended June 30, 2014 and 2013

	2014	2013
Cash flows provided by operating activities		
Change in net assets	\$ 72,158,796	\$ 170,345,807
Adjustments to reconcile change in net assets to net cash from operating activities		
(Gain) Loss on disposal of equipment	(1,991,700)	38,336
Depreciation and amortization	73,569,540	66,850,152
Equity gains from joint ventures	(17,766,404)	(47,530)
Change in unrealized gains on unrestricted investments	(31,831,993)	(16,065,163)
Net realized gain on restricted investments	(152,502)	(26,920)
Net unrealized gain on restricted investments	(7,525,923)	(3,924,384)
Net realized gain on unrestricted investments	(1,969,155)	(1,105,410)
Pension adjustments	23,621,237	(72,293,018)
Swap contracts	990,324	(16,268,616)
Other changes in unrestricted assets	2,224,120	886,251
Restricted contributions received	(3,405,923)	(13,362,237)
Provision for bad debts	123,382,063	100,673,411
Change in cash due to changes in operating assets and liabilities		
Patient accounts receivable	(124,094,286)	(135,223,074)
Other receivables	(4,632,240)	2,504,989
Inventories	1,915,587	(1,070,623)
Prepaid expenses	(3,167,875)	(2,662,734)
Other assets	(13,657,267)	(20,931,557)
Accounts payable and accrued liabilities	(2,285,532)	232,107
Patient credit balances	(7,376,948)	6,080,721
Net estimated third-party payor settlements	(7,588,604)	(5,137,009)
Deferred income	696,488	456,346
Net cash provided by operating activities	<u>71,111,803</u>	<u>59,949,845</u>
Cash flows used by investing activities		
Purchases of property, plant and equipment	(76,138,800)	(82,692,062)
Distributions from equity method investments	7,154,733	-
Proceeds from sale of equipment	36,635	1,095,762
Decrease in assets whose use is limited, net	(3,375,546)	(68,918,012)
Sales of investments, net	6,304,595	10,846,244
Net cash used in investing activities	<u>(66,018,383)</u>	<u>(139,668,068)</u>
Cash flows provided by (used in) financing activities		
Proceeds from issuance of long-term debt	5,851,288	105,716,853
Repayments of long-term debt	(11,955,431)	(1,874,261)
Repurchase of St. Luke's bonds	-	(42,150,000)
Proceeds from restricted contributions	3,405,923	13,362,237
Net cash provided by financing activities	<u>(2,698,220)</u>	<u>75,054,829</u>
Increase (Decrease) in cash and cash equivalents	2,395,200	(4,663,394)
Cash and cash equivalents		
Beginning of year	76,885,975	81,549,369
End of year	<u>\$ 79,281,175</u>	<u>\$ 76,885,975</u>
Construction in progress included in accounts payable	<u>\$ 2,734,720</u>	<u>\$ 5,192,818</u>
Cash paid for interest	<u>\$ 23,868,761</u>	<u>\$ 24,620,607</u>

The accompanying notes are an integral part of these consolidated financial statements.

St. Luke's University Health Network, Inc. and Controlled Entities

Notes to Consolidated Financial Statements

June 30, 2014 and 2013

1. Organization, Mission and Basis of Presentation

St. Luke's University Health Network, Inc. ("Parent") is a not-for-profit, tax-exempt corporation which controls the following acute care hospitals, organization of physician practices, and other health care related organizations serving the western New Jersey and Eastern Pennsylvania regions.

- St. Luke's Hospital of Bethlehem, Pennsylvania ("St. Luke's Hospital"), which includes the following entities:
 - St. Luke's University Health Network Insurance Company ("SLRRG")
 - St. Luke's Hospital of Bethlehem, Pennsylvania Ambulatory Surgery, Ltd.
 - Cancer Immunotherapies, LLC
 - St. Luke's Eighth & Eaton Holding's, Inc.
 - Eighth & Eaton Professional Building, L.P.
 - St. Luke's HomeStar Services, LLC
 - St. Luke's AirMed, LLC
 - Pocono MRI Imaging & Diagnostic Center, LLC
 - St. Luke's VNA ("VNA"), which includes the following two entities:
 - VNA Home Health and Hospice
 - HomeStar Medical Equipment and Infusion Services
- St. Luke's Quakertown Hospital
- St. Luke's Physician Group, Inc.
- St. Luke's Emergency and Transport Services
- Quakertown Rehabilitation Center DBA St. Luke's Rehabilitation Center
 - New Valley Rehab, LLC
- Carbon-Schuylkill Community Hospital, Inc. DBA St. Luke's Miners Memorial Medical Center ("MMMC")
- St. Luke's Hospital - Anderson Campus
- St. Luke's Warren Hospital Inc.
 - Warren PA Professional Alliance, Inc.
 - St. Luke's Warren Hospital Foundation, Inc.
 - St. Luke's Warren Physician Group.
 - Hillcrest Emergency Services, Inc
- Two Rivers Enterprises, Inc.
- Hillcrest Management Services Organization, Inc.

The Parent and controlled entities are referred to collectively as the St. Luke's University Health Network, Inc. (the "Network").

St. Luke's University Health Network, Inc. and Controlled Entities

Notes to Consolidated Financial Statements

June 30, 2014 and 2013

The Network also participates in various joint ventures and partnerships. These arrangements enable the Network to provide healthcare services to the broader community through involvement in other healthcare organizations. See Note 8 for additional information on investments in joint ventures and partnerships.

2. Summary of Significant Accounting Policies

Basis of Accounting

The consolidated 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 Organizations*, and other pronouncements applicable to not-for-profit healthcare organizations.

Basis of Consolidation

The consolidated financial statements include the accounts of the Parent and its controlled entities. The Parent exercises control over its controlled entities through the appointment of members to the controlled entities' Board of Trustees ("Board"). The accounts of the controlled entities have been included in the consolidated financial statements to reflect the results of operations of entities under common control. All significant intercompany balances and transactions have been eliminated.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include cash management funds with original maturities of three months or less, excluding amounts whose use is limited by Board designation or other arrangements under trust agreements. The carrying value of cash and cash equivalents approximates market value.

Investments and Investment Income

Investments are measured at fair value in the balance sheet. Investment income or loss (including interest, dividends and realized gains and losses on unrestricted investments), is included in the excess of revenues over expenses unless the income or loss is restricted by donor or law. Unrealized gains and losses on unrestricted investments are reported below the excess of revenues over expenses within net asset changes. Realized and unrealized gains and losses on donor restricted investments are reported as changes in temporarily and permanently restricted net assets as stipulated by the donor.

The Network conducted an analysis and evaluation of securities for any potential "other than temporary impairment" of investments. If the decline in the market value of an investment below cost was deemed to be other than temporary, an adjustment would be made to reduce the cost basis of the investment(s) and a realized loss would be recorded in the excess of revenue over expenses. The Network did not have an "other than temporary impairment" adjustment for the years ended June 30, 2014 and 2013.

St. Luke's University Health Network, Inc. and Controlled Entities

Notes to Consolidated Financial Statements

June 30, 2014 and 2013

Investment income and the change in unrealized gains (losses) on investments was comprised of the following for the years ended June 30.

	2014	2013
Interest and dividend income	<u>\$ 8,590,878</u>	<u>\$ 8,949,423</u>
Realized gains on sales of investments	<u>\$ 3,600,296</u>	<u>\$ 2,718,903</u>
Net unrealized gains on investments	<u>\$ 31,831,993</u>	<u>\$ 16,065,163</u>

Assets Limited as to Use

Assets limited as to use primarily include assets held by trustees under indenture agreements and designated assets set aside by the board of trustees for future capital improvements, over which the board retains control and may at its discretion subsequently use for other purposes.

Inventories

Inventory is valued at average cost, net of reserves for obsolescence. Nonstock or nonstoreroom inventory is valued at the last purchase price or last in first out (LIFO).

Property and Equipment

Property and equipment acquisitions are recorded at cost for purchased items and fair value at the date of contribution for contributed items. Depreciation is expensed over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the consolidated statements of operations. Interest costs incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of constructing those assets. Upon sale or retirement, the cost and related accumulated depreciation of such assets are removed from the accounts and any resulting gain or loss realized is credited or charged to income for the period. Expenditures for maintenance and repairs are expensed as incurred. Significant renewals, improvements and betterments are capitalized.

Long Lived Assets

The Network evaluates the carrying value of its long lived assets for impairment when impairment indicators are identified. In the event that the carrying value of a long-lived asset is not supported by the fair value, the network will recognize an impairment loss for the difference. Fair value is based on available market prices or discounted cash flows.

Gifts of long-lived assets such as land, building, or equipment are reported as unrestricted support, and are excluded from the excess of revenue and gains over expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long these long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Goodwill

Goodwill recorded in the accompanying consolidated balance sheets represents the excess of the fair market value of assets acquired over the purchase price. Management reviews goodwill for impairment annually or when events and circumstances indicate that the carrying amount may not be recoverable.

St. Luke's University Health Network, Inc. and Controlled Entities

Notes to Consolidated Financial Statements

June 30, 2014 and 2013

Deferred Financing Costs

Deferred financing costs represent costs incurred in connection with the issuance of bonds and are amortized over the life of the related debt using the effective interest method.

Annuity Contracts and Accrued Compensation Payable

The Network maintains a deferred compensation plan which provides supplemental retirement benefits for former officers and key management personnel. The Network has purchased annuity contracts to fund these benefits. These annuity contracts are included in the consolidated balance sheets at their current surrender value.

Self Insurance Reserves

Accrued insurance costs consist of discounted reserves for reported and incurred-but-not-reported (IBNR) claims related to medical malpractice incidents and the Network's self-insured retention for workers' compensation and employee health insurance incidents. For the years ended June 30, malpractice reserves and workers compensation reserves are discounted using a discount rate of 4.69% and 4.69%, respectively, in 2014 and 5.29% and 5.29%, respectively, in 2013.

Gift Annuities

The Hospital receives assets from donors in exchange for the promise to make fixed payments, over a specified period of time, to a recipient as designated by the donor. The Hospital discounts (this past year the discount rate averaged 1.25%) the liability for annuity contracts based on the annuitant's estimated life expectancy. These amounts are included in other noncurrent liabilities on the balance sheets. Any restricted assets remaining at the end of the annuity contract are placed into an endowment fund and the earnings on those funds are available for the general operations of the Network. Any unrestricted assets remaining at the end of the annuity contract are available for the general operations of the Network. The Network revalues the liability for annuity contracts quarterly and the related change is included as a change in net assets.

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets include assets whose use by the Network has been limited by donors to a specific time period or purpose. Also included in temporarily restricted net assets are unrecognized gains and losses on permanently restricted net assets. Permanently restricted net assets have been restricted by donors to be maintained by the Network in perpetuity.

Donor Restricted Gifts

Unconditional promises to give cash and other assets to the Network are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received and conditions have been met. 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 the purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of operations as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted gifts, grants and bequests in the accompanying consolidated financial statements.

Net Patient Service Revenue

The Network has agreements with third-party payors who provide payments to the Network at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted from established charges and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and

St. Luke's University Health Network, Inc. and Controlled Entities

Notes to Consolidated Financial Statements

June 30, 2014 and 2013

others for services rendered, including estimated retroactive adjustments due to future audits, reviews and investigations. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined or as years are no longer subject to such audits, reviews and investigations.

Included in net patient service revenue are changes in liability adjustments from third party payors with an overall net favorable adjustment of \$8,172,948 for 2014 as compared to a favorable adjustment of \$5,137,009 for 2013.

In July 2010 the Pennsylvania General Assembly passed the Public Welfare Code amendment (Act 49) which was signed into law by the Governor, establishing a new program referred to as Medicaid Modernization. The program was subsequently approved by the federal Centers for Medicare and Medicaid Services. The program is designed to provide additional funding to Pennsylvania hospitals for the purpose of enhancing access to quality healthcare for qualifying Medicaid beneficiaries, helping to partially mitigate the losses incurred by hospitals resulting from low reimbursement rates. To accomplish this objective, for fiscal years 2011 through 2014, the program provides participating hospitals with improved inpatient fee-for-service hospital payments, establishes enhanced hospital payments through Medicaid managed care organizations (MCOs), and secures additional federal matching Medicaid funds through a Quality Care Assessment, under which hospitals pay the state a percentage of their net inpatient revenue for fiscal year 2011. The cost of the assessment due to the state was \$12,421,533 and \$13,617,226 for years ended June 30, 2014 and 2013, respectively. The Network recognized additional net patient service revenue of \$6,503,909 and \$4,509,682 for the years ended June 30, 2014 and 2013, respectively, from the Pennsylvania Medicaid Modernization program.

Allowance for Doubtful Accounts

The Network records an allowance for doubtful accounts for estimated losses resulting from the unwillingness of patients to make payments for services. The allowance is determined by analyzing historical data and trends. Accounts receivable are written off against the allowance for doubtful accounts when management determines that recovery is unlikely and collection efforts cease.

Charity Care

The Network provides care to all patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Charges for services to patients who meet the Network's guidelines for charity care are not reflected in the accompanying consolidated financial statements. The charges associated with these services for charity care provided by the Network approximate \$105,400,000 and \$116,300,000 in 2014 and 2013, respectively. The costs incurred to provide such care is determined using a cost to charge ratio and were approximately \$89,066,000 and \$98,330,000 for 2014 and 2013, respectively.

Excess of Revenue and Gains over Expenses

The consolidated statements of operations include the excess of revenue and gains over expenses. Changes in unrestricted net assets which are excluded from the excess of revenue and gains over expenses, consistent with industry practice, include assets released from donor restrictions to be used for purchases of property and equipment, donations of long-lived assets, net unrealized gains and losses on available for sale investments, pension adjustments, and change in fair market value of interest rate swaps meeting hedging criteria.

St. Luke's University Health Network, Inc. and Controlled Entities

Notes to Consolidated Financial Statements

June 30, 2014 and 2013

Income Taxes

The Parent and its controlled hospital entities, are Pennsylvania and New Jersey not-for-profit corporations and have been recognized as tax-exempt pursuant to Section 501(c)(3) of the Internal Revenue Code. On such basis, the Parent and its controlled hospital entities will not incur any liability for federal income taxes, except for possible unrelated business income.

St. Luke's University Health Network Insurance Company is a taxable reciprocal insurer.

St. Luke's HomeStar Services, LLC is a taxable distributor of pharmacy services.

St. Luke's Warren Physician Group, P.C., PA Alliance, Hillcrest Emergency Services, P.C. and Two Rivers are for profit entities providing outpatient health care services in Pennsylvania and New Jersey. Prior to January 1, 2009, St. Luke's Warren Physician Group, P.C. and Hillcrest Emergency Services, P.C. elected, under the applicable provisions of the Internal Revenue Code and applicable state codes, to have the physician owner recognize their respective share of net income or loss on their individual tax returns. Accordingly, St. Luke's Warren Physician Group, P.C. and Hillcrest Emergency Services, P.C. did not record a liability for Federal and state income taxes. Effective January 1, 2009, St. Luke's Warren Physician Group, P.C. and Hillcrest Emergency Services, P.C. commenced operating as a for profit "C" corporation. The deferred tax assets arising from net operating losses and other temporary items generated by for profit entities, approximately \$4.6 million at June 30, 2014, are subject to a full valuation allowance as the realization of such deferred tax assets cannot be considered more likely than not at June 30, 2014.

Interest Rate Swaps

The Network recognizes all derivative financial instruments in the balance sheet at fair value. The change in the fair value of derivatives that do not qualify for hedge accounting is recognized as a component of excess of revenues over expenses for the years ended June 30, 2014 and 2013. The change in the fair value of derivatives that qualify for hedge accounting are recognized through changes in unrestricted net assets on the statement of operations for the years ended June 30, 2014 and 2013.

3. Risks and Uncertainties

The health care industry is subject to numerous laws and regulations of federal, state and local governments. Compliance with these laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at the time. Recently, government activity has increased with respect to investigations and allegations concerning possible violations by health care providers of fraud and abuse statutes and regulations, which could result in the imposition of significant fines and penalties as well as significant repayments for patient services previously billed. Compliance with such laws and regulations are subject to future government review and interpretations as well as regulatory actions unknown or unasserted at this time.

4. Concentrations of Credit Risk

Financial instruments which subject the Network to concentrations of credit risk consist primarily of cash and cash equivalents, investments, assets limited as to use, and patient accounts receivable.

The Network maintains cash, investments and assets limited as to use in banks, which include cash equivalents consisting of overnight repurchase agreements. Amounts are invested in a variety of financial instruments. The related values, as presented in the consolidated financial statements, are subject to various market fluctuations which include changes in the equity markets, interest rate

St. Luke's University Health Network, Inc. and Controlled Entities
Notes to Consolidated Financial Statements
June 30, 2014 and 2013

environment and the general economic conditions. The FDIC insures funds up to \$250,000 per depositor.

The Network's patient accounts receivable consist of unsecured amounts due for patient services billed to patients and other third-party payors such as Medicare, Medical Assistance, Blue Cross and various commercial insurance companies and managed care companies. The primary service area of the Network is located in Lehigh, Northampton, Carbon, Schuylkill and Bucks Counties, Pennsylvania. The ability of these patients to pay is subject to changes in general economic conditions of the Network's service area. The Network performs ongoing credit evaluations and maintains reserves for potential credit losses.

The mix of receivables from patients and third-party payors at June 30, 2014 and 2013 was as follows:

	2014	2013
Medicare	20.9%	21.8%
Medical Assistance	10.4%	9.1%
Blue Cross/Highmark Blue Shield	23.1%	20.7%
Commercial/HMO/Other (includes Medicare HMO)	33.1%	27.1%
Self pay (includes balances of patients filing for Medicaid but not yet approved)	12.5%	21.3%
	<u>100%</u>	<u>100%</u>

5. Charity Care and Community Service

The Network maintains records to identify and monitor the level of charity care and community service it provides. These records include the amount of charges foregone based on established rates for services and the estimated cost of those services furnished under its charity care policy. Additionally, the Network sponsors certain other service programs and charity services which provide substantial benefit to the broader community. Such programs include services to needy populations and support including: HIV treatments, medical and dental mobile vans, health fairs, community-based medical clinics, and teen pregnancy counseling.

The Network also participates in the Medical Assistance program which makes payment for services provided to financially needy patients at rates which are less than the cost of such services. Additionally, the Network provides services through the emergency room and clinics at a substantial loss.

6. Third-Party Agreements

For the years ended June 30, 2014 and 2013, payment arrangements with the Network and third-party payors were as follows:

Medicare

Payments to St. Luke's Hospital, St. Luke's Quakertown Hospital, MMMC and St. Luke's Warren from the Medicare program for inpatient acute care services are made on a prospective basis. Under this program, payments are made at a predetermined specific rate for each discharge based on the patient's diagnosis.

Outpatient services are reimbursed under the Ambulatory Payment Classification System except for clinical lab which is paid on a fee schedule and a prospective predetermined rate for renal.

St. Luke's University Health Network, Inc. and Controlled Entities

Notes to Consolidated Financial Statements

June 30, 2014 and 2013

Capital Blue Cross/Highmark Blue Shield

Inpatient services rendered to Capital Blue Cross/Highmark Blue Shield subscribers are reimbursed at prospectively determined per case rates. St. Luke's Quakertown Hospital is subject to a retroactive adjustment under the current Capital Blue Cross contract. Outpatient services for Capital Blue Cross are reimbursed on an interim basis on a percentage of charges for St. Luke's Quakertown Hospital, MMMC's and payments are later reconciled using a cost report device. There is no final settlement process for St. Luke's Hospital.

Inpatient services rendered to Blue Cross/Highmark Blue Shield subscribers are reimbursed at a per case basis. Outpatient services are reimbursed based upon established fee schedules.

Medicaid

The Pennsylvania Medical Assistance program ("PMA") reimburses St. Luke's Hospital, St. Luke's Quakertown Hospital, MMMC and St. Luke's Warren for inpatient services and capital costs on a prospective basis. Payments for inpatient services are made at a predetermined specific rate for each discharge based on the patient's diagnosis. Outpatient services are reimbursed on the basis of an established fee schedule.

Other

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

7. Fair Value Measurements

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date.

The accounting guidance establishes a hierarchy of valuation inputs based on the extent to which the inputs are observable in the marketplace. A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Financial instruments measured at fair value are based on valuation techniques noted below consistent with fair value guidance. The following describes the hierarchy of inputs used to measure fair value and the primary valuation methodologies used by the Network for financial instruments measured at fair value on a recurring basis. The three levels of inputs are as follows:

Level 1 – Quoted prices in active markets for identical assets or liabilities. Market price data is generally obtained from exchange or dealer markets. The Network does not adjust the quoted price for such assets and liabilities.

Level 2 – Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the same term of the assets or liabilities. Inputs are obtained from various sources including market participants, dealers, and brokers.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

St. Luke's University Health Network, Inc. and Controlled Entities
Notes to Consolidated Financial Statements
June 30, 2014 and 2013

Interest rate swaps are valued using both observable and unobservable inputs, such as quotations received from the counterparty, dealers or brokers, whenever available and considered reliable. In instances where models are used, the value of the interest rate swap depends upon the contractual terms of, and specific risks inherent in, the instrument as well as the availability and reliability of observable inputs. Such inputs include market prices for reference securities, yield curves, credit curves, measures of volatility, prepayment rates, assumptions for nonperformance risk, and correlations of such inputs. Certain interest rate swap arrangements have inputs which can generally be corroborated by market data and are therefore classified within level 2.

The total return swaps are less liquid and inputs are unobservable and as such are classified within level 3. While the valuation of these less liquid derivatives may utilize some level 1 and/or level 2 inputs, they also include other unobservable inputs which are considered significant to the fair value determination. At each measurement date, the Network updates the level 1 and level 2 inputs to reflect observable inputs, though the resulting gains and losses are reflected within level 3 due to the significance of the unobservable inputs. The significant unobservable inputs used in the fair value measurement of the Network's total return swaps are discounted cash flow rates, underlying bond prices with little to no trading history and credit risk assumptions used to record any discount on the liability.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Network believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

Financial instruments carried at fair value as of June 30, 2014, and 2013 are as follows:

	June 30, 2014			
	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Investments				
Cash & Cash Equivalents	\$ 79,281,175	\$ -	\$ -	\$ 79,281,175
Money Market Funds	23,200,967	-	-	23,200,967
Government Securities	132,650,140	-	-	132,650,140
Corporate Bonds	21,441,647	-	-	21,441,647
Common & Preferred Stock	58,881,611	-	-	58,881,611
Mutual Funds	255,033,373	-	-	255,033,373
Total Investments	\$ 570,488,913	\$ -	\$ -	\$ 570,488,913
Derivative Financial Instruments				
Cost of Funds Hedge - Floating to Fixed Rate	\$ -	\$ 57,413,456	\$ -	\$ 57,413,456
Total Return Swap	-	-	10,518,904	10,518,904
Interest Rate Swaps-liability	\$ -	\$ 57,413,456	\$ 10,518,904	\$ 67,932,360

St. Luke's University Health Network, Inc. and Controlled Entities
Notes to Consolidated Financial Statements
June 30, 2014 and 2013

	June 30, 2013			
	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Investments				
Cash & Cash Equivalents	\$ 76,885,975	\$ -	\$ -	\$ 76,885,975
Money Market Funds	81,190,062	-	-	81,190,062
Government Securities	60,319,314	-	-	60,319,314
Corporate Bonds	26,907,579	-	-	26,907,579
Common & Preferred Stock	4,270,635	-	-	4,270,635
Mutual Funds	279,969,622	-	-	279,969,622
Total Investments	<u>\$ 529,543,187</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 529,543,187</u>
Derivative Financial Instruments				
Cost of Funds Hedge - Floating to Fixed Rate	\$ -	\$ 54,534,369	\$ -	\$ 54,534,369
Total Return Swap	-	-	12,407,667	12,407,667
Interest Rate Swaps-liability	<u>\$ -</u>	<u>\$ 54,534,369</u>	<u>\$ 12,407,667</u>	<u>\$ 66,942,036</u>

The following table is a roll-forward for those financial instruments classified by the Network as Level 3 within the fair value hierarchy defined above:

	Interest Rate Swaps
<u>Fair Value, June 30, 2012</u>	<u>\$ 14,414,058</u>
Change in fair value of derivative instruments	<u>(2,006,391)</u>
<u>Fair Value, June 30, 2013</u>	<u>\$ 12,407,667</u>
Change in fair value of derivative instruments	<u>(1,888,763)</u>
<u>Fair Value, June 30, 2014</u>	<u>\$ 10,518,904</u>

All unrealized gains in the table above are reflected in the accompanying statement of operations.

8. Investments in Joint Ventures and Partnerships

St. Luke's Hospital is a Class B member of the St. Luke's Physician Hospital Organization, Inc. ("PHO"). The PHO has two classes of members: Class A members consist of primary care and specialist physicians and Class B members consist of member hospitals, St. Luke's being the only Class B member hospital.

St. Luke's University Health Network holds a 50% equity interest in the Center for Oral and Maxillofacial Surgery and Implantology at St. Luke's, LLC, which was organized on May 12, 2005 and provides oral surgery services which enables the joint venture to respond to community needs.

St. Luke's University Health Network holds a 40% equity interest in Royal HomeStar, LLC, which was organized on March 1, 2013 and provides durable medical equipment services.

St. Luke's University Health Network, Inc. and Controlled Entities
Notes to Consolidated Financial Statements
June 30, 2014 and 2013

St. Luke's University Health Network holds a 40% equity interest in Etowah Dialysis, Inc., which was organized on September 1, 2013 and provides durable medical equipment services.

The Network also maintains other investments in partnerships that provide various clinical and nonclinical services. The Network's investments in the partnerships are accounted for under the equity method. The total investments in joint ventures and partnerships of approximately \$13,051,819 and \$3,560,578 for the years ended June 30, 2014 and 2013, respectively, are included in other assets on the consolidated balance sheets.

9. Property and Equipment

Property and equipment and related accumulated depreciation at June 30, 2014 and 2013 consisted of the following:

	2014	2013
Land	\$ 92,164,232	\$ 89,978,195
Buildings and improvements	662,631,764	631,808,261
Equipment	611,111,811	556,701,318
Parking garage	<u>26,591,467</u>	<u>24,119,740</u>
Total Property, Plant, & Equipment, gross	1,392,499,274	1,302,607,514
Less: Accumulated depreciation	<u>805,961,577</u>	<u>738,356,501</u>
Total Property, Plant & Equipment, net	586,537,697	564,251,013
Construction-in-progress (CIP)	<u>42,849,672</u>	<u>54,131,113</u>
Total Property, Plant & Equipment, net and CIP	<u>\$ 629,387,369</u>	<u>\$ 618,382,126</u>

Depreciation expense was approximately \$71,201,994 and \$64,174,862 for the years ended June 30, 2014 and 2013, respectively. Interest that was capitalized was approximately \$1,309,956 and \$1,913,364 for the years ended June 30, 2014 and 2013, respectively.

Capital Leases

Included in fixed and movable equipment as of June 30, 2014 is approximately \$9,752,005 of assets purchased under capital lease agreements. Accumulated amortization of such assets approximates \$9,237,837 as of June 30, 2014.

St. Luke's University Health Network, Inc. and Controlled Entities
Notes to Consolidated Financial Statements
June 30, 2014 and 2013

10. Long-Term Debt

Long-term debt at June 30, 2014 and 2013 consisted of the following:

	2014	2013
Quakertown General Authority - 1996A Pooled Financing Loan issued by the Quakertown General Authority at a variable rate	\$ 3,626,097	\$ 5,204,787
Hospital Revenue Bonds, Series 2007, issued by the Lehigh County General Purpose Authority	127,240,000	128,500,000
Hospital Revenue Bonds, Series 2008A, issued by Northampton County General Purpose Authority, net of unamortized discount	172,714,061	172,625,969
Hospital Revenue Bonds, Series 2010A, 2010B, 2010C, issued by Northampton County General Purpose Authority, net of unamortized premium	59,331,752	60,936,122
Hospital Revenue Bonds, Series 2013A & 2013B, issued by Northampton County General Purpose Authority, net of unamortized premium	65,480,306	65,496,322
Hospital Refunding Bonds, Series 2013, issued by New Jersey Health Care Facilities Financing Authority, net of unamortized premium	39,258,409	39,320,162
TD Bank, N.A. Note Payable	24,205,137	25,890,845
Wells Fargo Equipment Finance, Inc	21,067,530	19,896,774
Various notes and mortgage notes payable at various interest rates	1,754,008	2,910,461
	<u>514,677,300</u>	<u>520,781,442</u>
Less: Current portion	11,758,905	10,943,434
	<u>\$ 502,918,395</u>	<u>\$ 509,838,008</u>

Scheduled maturities, assuming no amounts are tendered that cannot be remarketed, for the years ending June 30 are as follows:

Fiscal Year	Long-Term Debt
2015	11,758,905
2016	12,586,150
2017	11,893,944
2018	11,010,224
2019	10,461,153
2020	9,391,479
Thereafter	447,287,565
	<u>514,389,420</u>
Less: Amount of unamortized bond discount/premium/imputed interest	(287,880)
	<u>\$ 514,677,300</u>

St. Luke's University Health Network, Inc. and Controlled Entities
Notes to Consolidated Financial Statements
June 30, 2014 and 2013

The fair market value of outstanding debt as of June 30, 2014 is as follows:

	Par Amount	Fair Market Value
Quakertown General Authority 1996A Pooled Financing Loan	3,626,097	3,626,097
Series 2007	125,520,000	99,015,485
Series 2008	175,000,000	185,451,718
Series 2010	59,105,000	62,669,462
Series 2013 (St. Luke's Warren)	37,410,000	38,046,928
Series 2013	65,000,000	66,637,950
	<u>\$ 465,661,097</u>	<u>\$ 455,447,640</u>

The fair market value of outstanding debt as of June 30, 2013 is as follows:

	Par Amount	Fair Market Value
Quakertown General Authority 1996A Pooled Financing Loan	5,204,787	5,204,787
Series 2007	127,240,000	106,098,105
Series 2008	175,000,000	182,399,195
Series 2010	60,675,000	64,694,636
Series 2013 (St. Luke's Warren)	37,410,000	35,711,459
Series 2013	65,000,000	64,716,650
	<u>\$ 470,529,787</u>	<u>\$ 458,824,832</u>

The fair value of the Network's bonds at June 30, 2014 and 2013 is approximately \$455 million and \$459 million respectively, versus the outstanding principal at June 30, 2014 and 2013 of \$468 million and \$472 million, respectively. The fair value of the bonds is estimated using market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments.

The Network reported long-term debt of \$502,918,395 and \$509,838,008 for years ended June 30, 2014 and 2013, respectively. The Network's long term debt would be classified as level 2.

Quakertown General Authority – 1996A Pooled Financing Loan

On March 1, 1997, St. Luke's Hospital borrowed approximately \$21,700,000 from the Quakertown General Authority. St. Luke's represents one of many borrowers who participated in the \$77,900,000 Quakertown General Authority Variable Demand Revenue Bonds (Pooled Financing Program) Series of 1996A. For security of the bondholders of the 1996A Bonds, the Quakertown General Authority entered into a Letter of Credit with PNC Bank National Association. The Bonds were offered on the basis of the financial strength of PNC Bank National Association, not the individual borrowers of the 1996A Pooled Financing Program. The Bonds are seven day variable rate demand bonds that are remarketed by the remarketing agent (PNC Capital Markets) and if for some reason the Bonds could not be remarketed, then the Bonds would become Bank Bonds and held by the Bank until they were remarketed. During the time the Bonds are held by the Bank, St Luke's would continue with the loan according to the Loan agreement between St. Luke's and the Quakertown General Authority.

St. Luke's University Health Network, Inc. and Controlled Entities
Notes to Consolidated Financial Statements
June 30, 2014 and 2013

The proceeds from the borrowings on the 1996A Bond Pool were used to refinance previous borrowings from the Quakertown Variable Rate Demand Bond Pool Series 1995 and to finance certain capital improvement projects. The term of the Loan is 238 months, payable in full by January 1, 2017 and will bear interest at a variable rate. At June 30, 2014 and 2013, the rate (including bond and obligated group expense) was 2.0% and 2.0%, respectively.

The obligation of St. Luke's to repay the Loan is evidenced by a note issued under and pursuant to the term of the amended 1987 Master Trust Indenture. The original trust indenture, lease agreement and all subsequent supplemental agreements contain certain covenants of the Obligated Group and the Quakertown Obligated Group including, but not limited to, covenants requiring that the Obligated Group and the Quakertown Obligated Group will generate net revenues, as defined, equal to at least 150% of annual debt service.

Hospital Revenue Bonds, Series 2007

On February 21, 2007, the Lehigh County General Purpose Authority issued \$266,310,000 of its Hospital Revenue Bonds, Series 2007 (the "2007 Bonds"). The proceeds of the 2007 Bonds were used by the Hospital to undertake various construction projects (primarily the expansion of St. Luke's Hospital in Allentown), purchase of capital equipment, refunding of previous bond offerings and to pay for certain costs and expenses related to the issuance of the bonds.

The Hospital entered into the Master Trust Indenture with the Master Trustee and is currently the sole member of the Obligated Group. Under the Master Trust Indenture, all of the Bonds previously issued by the Authority under the indenture are collateralized by notes issued by the Hospital. The 2007 Bonds are collateralized by a note issued by the Hospital under the Master Trust Indenture.

The 2007 Bonds were issued in a quarterly reset variable rate mode. Each maturity will bear interest from the date of their delivery (February 21, 2007) or from the most recent Interest Payment Date to the next succeeding Interest Payment Date, at a per annum rate equal to (a) 67% of the Three-Month LIBOR Rate for such period plus (b) the per annum spread specified in the following table, except that the 2007 Bonds may not bear interest in any interest period at more than a maximum rate of 15% per annum:

Term Bonds	Spread above 67% of the Three-Month LIBOR Rate
\$110,420,000 Variable, due 8/15/2033 original	92 basis points
\$49,600,000 due 8/15/2027 after redemption	
\$155,890,000 Variable, due 8/15/2042 original	102 basis points
\$78,900,000 due 8/15/2038 after redemption	

Interest is computed on the basis of a 365-day or 366-day year, as applicable, for the actual number of days elapsed. The 2007 Bonds bear interest at the Index Rate until maturity or the earlier redemption thereof, and are not subject to conversion to another interest rate.

Hospital Revenue Bonds, Series 2008

On June 11, 2008, the Northampton County General Purpose Authority issued \$175,000,000 of its Hospital Revenue Bonds, Series A of 2008 (the "2008 Bonds") under a Loan and Trust Agreement by and among the Northampton County General Purpose Authority, Saint Luke's Hospital and Wells Fargo Bank, National Association, as trustee.

St. Luke's University Health Network, Inc. and Controlled Entities
Notes to Consolidated Financial Statements
June 30, 2014 and 2013

The 2008 Bonds were issued to provide funds for various construction projects (primarily the construction of the St. Luke's Anderson Campus), purchase of capital equipment, purchase of land in Bethlehem Township and to pay for certain costs and expenses related to the issuance of the bonds.

The Hospital entered into the Master Trust Indenture with the Master Trustee and is currently the sole member of the Obligated Group. Under the Master Trust Indenture all of the Bonds previously issued by the Lehigh County General Authority and the Quakertown General Authority are secured by notes issued by the Hospital. The 2008 Bonds will also be secured by a note issued by the Hospital under the Master Trust Indenture.

The 2008 Bonds of each maturity will bear interest from the date of their initial delivery or from the most recent Interest Payment Date to which interest thereon has been paid or duly provided for to the next succeeding Interest Payment Date, at a fixed rate:

Year (August 15)	Amount	Interest Rate	Yield
2019	\$ 4,260,000	5.000 %	5.010 %
2020	4,480,000	5.000 %	5.110 %
2021	4,715,000	5.125 %	5.190 %
2022	4,965,000	5.250 %	5.260 %
2023	5,235,000	5.250 %	5.320 %
2024	5,520,000	5.250 %	5.370 %
2028	25,270,000	5.375 %	5.490 %
2035	59,960,000	5.500 %	5.600 %
2040	60,595,000	5.500 %	5.660 %

Interest on the 2008 Bonds will be payable on each August 15 and February 15, commencing on August 15, 2008. Interest on the 2008 Bonds will be computed on the basis of 360-day year of twelve 30 day months.

Hospital Revenue Bonds, Series 2010

On May 13, 2010, the Northampton County General Purpose Authority issued \$69,730,000 of its Hospital Revenue Bonds. The \$69,730,000 Northampton County General Purpose Authority Hospital Revenue Bonds, consisting of \$24,415,000 aggregate principal amount of Hospital Revenue Bonds Series 2010A (Saint Luke's Hospital Project), \$10,390,000 aggregate principal amount of Hospital Revenue Bonds Series 2010B (Saint Luke's Hospital Project) and \$34,925,000 aggregate principal amount of Hospital Revenue Bonds Series 2010C (Saint Luke's Hospital Project). The 2010 Bonds are issued under that certain Loan and Trust Agreement, dated as of June 1, 2008 by and among the Northampton County General Purpose Authority, Saint Luke's Hospital of Bethlehem, Pennsylvania and Wells Fargo Bank, National Association, as trustee, as amended and supplemented by a First Supplemental Loan and Trust Agreement, dated as of May 1, 2010.

The 2010 Bonds were issued to provide funds for the refunding of previous bond offerings, the construction and equipping of a medical office building on the Anderson Campus, and to pay for certain costs and expenses related to the issuance of the bonds.

The Hospital requested that the Authority issue approximately \$29,300,000 of its bonds (the "Private Placement Bonds") to TD Bank, N.A. in a private placement (the "Private Placement") to finance capital projects and reimburse the Hospital for expenditures previously made. The Private Placement Bonds are secured by a master note on a parity basis with the 2010 Bonds under the Master Trust Indenture.

St. Luke's University Health Network, Inc. and Controlled Entities

Notes to Consolidated Financial Statements

June 30, 2014 and 2013

Hospital Revenue Bonds, Series 2013

On June 27, 2013 the Northampton County General Purpose Authority issued \$65,000,000 of its Hospital Revenue Bonds. Which consists of \$25,000,000 in Series A aggregate principal and \$40,000,000 in Series B aggregate principal with a variable rate. Issued pursuant to a Loan and Trust Agreement by the Authority, SLH and the Bank of New York Mellon Trust, under the Trust Agreement SLH is obligated to make payments to the trustee as assignee of the Authority.

The Series 2013 Bonds were issued to provide a portion of the funds for a project "the 2013 project" consisting of 200 bed expansion of the hospital located at the Anderson Campus, the construction of an administration building at the Anderson Campus, the funding of various capital projects for general SLH purpose, including without limitations, renovations, repairs and acquisitions of related outpatient facilities in Northampton County and Lehigh County, Pennsylvania. Also reimbursement of any cost referred to in clauses, the payment of certain cost and expense in connection with the issuance of the 2013 Bonds.

Hospital Refunding Bonds, Series 2013

On June 6, 2013 the New Jersey Health Care Facilities Financing Authority issued \$37,410,000 of Refunding Bonds, St Luke's Warren Hospital Obligated group. The proceeds of the 2013 Bonds to St. Luke's Warren Hospital is for the purpose of paying a portion of the cost of a project consisting generally of the current refunding of all the Authority's Revenue Bonds: St Luke's Warren Hospital Issue Series 2012 and the payment of certain cost incidental to the issuance and sale of the Series 2013 Bonds.

11. Derivative Financial Instruments

At June 30, 2014, two floating to fixed interest rate swaps were outstanding with notional amounts totaling \$265.61 million and maturity dates ranging from August, 2033 to August, 2042. The bonds, issued in a quarterly reset LIBOR-based variable rate mode, will be swapped to a 4.60% fixed rate. The nature of the risk is to eliminate unpredictable variability of interest rate payments due to changes in the 3 month LIBOR rate as well as limit exposure to increases in short-term interest rates as well as significantly decrease borrowing costs (relative to a traditional fixed rate issuance). Based on the identical characteristics of the payment based index of the hedged item and the receipt based index on the interest rate swap, the hedge will exactly offset the variability of interest rates on the underlying bonds over the term of the swap transaction.

At June 30, 2014, three total return swaps were outstanding. In December 2007, St. Luke's executed a total return swap on a \$76 million portion of the outstanding Series 2007, 2042 term bond. In September 2009, St. Luke's executed a total return swap on a \$24 million portion of the outstanding Series 2007, 2033 term bond. Pursuant to these agreements, St. Luke's has guaranteed a price of 95.50% and 99.5%, respectively, on the underlying Bonds. St. Luke's has the right to call and redeem these bonds at any time as fully described in the Series 2007 Fifth Supplemental Trust Indenture. The swaps are recorded at the fair market value on the balance sheet and changes in value are posted through the excess of revenues and gains over expenses. In April 2010, St. Luke's executed a total return swap on a \$34.93 million portion of the outstanding Series 2010, 2032 term bond.

St. Luke's University Health Network, Inc. and Controlled Entities
Notes to Consolidated Financial Statements
June 30, 2014 and 2013

12. Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets were available for the following purposes at June 30, 2014 and 2013:

	2014	2013
Purchase of property and equipment	\$ 2,814,641	\$ 8,729,970
Health education	14,242,262	11,074,247
Research and development	186,666	169,917
Unrealized gains on restricted net assets for health care services	<u>20,648,316</u>	<u>14,471,264</u>
	<u>\$ 37,891,885</u>	<u>\$ 34,445,398</u>

Permanently restricted net assets at June 30, 2014 and 2013 were restricted to:

	2014	2013
Investments to be held in perpetuity, the income from which is expendable to support health care services (reported as other operating and nonoperating income)	<u>\$ 30,813,985</u>	<u>\$ 27,564,669</u>

Endowments

The Network's endowment consists of approximately \$30,813,985 individual donor restricted endowment funds and \$77,333,043 board-designated endowment funds for a variety of purposes plus the following where the assets have been designated for endowment: split interest agreements, and other net assets. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. The net assets associated with endowment funds including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor imposed restrictions.

The Board of Trustees of the Network has interpreted the relevant PA state law as requiring the preservation of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Network classifies as permanently restricted net assets, (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The funds remain in the donor-restricted endowment fund until those amounts are appropriated for expenditure of the Network in a manner consistent with the standard of prudence prescribed by relevant PA state law. In accordance with relevant PA state law, the Network considers the following factors in making a determination to appropriate or accumulate endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the Network and the donor restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments

St. Luke's University Health Network, Inc. and Controlled Entities
Notes to Consolidated Financial Statements
June 30, 2014 and 2013

(6) Other resources of the Network

(7) The investment policies of the Network.

The Network had the following endowment activities during the year ended June 30, 2013 delineated by net asset class and donor-restricted versus Board-designated funds:

Endowment net asset composition by type of fund as of June 30, 2014:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds		\$ 37,891,885	\$ 30,813,985	\$ 68,705,870
Board-designated endowment funds	\$77,333,043			77,333,043
	<u>\$77,333,043</u>	<u>\$ 37,891,885</u>	<u>\$ 30,813,985</u>	<u>\$146,038,913</u>

Endowment net asset composition by type of fund as of June 30, 2013:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds		\$ 34,445,398	\$ 27,564,669	\$ 62,010,067
Board-designated endowment funds	\$64,749,913			64,749,913
	<u>\$64,749,913</u>	<u>\$ 34,445,398</u>	<u>\$ 27,564,669</u>	<u>\$126,759,980</u>

Changes in endowment net assets for the year ended June 30, 2014:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 64,749,913	\$ 34,445,398	\$ 27,564,669	\$126,759,980
Investment return:				
Investment income	1,731,392	91,999	1,247,360	3,070,751
Gain (Loss) on Sale of Investments	24,632			24,632
Net depreciation (realized and unrealized)	<u>10,790,755</u>	<u>9,019</u>	<u>7,011,069</u>	<u>17,810,843</u>
Total Investment return	12,546,779	101,018	8,258,429	20,906,226
Gifts	36,351	5,557,795	2,836,308	8,430,454
Income released to General Fund for operations	-	(9,507,274)	(834,352)	(10,341,626)
Transfer balance of net depreciation to unrestricted	-	7,011,069	(7,011,069)	-
Other Miscellaneous Transfers	-	283,879	-	283,879
Endowment net assets, end of year	<u>\$ 77,333,043</u>	<u>\$ 37,891,885</u>	<u>\$ 30,813,985</u>	<u>\$146,038,913</u>

St. Luke's University Health Network, Inc. and Controlled Entities
Notes to Consolidated Financial Statements
June 30, 2014 and 2013

Endowment net asset composition by type of fund as of June 30, 2014:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds		\$ 37,891,885	\$ 30,813,985	\$ 68,705,870
Board-designated endowment funds	<u>\$ 77,333,043</u>			<u>77,333,043</u>
	<u>\$ 77,333,043</u>	<u>\$ 37,891,885</u>	<u>\$ 30,813,985</u>	<u>\$ 146,038,913</u>

Endowment net asset composition by type of fund as of June 30, 2013:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds		\$ 34,445,398	\$ 27,564,669	\$ 62,010,067
Board-designated endowment funds	<u>\$ 64,749,913</u>			<u>64,749,913</u>
	<u>\$ 64,749,913</u>	<u>\$ 34,445,398</u>	<u>\$ 27,564,669</u>	<u>\$ 126,759,980</u>

Description of Amounts Classified as Permanently Restricted Net Assets and Temporarily Restricted Net Assets (Endowments Only)

Permanently restricted net assets

The portion of perpetual endowment funds that is required to be retained permanently either by explicit donor stipulation or by relevant PA State law:

Permanent Endowment	\$ 30,617,801
Mortgage Endowment	<u>196,184</u>
Total endowment assets classified as permanently restricted net assets	<u>\$ 30,813,985</u>

Endowment Funds with Deficits

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the value of the initial and subsequent donor gift amounts (deficit). When donor endowment deficits exist, they are classified as a reduction of unrestricted net assets. Deficits of this nature reported in unrestricted net assets were \$0 as of June 30, 2014 and 2013.

Return Objectives and Risk Parameters

The Network has adopted endowment investment and spending policies that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of endowment assets. Under this policy, the return objective for the endowment assets, measured over a full market cycle, shall be to maximize the return against a blended index, based on the endowment's target allocation applied to the appropriate individual benchmarks. The Network expects its endowment funds over time, to provide an average rate of return approximating the S&P 500 Stock Index (domestic portion), MSCI EAFE Index (international portion) and Lehman Brothers Intermediate Government/Corporate Index (bond portion). Actual returns in any given year may vary from the index return amounts.

St. Luke's University Health Network, Inc. and Controlled Entities

Notes to Consolidated Financial Statements

June 30, 2014 and 2013

Strategies Employed for Achieving Investment Objectives

To achieve its long-term rate of return objectives, the Network relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized gains) and current yield (interest and dividends). The Network targets a diversified asset allocation that places greater emphasis on equity-based investments to achieve its long-term objectives within prudent risk constraints.

Endowment Spending Allocation and Relationship of Spending Policy to Investment Objectives

The Board of Trustees of the Network determines the method to be used to appropriate endowment funds for expenditure. Calculations are performed for individual endowment funds at a rate of 4.5 percent of a three-year moving average market value with a minimum increase of 0% and a maximum increase of 10% per year over the previous year's spending amount. The total is reduced by the income distributed from the endowment fund in accordance with the preferences/restrictions made by the donors. The corresponding calculated spending allocations are distributed annually by June 30. In establishing this policy, the Board considered the expected long term rate of return on its endowment. Accordingly, over the long term, the Network expects the current spending policy to allow its endowment to grow at an average of 8% percent annually, consistent with its intention to maintain the purchasing power of the endowment assets as well as to provide additional real growth through new gifts.

13. Contingencies

Operating Leases

The Network leases certain medical, office and information technology equipment used in its operations. Total rental expense for all operating leases for the years ended June 30, 2014 and 2013 was approximately \$17,235,751 and \$18,475,539, respectively.

At June 30, 2014, the annual and total future minimum lease payments under noncancelable operating leases were as follows:

	Operating
2015	14,076,029
2016	13,457,105
2017	10,944,836
2018	8,783,480
2019	7,722,762
Later Years	<u>34,407,486</u>
Total minimum payments	<u>89,391,698</u>

Litigation

The Network and its controlled entities are involved in certain litigation which involves professional and general liability. In the opinion of management and in-house counsel, the ultimate liability, if any, will not have a material effect on the consolidated financial condition of the Network and its controlled entities.

St. Luke's University Health Network, Inc. and Controlled Entities
Notes to Consolidated Financial Statements
June 30, 2014 and 2013

14. Functional Expenses

The Network provides general health care services to residents within its geographic location. Expenses related to providing these services for the years ended June 30, 2014 and 2013 are approximately as follows:

	2014	2013
Health care services	\$ 1,012,264,850	\$ 984,423,065
General and administrative	<u>112,133,519</u>	<u>109,286,393</u>
	<u>\$ 1,124,398,369</u>	<u>\$ 1,093,709,458</u>

15. Pension Plan

Defined Benefit Plan

The Network entities have a noncontributory defined benefit pension plan ("Plan") covering substantially all employees of the Network who were hired prior to January 1, 2009 (see New Pension Plan 401(a) note below). Plan benefits are based on years of service and the employee's average annual earned income during the highest 60 consecutive months in the last ten years of credited service prior to retirement or termination. The Network's policy is to fund annually at least the minimum amount required by the Employee Retirement Income Security Act of 1974.

In connection with a redesign of the network's retirement plans, the Finance Committee of the Board approved amendments to end benefit accruals in the qualified defined benefit pension plan after December 31, 2014. Benefits to be earned by participants under this plan prior to January 1, 2015 are not anticipated to be affected. The network estimates that pension liabilities will decrease by about \$56 million as a result of this change.

Savings Plan

In 2007, St. Luke's Warren established a 401(k) plan for qualified employees. Contributions to this plan are based on a defined formula of 3% of an employee's contribution. The St. Luke's Warren 401(k) plan was merged with the Network 401(a) plan as of January 1, 2014.

401(a) Plan

All employees hired before January 1, 2009 remain participants in the noncontributory defined benefit pension plan (see Pension Plan, above) through December 31, 2014. At that time, all employees will be moved to the 401(a) Plan.

All employees hired after January 1, 2009, are provided with a defined contribution plan 401(a) of which St. Luke's will contribute a percentage of the employee's salary based on the employee's years of service as follows:

Years of Service	% of Annual Salary
1 through 5	2.5%
6 through 10	4.0%
11 through 15	5.5%
16+ years	7.0%

St. Luke's University Health Network, Inc. and Controlled Entities
Notes to Consolidated Financial Statements
June 30, 2014 and 2013

The Network has recorded a reserve of \$2,500,530 for the year ended June 30, 2014. This liability is included in accrued compensation payable on the 2014 consolidated balance sheet.

Retirement Plan 401(k)

As of January 1, 2009, a 401(k) retirement savings plan replaced the 403(b) retirement savings plan for employees of St. Luke's HomeStar Services, LLC, a for-profit organization.

Pension Plan Financial Components

The net pension cost for all Plans and Plan participants, during the years ended June 30, 2014 and 2013, includes the following components:

	2014	2013
Change in benefit obligation		
Benefit obligation at beginning of year	\$ 440,994,994	\$ 457,532,508
Service cost	16,114,927	18,069,251
Interest cost	23,321,318	20,851,931
Benefits paid	(34,894,864)	(9,155,008)
Actuarial loss (gain)	66,674,837	(46,303,688)
Plan amendment	-	-
Benefit obligation at end of year	<u>\$ 512,211,212</u>	<u>\$ 440,994,994</u>

	2014	2013
Change in plan assets		
Fair value of plan assets at beginning of year	\$ 361,707,895	\$ 292,393,095
Actual return on plan assets	70,678,754	39,611,235
Employer contributions	39,165,533	38,858,573
Benefits paid	(34,894,864)	(9,155,008)
Fair value of plan assets at end of year	<u>\$ 436,657,318</u>	<u>\$ 361,707,895</u>
Funded status at end of year	<u>\$ (75,553,894)</u>	<u>\$ (79,287,099)</u>

Amounts recognized in the statement of financial position consist of:

	2014	2013
Noncurrent assets	\$ -	\$ -
Current liabilities	(726,328)	(305,103)
Noncurrent liabilities	(74,827,566)	(78,981,996)
Net amount recognized in statement of financial position	<u>\$ (75,553,894)</u>	<u>\$ (79,287,099)</u>

Amounts recognized in unrestricted net assets consist of:

	2014	2013
Unrecognized Net loss (gain)	\$ 95,694,773	\$ 72,073,536
Transition obligation (asset)	-	-
Prior service cost (credit)	-	-
Accumulated other comprehensive income	<u>\$ 95,694,773</u>	<u>\$ 72,073,536</u>

The accumulated benefit obligation for all defined benefit pension plans was \$504,593,961 and \$432,575,542 at June 30, 2014 and 2013, respectively.

St. Luke's University Health Network, Inc. and Controlled Entities
Notes to Consolidated Financial Statements
June 30, 2014 and 2013

Information for pension plans with an accumulated benefit obligation in excess of plan assets:

	2014	2013
Projected benefit obligation	\$ 512,211,212	\$ 440,994,994
Accumulated benefit obligation	504,593,961	432,575,542
Fair value of plan assets	436,657,318	361,707,895

Components of net periodic benefit cost and other amounts recognized in unrestricted net assets:

Total pension benefit cost	2014	2013
Service cost	\$ 16,114,927	\$ 18,069,251
Interest cost	23,321,318	20,851,931
Expected return on plan assets	(29,361,558)	(24,384,094)
Amortization of net (gain) loss	1,584,376	10,640,789
Amortization of transition obligation (asset)	-	-
Amortization of prior service cost (credit)	-	-
Net periodic benefit cost	<u>\$ 11,659,063</u>	<u>\$ 25,177,877</u>
Curtailment loss	-	-
Settlement loss	152,028	-
Total pension cost	<u>\$ 11,811,091</u>	<u>\$ 25,177,877</u>

Other changes in plan assets and benefit obligations recognized in unrestricted net assets:

	2014	2013
Net loss (gain)	\$ 25,357,641	\$ (61,530,829)
Amortization of loss (gain)	(1,736,404)	(10,640,789)
Amortization of transition obligation	-	-
Amortization of prior service cost	-	-
Total recognized in unrestricted net assets	<u>\$ 23,621,237</u>	<u>\$ (72,171,618)</u>
Total recognized in net periodic benefit cost and unrestricted net assets	<u>\$ 35,432,328</u>	<u>\$ (46,993,741)</u>

The estimated net loss, transition obligation and prior service cost for the defined benefit pension plans that will be amortized from unrestricted net assets into net periodic benefit cost over the next fiscal year are \$4,638,400, \$0 and \$0, respectively.

Weighted-average assumptions used to determine benefit obligations at June 30, 2014:

Discount rate	4.50%
Discount rate - Warren at December 31, 2013	5.11%
Rate of compensation increase	3.50%

St. Luke's University Health Network, Inc. and Controlled Entities
Notes to Consolidated Financial Statements
June 30, 2014 and 2013

Weighted-average assumptions used to determine net periodic benefit cost for years ended June 30, 2014:

Expected long-term return on plan assets	7.50%
Rate of compensation increase	3.50%
Discount rate	5.29%
Discount rate - Warren at December 31, 2013	5.05%

Plan Assets

The St. Luke's Pension Plans weighted-average asset allocations at June 30, 2014 and 2013, by asset category, are as follows:

Asset category	Plan Assets at June 30	
	2014	2013
Equity securities	70 %	73 %
Debt securities	30 %	27 %
	<u>100 %</u>	<u>100 %</u>

The Investments are broadly diversified in assets which over time provide the opportunity for appreciation and rising levels of income. The precise mix of assets is determined jointly by the Investment Committee and recommended to the Board of Trustees. The Investment Committee has discretion over the selection of individual securities and the weighting of the investments.

Equities

The Investment Committee directs that a reasonable diversification be maintained and in no case shall any single investment represent more than 5% of market value of the portfolios. At no time will less than 60% nor more than 80% of the combined market value of the funds be invested in equity or equivalent securities. This total equity will be weighted with a minimum of 20% and maximum of 70% U.S. Stocks and a minimum of 10% and maximum of 40% in International Stocks. Any exceptions are mutually agreed upon by the Manager and the Investment Committee either prior to the event or as soon as is practical.

Fixed Income

All fixed income securities purchased or retained by the Fund Manager are rated by at least one of the two recognized credit rating agencies (Moody's or Standard & Poor's) as "BBB" or better. Other "investment grade" issues, as defined by the rating agencies, but which may be unrated, may be purchased or retained so long as they represent no more than 5% of the market value of the portfolios. Other than obligations of the United States Government or its agencies and instrumentalities, no fixed income obligation shall represent more than 5% of the total market value of the portfolios. The Investment Committee directs that at no time will less than 10% nor more than 40% of the combined market value of the funds be invested in fixed income securities. Any exceptions are mutually agreed upon by the Fund Manager and the Investment Committee either prior to the event or as soon as practical.

Cash Equivalent, Money Market and Other Holdings

All cash is invested in short term interest bearing securities or other cash equivalent investments. Other than obligations of the United States Government and its Agencies or instrumentalities all such investments in corporate obligations, commonly known as commercial paper, shall both carry an

St. Luke's University Health Network, Inc. and Controlled Entities
Notes to Consolidated Financial Statements
June 30, 2014 and 2013

investment rating by a recognized rating agency of A-1 or P-1. Any exceptions to the above guidelines are mutually agreed upon by the Fund Manager and the Investment Committee either prior to the event or as soon as is practical. The Finance and Investment Committees direct that at no time more than 10% of the combined market value of the funds be invested in cash or cash equivalents.

Other investments not covered in the above guidelines (i.e., real estate), may be purchased and/or held at the request of the Investment Committee with the concurrence of the Investment Manager or at the recommendation of the Investment Manager with the concurrence of the Investment Committee.

Cash Flows

Contributions

The Network expects to contribute \$25,655,328 to its pension plans in the 2015 fiscal year.

Estimated Future Benefit Payments

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

2015	12,881,916
2016	15,113,781
2017	16,301,244
2018	18,055,656
2019	20,913,537
2020-2023	<u>129,920,089</u>
Total	<u>\$ 213,186,223</u>

The following table presents the Plan's financial instruments as of June 30, 2014, measured at fair value on a recurring basis using the fair value hierarchy defined in note 7:

	Quoted Prices in Active Markets (Level 1)	Total Fair Value
June 30, 2014		
Investments		
Money Market Funds	\$ 1,285,319	\$ 1,285,319
Government Securities	130,707,933	130,707,933
Common & Preferred Stock	<u>304,664,067</u>	<u>304,664,067</u>
Total Investments	<u>\$ 436,657,319</u>	<u>\$ 436,657,319</u>

St. Luke's University Health Network, Inc. and Controlled Entities

Notes to Consolidated Financial Statements

June 30, 2014 and 2013

16. Insurance Coverage

Effective December 13, 2001, the Parent, established St. Luke's Health Network Insurance Company; a wholly-owned captive insurance company licensed by the State of Vermont providing claims-made coverage for professional and general liability coverages for the Network. St. Luke's converted its fronted captive to a risk retention group ("RRG") effective July 1, 2003. On January 1, 2005, the RRG was converted from a nonprofit risk retention group to a reciprocal risk retention group. As a reciprocal risk retention group, the St. Luke's Health Network Insurance Company is also permitted to provide primary medical professional liability coverage on an occurrence basis to independent physicians and physician's practices. Under this structure, each insured is a subscriber of the St. Luke's Health Network Insurance Company, a Reciprocal Risk Retention Group ("SLHNIC"). Only subscribers of the St. Luke's University Health Network will be issued Class A subscriber units. Class A Subscribers of SLHNIC maintain control over SLHNIC. At June 30, 2014 and June 30, 2013, the Network was covered through the SLHNIC by a Hospital Professional Liability policy, with primary limits of \$500,000 for each medical incident and \$2,500,000 in the aggregate and with Physicians Professional Liability coverage with primary limits of \$500,000 for each occurrence, and \$1,500,000 in the aggregate. SLHNIC also provides institutional subscribers with excess layer professional liability coverage on a claims-made basis. This coverage is provided for losses limited to \$4 million for each medical incident in excess of \$1 million with an annual aggregate of \$4 million. The reserve for malpractice claims maintained at June 30, 2014 and 2013 was approximately \$39,990,875 and \$38,815,770, and was estimated using a discount rate of 4.25% and 4.25%, respectively. The discount for Class A and Class B subscribers was \$5,680,795 and \$5,095,480 for June 30, 2014 and 2013, respectively.

St. Luke's University Health Network has recorded a receivable as of June 30, 2014 of \$13,104,347 for expected insurance indemnifications and a related liability for the accrued claims in the individual financial statements of the hospitals. As of June 30, 2013, St. Luke's University Health Network recorded a receivable and related liability of \$10,404,252.

The Network participates in the Medical Care Availability and Reduction of Error ("Mcare") Fund, which is a Pennsylvania governmentally authorized entity that for fiscal year 2014 covers claims above \$500,000 per medical incident up to \$1,500,000 aggregate per hospital/insured physician subject to Mcare Fund coverage, as applicable. The assessment for the Mcare Fund payable by the Network is based on the schedule of occurrence rates approved by the Insurance Commissioner of Pennsylvania for the Pennsylvania Professional Liability Joint Underwriting Association ("JUA") multiplied by the annual assessment percentage. The Network recognizes its assessment as expense in the period incurred.

The Network maintains accrued insurance reserves for its self-insured portion of expected workers' compensation claims of approximately \$7,557,243 and \$6,288,663 for the years ended June 30, 2014 and 2013, respectively. The impact of the discount was \$1,833,058 and \$1,988,434 for the years ended June 30, 2014 and 2013, respectively.

17. Asset Retirement Obligations

In the year ended June 30, 2006, the Network adopted accounting guidance on Accounting for Conditional Asset Retirement Obligations. If a legal obligation to perform an asset retirement obligation exists but performance is conditional upon a future event, and the obligation can be reasonably estimated, then a liability should be recognized. Upon initial application of accounting regulatory guidance, the Network recognized \$3,486,249 of conditional asset retirement obligation included within our liabilities in the consolidated balance sheet. For the year ended June 30, 2014, the Network recognized \$7,805 in accretion and depreciation expense.

St. Luke's University Health Network, Inc. and Controlled Entities
Notes to Consolidated Financial Statements
June 30, 2014 and 2013

18. Subsequent Events

The Network has performed an evaluation of subsequent events through October 31, 2014, which is the date the financial statements were available to be issued. There were no subsequent events with the exception of Board approval to begin construction on an acute care hospital in Monroe County.

St. Luke's University Health Network, Inc. and Controlled Entities
Consolidating Balance Sheet
June 30, 2014

	St. Luke's University Health Network, Inc.	St. Luke's Hospital of Bethlehem, Pennsylvania	St. Luke's Physician Group	St. Luke's Quakertown Hospital	Emergency and Transport Services	Quakertown Rehabilitation Center	Miners Memorial Medical Center	St. Luke's Hospital Anderson Campus	St. Luke's Warren Hospital	New Valley Rehab LLC
Assets										
Current										
Cash and cash equivalents	\$ -	\$ 74,684,261	\$ 38,153	\$ 131,428	\$ 426	\$ -	\$ 80,812	\$ 658,940	\$ 1,755,854	\$ 315,112
Investment in controlled entities	614,060,470	-	-	-	-	-	-	-	-	-
Patient accounts receivable, net	-	122,199,956	11,464,083	15,985,962	949,802	-	10,074,082	28,281,133	10,696,597	136,664
Other accounts receivable	-	6,486,418	699,456	81,617	19,506	-	386,942	2,074,096	2,324,724	35,821
Investments	-	88,030,498	-	24,221	-	-	-	-	75,000	-
Inventories	-	11,196,733	-	790,904	-	-	657,656	1,669,498	1,789,841	-
Prepaid expenses	-	15,834,454	3,137,329	208,346	23,861	-	236,066	390,661	1,110,205	-
Total current assets	614,060,470	318,432,320	15,339,021	17,222,478	993,595	-	11,435,558	33,074,328	17,752,221	487,597
Assets limited as to use										
Funds held by trustee	-	29,970,873	-	-	-	-	-	-	723,712	-
Under bond indenture	-	31,865,328	-	-	-	-	-	-	-	-
Board designated funds	-	278,415,478	-	1,830,342	-	-	-	44,473	-	-
	-	340,251,679	-	1,830,342	-	-	-	44,473	723,712	-
Property and equipment, net	-	337,576,904	27,517,017	19,456,744	565,983	-	18,127,120	158,851,253	64,714,009	548,274
Goodwill, net	-	7,007,524	6,954,392	-	-	-	-	-	13,156,777	7,652,419
Due from affiliates	-	239,055,993	-	-	-	2,958,591	-	-	4,207,955	-
Investments temporarily restricted as to use	-	26,064,700	-	1,055,894	17,749	-	712,516	351,914	909,248	-
Investments permanently restricted as to use	-	27,334,449	-	3,112,468	-	-	10,005	-	357,063	-
Deferred financing costs	-	6,179,727	-	-	-	-	-	-	592,397	-
Annuity contracts	-	15,347,341	-	-	-	-	-	-	-	-
Other assets	-	35,934,592	-	93,571	-	-	1,833,715	371,926	1,432,560	-
Total assets	\$ 614,060,470	\$ 1,353,185,229	\$ 49,810,430	\$ 42,771,497	\$ 1,577,327	\$ 2,958,591	\$ 32,118,914	\$ 192,693,894	\$ 103,845,942	\$ 8,688,290

St. Luke's University Health Network, Inc. and Controlled Entities
Consolidating Balance Sheet
June 30, 2014

Schedule I

	St. Luke's Physician Group NJ	St. Luke's Warren Hospital Foundation	Hillcrest Emergency Services PC	Warren PA Professional Alliance PC	Warren Risk Retention Group, Inc	Hillcrest MSO, Inc	Two Rivers Enterprises Inc	Eliminations	Consolidated Totals
Assets									
Current									
Cash and cash equivalents	\$ 361,124	\$ 822,827	\$ 376,521	\$ -	\$ -	\$ -	\$ 55,717	\$ -	\$ 79,281,175
Investment in controlled entities	-	-	-	-	-	-	-	(614,060,470)	-
Patient accounts receivable, net	512,832	-	763,108	95	-	-	-	-	201,064,314
Other accounts receivable	494,936	13,000	-	105,770	-	-	2,119,781	(2,286,898)	12,555,169
Investments	-	301,807	-	-	-	-	-	-	88,431,526
Inventories	-	-	-	-	-	-	-	-	16,104,632
Prepaid expenses	153,663	-	12,500	210	-	-	-	-	21,107,295
Total current assets	1,522,555	1,137,634	1,152,129	106,075	-	-	2,175,498	(616,347,368)	418,544,111
Assets limited as to use									
Funds held by trustee	-	-	-	-	-	-	-	-	30,694,585
Under bond indenture	-	-	-	-	-	-	-	-	31,865,328
Board designated funds	-	-	-	-	-	-	-	-	280,290,293
	-	-	-	-	-	-	-	-	342,850,206
Property and equipment, net	466,996	-	-	-	-	-	1,563,069	-	629,387,369
Goodwill, net	115,617	-	-	-	-	-	-	-	34,886,729
Due from affiliates	-	-	-	-	-	-	561,679	(246,784,218)	-
Investments temporarily restricted as to use	-	-	-	-	-	-	-	-	29,112,021
Investments permanently restricted as to use	-	-	-	-	-	-	-	-	30,813,985
Deferred financing costs	-	-	-	-	-	-	-	-	6,772,124
Annuity contracts	-	-	-	-	-	-	-	-	15,347,341
Other assets	-	120,062	-	-	-	-	-	2	39,786,428
Total assets	\$ 2,105,168	\$ 1,257,696	\$ 1,152,129	\$ 106,075	\$ -	\$ -	\$ 4,300,246	\$ (863,131,584)	\$ 1,547,500,314

St. Luke's University Health Network, Inc. and Controlled Entities
Consolidating Balance Sheet
June 30, 2014

	St. Luke's University Health Network, Inc.	Hospital of Bethlehem, Pennsylvania	St. Luke's Physician Group	St. Luke's Quakertown Hospital	Emergency and Transport Services	Quakertown Rehabilitation Center	Miners Memorial Medical Center	St. Luke's Hospital Anderson Campus	St. Luke's Warren Hospital	New Valley Rehab LLC
Liabilities and Net Assets										
Current										
Accounts payable	\$ -	\$ 55,322,968	\$ 1,959,439	\$ 450,759	\$ 24,251	\$ -	\$ 460,321	\$ 1,442,449	\$ 909,180	\$ 2,670
Accrued salaries, wages and taxes	-	12,100,249	13,550,247	478,226	-	-	483,495	108,087	1,118,212	201,346
Accrued vacation	-	20,386,522	8,546,284	1,075,320	113,658	-	1,145,928	1,490,914	2,761,819	-
Current portion of self insurance reserves	-	19,305,786	-	-	-	-	-	-	86,130	-
Deferred income	-	4,390,261	-	-	2,801	-	48,081	-	-	-
Advance from third-party payors	-	2,099,500	-	38,400	-	-	260,201	-	-	-
Patient credit balances	-	7,445,736	-	1,415,090	-	-	753,538	1,320,795	-	-
Current portion of long-term debt	-	11,622,417	-	-	-	-	6,142	-	130,346	-
Current portion of pension costs	-	3,273,921	127,394	87,040	106	-	28,524	46,405	247,789	1,674
Accrued interest on long-term debt	-	9,448,580	-	-	-	-	-	-	644,720	-
Other Current Liabilities	-	6,197,726	33,471	100,141	-	-	39,356	47,947	484,493	-
Estimated third-party payor settlements	-	(1,120,395)	-	2,329,193	-	-	2,172,205	959,836	1,090,480	-
Total current liabilities	-	150,473,271	24,216,835	5,974,169	140,816	-	5,397,791	5,416,433	7,473,169	205,690
Due to affiliates	-	-	112,045,308	38,420	5,932,107	-	799,925	149,796,053	-	8,192,898
Long-term debt, net of current portion	-	463,620,846	-	-	-	-	6,030	-	39,291,519	-
Asset retirement obligation	-	3,247,932	-	65,030	-	-	248,249	-	-	-
Accrued compensation payable	-	78,574,099	3,057,460	2,088,966	2,542	-	684,582	1,113,712	5,946,935	40,165
Self insurance reserves	-	39,196,596	-	-	-	-	-	-	174,870	-
Other noncurrent liabilities	-	12,129,098	-	43,885	-	-	32,255	-	1,432,560	-
Sw ap Contracts	-	67,932,360	-	-	-	-	-	-	-	-
Total liabilities	-	815,174,202	139,319,603	8,210,470	6,075,465	-	7,168,832	156,326,198	54,319,053	8,438,753
Net assets										
Unrestricted net assets (liabilities)	544,445,352	511,585,982	(89,509,173)	30,325,914	(4,515,887)	2,958,591	22,426,101	35,643,856	48,260,578	249,537
Less: Amounts due from affiliates	-	(33,682,373)	-	-	-	-	-	-	-	-
Net unrestricted net assets (liabilities)	544,445,352	477,903,609	(89,509,173)	30,325,914	(4,515,887)	2,958,591	22,426,101	35,643,856	48,260,578	249,537
Temporarily restricted net assets	38,801,133	32,772,969	-	1,122,645	17,749	-	2,513,976	723,840	909,248	-
Permanently restricted net assets	30,813,985	27,334,449	-	3,112,468	-	-	10,005	-	357,063	-
Total net assets (liabilities)	614,060,470	538,011,027	(89,509,173)	34,561,027	(4,498,138)	2,958,591	24,950,082	36,367,696	49,526,889	249,537
Total liabilities and net assets	\$ 614,060,470	\$1,353,185,229	\$ 49,810,430	\$ 42,771,497	\$ 1,577,327	\$ 2,958,591	\$ 32,118,914	\$192,693,894	\$103,845,942	\$ 8,688,290

St. Luke's University Health Network, Inc. and Controlled Entities
Consolidating Balance Sheet
June 30, 2014

Schedule I

	St. Luke's Physician Group NJ	St. Luke's Warren Hospital Foundation	Hillcrest Emergency Services PC	Warren PA Professional Alliance PC	Warren Risk Retention Group, Inc	Hillcrest MSO, Inc	Two Rivers Enterprises Inc	Eliminations	Consolidated Totals
Liabilities and Net Assets									
Current									
Accounts payable	\$ 2,465,763		\$ 388,333	\$ 5,741	\$ -	\$ -	\$ -	\$ (2,249,055)	\$ 61,182,819
Accrued salaries, wages and taxes	863,133		543,724						29,446,719
Accrued vacation	-	-	-	-	-	-	-	-	35,520,445
Current portion of self insurance reserves	12,870	-	-	-	-	-	-	-	19,404,786
Deferred income	-	-	-	-	-	-	-	-	4,441,143
Advance from third-party payors	-	-	-	-	-	-	-	-	2,398,101
Patient credit balances	-	-	-	-	-	-	-	-	10,935,159
Current portion of long-term debt	-	-	-	-	-	-	-	-	11,758,905
Current portion of pension costs	-	-	-	-	-	-	-	-	3,812,853
Accrued interest on long-term debt	-	-	-	-	-	-	-	-	10,093,300
Other Current Liabilities	-	-	-	4,614,219	-	-	8,578,962	(5,287,632)	14,808,683
Estimated third-party payor settlements	-	-	-	-	-	-	-	-	5,431,319
Total current liabilities	3,341,766	-	932,057	4,619,960	-	-	8,578,962	(7,536,687)	209,234,232
Due to affiliates	1,943,025	228,386	220,072	1,270,397	-	-	-	(280,466,591)	-
Long-term debt, net of current portion	-	-	-	-	-	-	-	-	502,918,395
Asset retirement obligation	-	-	-	-	-	-	-	-	3,561,211
Accrued compensation payable	-	-	-	-	-	-	-	-	91,508,461
Self insurance reserves	26,130	-	-	-	-	-	-	-	39,397,596
Other noncurrent liabilities	-	-	-	-	-	-	-	-	13,637,798
Sw ap Contracts	-	-	-	-	-	-	-	-	67,932,360
Total liabilities	5,310,921	228,386	1,152,129	5,890,357	-	-	8,578,962	(288,003,278)	928,190,053
Net assets									
Unrestricted net assets (liabilities)	(3,205,753)	288,604	-	(5,784,282)	-	-	(4,278,716)	(538,286,313)	550,604,391
Less: Amounts due from affiliates	-	-	-	-	-	-	-	33,682,373	-
Net unrestricted net assets (liabilities)	(3,205,753)	288,604	-	(5,784,282)	-	-	(4,278,716)	(504,603,940)	550,604,391
Temporarily restricted net assets	-	740,706	-	-	-	-	-	(39,710,381)	37,891,885
Permanently restricted net assets	-	-	-	-	-	-	-	(30,813,985)	30,813,985
Total net assets (liabilities)	(3,205,753)	1,029,310	-	(5,784,282)	-	-	(4,278,716)	(575,128,306)	619,310,261
Total liabilities and net assets	\$ 2,105,168	\$ 1,257,696	\$ 1,152,129	\$ 106,075	\$ -	\$ -	\$ 4,300,246	\$ (863,131,584)	\$ 1,547,500,314

St. Luke's University Health Network, Inc. and Controlled Entities
Consolidating Balance Sheet
June 30, 2013

	St. Luke's University Health Network, Inc.	St. Luke's Hospital of Bethlehem, Pennsylvania	St. Luke's Physician Group	St. Luke's Quakertown Hospital	Emergency and Transport Services	Quakertown Rehabilitation Center	Miners Memorial Medical Center	St. Luke's Hospital Anderson Campus	St. Luke's Warren Hospital	New Valley Rehab LLC
Assets										
Current										
Cash and cash equivalents	\$ -	\$ 64,510,411	\$ 154,242	\$ 136,855	\$ 65	\$ -	\$ 164,364	\$ -	\$ 10,125,087	\$ 417,638
Investment in controlled entities	540,287,854	-	-	-	-	-	-	-	-	-
Patient accounts receivable, net	-	156,343,535	10,202,479	16,236,743	713,963	-	6,887,258	-	10,227,400	144,871
Other accounts receivable	-	4,231,880	23,289	52,270	19,391	-	68,704	-	4,874,987	36,351
Investments	-	64,064,550	-	19,999	-	-	-	-	2,160	-
Inventories	-	14,094,081	-	992,413	-	-	913,691	-	2,020,034	-
Prepaid expenses	-	14,293,341	1,732,733	256,469	34,638	-	210,127	-	1,345,949	-
Total current assets	540,287,854	317,537,798	12,112,743	17,694,749	768,057	-	8,244,144	-	28,595,617	598,860
Assets limited as to use										
Funds held by trustee	-	55,572,729	-	-	-	-	-	-	148,714	-
Under bond indenture	-	35,975,983	-	-	-	-	-	-	-	-
Board designated funds	-	244,267,373	-	1,539,359	-	-	-	-	1,811	-
	-	335,816,085	-	1,539,359	-	-	-	-	150,525	-
Property and equipment, net	-	505,667,489	10,611,143	20,087,865	488,935	-	19,360,110	-	59,670,824	617,089
Goodwill, net	-	6,430,660	4,446,990	-	-	-	-	-	13,156,777	7,654,919
Due from affiliates	-	60,539,245	-	-	-	2,958,591	-	-	-	-
Investments temporarily restricted as to use	-	21,187,241	-	472,050	29,234	-	840,886	-	717,228	-
Investments permanently restricted as to use	-	24,078,246	-	2,998,850	-	-	10,005	-	477,568	-
Deferred financing costs	-	6,357,445	-	-	-	-	-	-	515,125	-
Annuity contracts	-	11,497,695	-	-	-	-	-	-	-	-
Other assets	-	24,817,365	-	209,231	-	-	1,560,063	-	1,700,006	-
Total assets	\$ 540,287,854	\$1,313,929,269	\$ 27,170,876	\$ 43,002,104	\$ 1,286,226	\$ 2,958,591	\$ 30,015,208	\$ -	\$104,983,670	\$ 8,870,868

St. Luke's University Health Network, Inc. and Controlled Entities
Consolidating Balance Sheet
June 30, 2013

Schedule I

	St. Luke's Physician Group NJ	St. Luke's Warren Hospital Foundation	Hillcrest Emergency Services PC	Warren PA Professional Alliance PC	Warren Risk Retention Group, Inc	Hillcrest MSO, Inc	Two Rivers Enterprises Inc	Eliminations	Consolidated Totals
Assets									
Current									
Cash and cash equivalents	\$ 362,688	\$ 502,682	\$ 484,643	\$ 4,648	\$ -	\$ 6,410	\$ 16,242	\$ -	\$ 76,885,975
Investment in controlled entities	-	-	-	-	-	-	-	(540,287,854)	\$ -
Patient accounts receivable, net	637,847	-	1,140,250	95	-	-	-	(2,182,350)	200,352,091
Other accounts receivable	570,486	5,250	-	104,256	-	2,182,351	180,821	(4,427,107)	\$ 7,922,929
Investments	-	253,226	-	-	-	-	-	-	\$ 64,339,935
Inventories	-	-	-	-	-	-	-	-	\$ 18,020,219
Prepaid expenses	65,953	-	-	210	-	-	-	-	\$ 17,939,420
Total current assets	1,636,974	761,158	1,624,893	109,209	-	2,188,761	197,063	(546,897,311)	\$ 385,460,569
Assets limited as to use									
Funds held by trustee	-	-	-	-	-	-	-	-	55,721,443
Under bond indenture	-	-	-	-	-	-	-	-	35,975,983
Board designated funds	-	-	-	-	-	-	-	-	245,808,543
	-	-	-	-	-	-	-	-	337,505,969
Property and equipment, net	247,072	-	-	-	-	9,768	1,621,831	-	618,382,126
Goodwill, net	147,002	-	-	-	-	-	-	-	31,836,348
Due from affiliates	-	-	-	28,523	-	310,431	-	(63,836,790)	-
Investments temporarily restricted as to use	-	-	-	-	-	-	-	-	23,246,639
Investments permanently restricted as to use	-	-	-	-	-	-	-	-	27,564,669
Deferred financing costs	-	-	-	-	-	-	-	-	6,872,570
Annuity contracts	-	-	-	-	-	-	-	-	11,497,695
Other assets	-	-	-	-	-	-	-	-	28,286,665
Total assets	\$ 2,031,048	\$ 761,158	\$ 1,624,893	\$ 137,732	\$ -	\$ 2,508,960	\$ 1,818,894	\$ (610,734,101)	\$ 1,470,653,250

St. Luke's University Health Network, Inc. and Controlled Entities
Consolidating Balance Sheet
June 30, 2013

	St. Luke's University Health Network, Inc.	Hospital of Bethlehem, Pennsylvania	St. Luke's Physician Group	St. Luke's Quakertown Hospital	Emergency and Transport Services	Quakertown Rehabilitation Center	Miners Memorial Medical Center	St. Luke's Hospital Anderson Campus	St. Luke's Warren Hospital	New Valley Rehab LLC
Liabilities and Net Assets										
Current										
Accounts payable	\$ -	\$ 51,135,626	\$ 2,415,894	\$ 701,181	\$ 13,054	\$ -	\$ 625,327	\$ -	\$ 2,272,415	\$ 5,184
Accrued salaries, wages and taxes	-	10,971,975	11,815,520	484,845	-	-	656,423	-	1,374,256	156,169
Accrued vacation	-	22,257,553	4,995,294	1,158,854	103,295	-	1,164,483	-	3,307,003	-
Current portion of self insurance reserves	-	18,749,018	-	-	-	-	-	-	297,856	-
Deferred income	-	3,732,796	-	-	11,859	-	-	-	-	-
Advance from third-party payors	-	2,099,500	-	38,400	-	-	260,201	-	-	-
Patient credit balances	-	14,735,004	-	2,630,430	-	-	946,673	-	-	-
Current portion of long-term debt	-	10,722,569	34,562	-	-	-	5,756	-	180,547	-
Current portion of pension costs	-	2,960,737	219,986	101,648	83	-	27,261	-	444,601	1,515
Accrued interest on long-term debt	-	8,506,947	-	-	-	-	-	-	118,513	-
Other Current Liabilities	-	1,559,272	33,471	82,012	-	-	41,963	-	349,902	-
Estimated third-party payor settlements	-	6,464,524	-	2,354,223	-	-	1,919,397	-	2,281,779	-
Total current liabilities	-	153,895,521	19,514,727	7,551,593	128,291	-	5,647,484	-	10,626,872	162,868
Due to affiliates	-	-	75,108,084	2,955,000	5,273,950	-	2,792,054	-	1,530,649	8,491,290
Long-term debt, net of current portion	-	470,354,224	-	-	-	-	12,203	-	39,471,581	-
Asset retirement obligation	-	3,247,932	-	65,030	-	-	247,524	-	-	-
Accrued compensation payable	-	71,057,695	5,279,691	2,439,547	1,980	-	654,256	-	10,670,421	36,357
Self insurance reserves	-	38,066,188	-	-	-	-	-	-	604,739	-
Other noncurrent liabilities	-	9,207,872	-	45,107	-	-	34,238	-	1,700,006	-
Sw ap Contracts	-	66,942,036	-	-	-	-	-	-	-	-
Total liabilities	-	812,771,468	99,902,502	13,056,277	5,404,221	-	9,387,759	-	64,604,268	8,690,515
Net assets										
Unrestricted net assets (liabilities)	477,017,241	479,741,940	(72,731,626)	26,374,339	(4,147,229)	2,958,591	18,250,733	-	39,184,606	180,353
Less: Amounts due from affiliates	-	(33,682,373)	-	-	-	-	-	-	-	-
Net unrestricted net assets (liabilities)	477,017,241	446,059,567	(72,731,626)	26,374,339	(4,147,229)	2,958,591	18,250,733	-	39,184,606	180,353
Temporarily restricted net assets	35,705,944	31,019,987	-	572,639	29,234	-	2,366,711	-	717,228	-
Permanently restricted net assets	27,564,669	24,078,247	-	2,998,849	-	-	10,005	-	477,568	-
Total net assets (liabilities)	540,287,854	501,157,801	(72,731,626)	29,945,827	(4,117,995)	2,958,591	20,627,449	-	40,379,402	180,353
Total liabilities and net assets	\$ 540,287,854	\$1,313,929,269	\$ 27,170,876	\$ 43,002,104	\$ 1,286,226	\$ 2,958,591	\$ 30,015,208	\$ -	\$104,983,670	\$ 8,870,868

St. Luke's University Health Network, Inc. and Controlled Entities
Consolidating Balance Sheet
June 30, 2013

Schedule I

	St. Luke's Physician Group NJ	St. Luke's Warren Hospital Foundation	Hillcrest Emergency Services PC	Warren PA Professional Alliance PC	Warren Risk Retention Group, Inc	Hillcrest MSO, Inc	Two Rivers Enterprises Inc	Eliminations	Consolidated Totals
Liabilities and Net Assets									
Current									
Accounts payable	\$ 2,400,807	\$ -	\$ 272,333	\$ 5,742	\$ -	\$ 156,775	\$ -	\$ (2,182,350)	\$ 57,821,988
Accrued salaries, wages and taxes	452,119	-	1,099,142	-	-	-	-	-	27,010,449
Accrued vacation	82,273	-	-	-	-	-	-	-	33,068,755
Current portion of self insurance reserves	12,870	-	-	-	-	-	-	-	19,059,744
Deferred income	-	-	-	-	-	-	-	-	3,744,655
Advance from third-party payors	-	-	-	-	-	-	-	-	2,398,101
Patient credit balances	-	-	-	-	-	-	-	-	18,312,107
Current portion of long-term debt	-	-	-	-	-	-	-	-	10,943,434
Current portion of pension costs	-	-	-	-	-	-	-	-	3,755,831
Accrued interest on long-term debt	-	-	-	-	-	-	-	-	8,625,460
Other Current Liabilities	-	1,169	-	5,749,498	-	2,045,247	7,548,082	(11,834,036)	5,576,580
Estimated third-party payor settlements	-	-	-	-	-	-	-	-	13,019,923
Total current liabilities	2,948,069	1,169	1,371,475	5,755,240	-	2,202,022	7,548,082	(14,016,386)	203,337,027
Due to affiliates	1,071,958	42,761	253,418	-	-	-	-	(97,519,164)	-
Long-term debt, net of current portion	-	-	-	-	-	-	-	-	509,838,008
Asset retirement obligation	-	-	-	-	-	-	-	-	3,560,486
Accrued compensation payable	-	-	-	-	-	-	-	-	90,139,947
Self insurance reserves	26,130	-	-	-	-	-	-	-	38,697,057
Other noncurrent liabilities	-	-	-	-	-	-	-	1	10,987,224
Sw ap Contracts	-	-	-	-	-	-	-	-	66,942,036
Total liabilities	4,046,157	43,930	1,624,893	5,755,240	-	2,202,022	7,548,082	(111,535,549)	923,501,785
Net assets									
Unrestricted net assets (liabilities)	(2,015,109)	260,401	-	(5,617,508)	-	306,938	(5,729,188)	(468,893,084)	485,141,398
Less: Amounts due from affiliates	-	-	-	-	-	-	-	33,682,373	-
Net unrestricted net assets (liabilities)	(2,015,109)	260,401	-	(5,617,508)	-	306,938	(5,729,188)	(435,210,711)	485,141,398
Temporarily restricted net assets	-	456,827	-	-	-	-	-	(36,423,172)	34,445,398
Permanently restricted net assets	-	-	-	-	-	-	-	(27,564,669)	27,564,669
Total net assets (liabilities)	(2,015,109)	717,228	-	(5,617,508)	-	306,938	(5,729,188)	(499,198,552)	547,151,465
Total liabilities and net assets	\$ 2,031,048	\$ 761,158	\$ 1,624,893	\$ 137,732	\$ -	\$ 2,508,960	\$ 1,818,894	\$ (610,734,101)	\$ 1,470,653,250

St. Luke's University Health Network, Inc. and Controlled Entities
Consolidating Statement of Operations
Year Ended June 30, 2014

	St. Luke's University Health Network, Inc.	St. Luke's Hospital of Bethlehem, Pennsylvania	St. Luke's Physician Group	St. Luke's Quakertown Hospital	Emergency and Transport Services	Quakertown Rehabilitation Center	Miners Memorial Medical Center	St. Luke's Hospital Anderson Campus	St. Luke's Warren Hospital	New Valley Rehab LLC
Patient service revenue (net of contractual allowances and discounts)	\$ -	\$ 657,665,628	\$ 164,030,013	\$ 64,693,934	\$ 3,404,032	\$ -	\$ 52,922,484	\$ 152,198,666	\$ 123,385,322	\$ 457,228
Provision for bad debts	-	(56,147,587)	(22,390,158)	(8,341,444)	(293,648)	-	(4,669,376)	(11,675,488)	(16,862,455)	-
Net patient service revenue less provision for bad debts	-	601,518,041	141,639,855	56,352,490	3,110,384	-	48,253,108	140,523,178	106,522,867	457,228
Other operating revenue and gains	-	21,905,165	3,996,026	2,840,734	103,794	-	1,959,175	2,321,711	1,611,324	174
Net assets released from restrictions used for operations	-	2,116,456	38,263	77,166	12,086	-	60,156	91,731	76,994	-
Equity in net income from controlled entities	67,428,111	-	-	-	-	-	-	-	-	-
Total revenue	67,428,111	625,539,662	145,674,144	59,270,390	3,226,264	-	50,272,439	142,936,620	108,211,185	457,402
Operating expenses										
Salaries and employee benefits	-	295,915,154	173,913,516	28,728,302	2,754,942	-	25,138,263	43,630,374	52,052,918	227,792
Supplies and other	-	225,641,539	42,247,341	21,954,720	642,999	-	15,033,771	44,283,819	37,649,294	89,111
Depreciation and amortization	-	37,143,426	3,969,149	3,789,751	189,174	-	3,058,241	18,138,971	6,924,015	72,449
Interest	-	16,839,342	6,331	326,405	2,276	-	124,417	5,502,085	1,755,535	-
Total expenses	-	575,539,461	220,136,337	54,799,178	3,589,391	-	43,354,692	111,555,249	98,381,762	389,352
Income (loss) from operations	67,428,111	50,000,201	(74,462,193)	4,471,212	(363,127)	-	6,917,747	31,381,371	9,829,423	68,050
Nonoperating gains (losses)										
Support of Physician Practices	-	(45,566,315)	61,004,863	(2,585,722)	-	-	(2,428,693)	(10,424,133)	-	-
Unrestricted investment income from assets limited as to use	-	6,928,755	-	41,908	-	-	-	-	377	-
Realized gain (loss) on unrestricted investment	-	1,968,691	-	464	-	-	-	-	-	-
Unrestricted gifts, grants and bequests	-	104,171	-	10,272	7,177	-	2,085	(78,092)	66,708	-
Unrestricted investment income from restricted net assets	-	271,554	-	(4,653)	-	-	(3,842)	-	-	-
Income from equity method investments	-	15,112,969	-	2,558,810	-	-	-	(515)	(22,864)	-
Gain (loss) on disposal of property and equipment	-	2,086,859	(40,236)	7,348	(11,771)	-	(256,261)	46,949	169,860	1,134
Restructuring Costs	-	(99,968)	(2,125,000)	(35,054)	-	-	(1,223)	(12,160)	(43,801)	-
Pre-Acquisition/Merger Costs	-	-	-	-	-	-	-	-	-	-
Donations to Other Organizations	-	(556,976)	-	(29,830)	-	-	(17,500)	(2,479)	-	-
Unrealized gain (loss) on derivative	-	1,888,763	-	-	-	-	-	-	-	-
Goodwill Impairment	-	-	(15,031)	-	-	-	-	-	-	-
Gain on Retirement/Purchase of Bonds	-	-	-	-	-	-	-	-	-	-
Nonoperating gains	-	(17,861,497)	58,824,596	(36,457)	(4,594)	-	(2,705,434)	(10,470,430)	170,280	1,134
Excess (deficiency) of revenue and gains in excess of expenses	67,428,111	32,138,704	(15,637,597)	4,434,755	(367,721)	-	4,212,313	20,910,941	9,999,703	69,184
Net assets released from restrictions used for purchase of property and equipment	-	8,735,137	-	32,987	-	-	216,089	300,589	37,200	-
Contribution of building	-	-	-	-	-	-	-	-	-	-
Other Changes in Unrestricted Assets	-	-	-	-	-	-	-	(2,224,120)	-	-
Net Asset Transfer To/From Affiliate	-	(15,069,060)	-	-	-	-	-	17,069,060	-	-
Net assets released to Specific Purpose Fund	-	-	-	-	-	-	-	-	-	-
Change in additional pension liability	-	(22,592,401)	(1,139,950)	(773,904)	(937)	-	(253,034)	(412,614)	1,551,603	-
Warren Physician Practice Support	-	-	-	-	-	-	-	-	(2,512,762)	-
Change in fair market value of total return SWAP	-	(2,879,088)	-	-	-	-	-	-	-	-
Net unrealized gains on investments	-	31,530,062	-	257,737	-	-	-	-	228	-
Extraordinary Gains/(Losses)	-	(19,312)	-	-	-	-	-	-	-	-
	67,428,111	31,844,042	(16,777,547)	3,951,575	(368,658)	-	4,175,368	35,643,856	9,075,972	69,184
Increase (decrease) in unrestricted net assets	\$ 67,428,111	\$ 31,844,042	\$ (16,777,547)	\$ 3,951,575	\$ (368,658)	\$ -	\$ 4,175,368	\$ 35,643,856	\$ 9,075,972	\$ 69,184

St. Luke's University Health Network, Inc. and Controlled Entities
Consolidating Statement of Operations
Year Ended June 30, 2014

Schedule II

	St. Luke's Physician Group NJ	St. Luke's Warren Hospital Foundation	Hillcrest Emergency Services PC	Warren PA Professional Alliance PC	Warren Risk Retention Group, Inc	Hillcrest MSO, Inc	Two Rivers Enterprises Inc	Eliminations	Consolidated Totals
Patient service revenue (net of contractual allowances and discounts)	\$ 9,038,725	\$ -	\$ 8,302,396	\$ -	\$ -	\$ -	\$ -	\$ (615,333)	\$ 1,235,483,095
Provision for bad debts	(456,042)	-	(2,545,865)	-	-	-	-	-	(123,382,063)
Net patient service revenue less provision for bad debts	8,582,683	-	5,756,531	-	-	-	-	(615,333)	1,112,101,032
Other operating revenue and gains	8,041	355,628	-	5,012	-	-	1,391,265	(1,391,267)	35,106,782
Net assets released from restrictions used for operations	-	-	-	-	-	-	-	-	2,472,852
Equity in net income from controlled entities	-	-	-	-	-	-	-	(67,428,111)	-
Total revenue	8,590,724	355,628	5,756,531	5,012	-	-	1,391,265	(69,434,711)	1,149,680,666
Operating expenses									
Salaries and employee benefits	7,690,353	74,390	3,716,711	-	-	-	-	1	633,842,716
Supplies and other	4,616,496	139,181	2,039,820	171,786	-	-	(73,554)	(2,006,602)	392,429,721
Depreciation and amortization	225,261	-	-	-	-	-	59,103	-	73,569,540
Interest	-	-	-	-	-	-	-	1	24,556,392
Total expenses	12,532,110	213,571	5,756,531	171,786	-	-	(14,451)	(2,006,600)	1,124,398,369
Income (loss) from operations	(3,941,386)	142,057	-	(166,774)	-	-	1,405,716	(67,428,111)	25,282,297
Nonoperating gains (losses)									
Support of Physician Practices	-	-	-	-	-	-	-	-	-
Unrestricted investment income from assets limited as to use	-	-	-	-	-	-	-	-	6,971,040
Realized gain (loss) on unrestricted investment	-	-	-	-	-	-	-	-	1,969,155
Unrestricted gifts, grants and bequests	-	-	-	-	-	-	-	-	112,321
Unrestricted investment income from restricted net assets	-	-	-	-	-	-	-	-	263,059
Income from equity method investments	-	5,997	-	-	-	-	-	22,862	17,677,259
Gain (loss) on disposal of property and equipment	-	-	-	-	-	-	(12,182)	-	1,991,700
Restructuring Costs	-	-	-	-	-	-	-	-	(2,317,206)
Pre-Acquisition/Merger Costs	-	-	-	-	-	-	-	-	-
Donations to Other Organizations	-	-	-	-	-	-	-	-	(606,785)
Unrealized gain (loss) on derivative	-	-	-	-	-	-	-	-	1,888,763
Goodwill Impairment	-	-	-	-	-	-	-	-	(15,031)
Gain on Retirement/Purchase of Bonds	-	-	-	-	-	-	-	-	-
Nonoperating gains	-	5,997	-	-	-	-	(12,182)	22,862	27,934,275
Excess (deficiency) of revenue and gains in excess of expenses	(3,941,386)	148,054	-	(166,774)	-	-	1,393,534	(67,405,249)	53,216,572
Net assets released from restrictions used for purchase of property and equipment	-	-	-	-	-	-	-	-	9,322,002
Contribution of building	-	-	-	-	-	-	-	-	-
Other Changes in Unrestricted Assets	-	-	-	-	-	-	-	-	(2,224,120)
Net Asset Transfer To/From Affiliate	-	-	-	-	-	(306,938)	306,938	(2,000,000)	-
Net assets released to Specific Purpose Fund	-	(163,817)	-	-	-	-	-	-	(163,817)
Change in additional pension liability	-	-	-	-	-	-	-	-	(23,621,237)
Warren Physician Practice Support	2,750,742	-	-	-	-	-	(250,000)	12,020	-
Change in fair market value of total return SWAP	-	-	-	-	-	-	-	-	(2,879,088)
Net unrealized gains on investments	-	43,966	-	-	-	-	-	-	31,831,993
Extraordinary Gains/(Losses)	-	-	-	-	-	-	-	-	(19,312)
	(1,190,644)	28,203	-	(166,774)	-	(306,938)	1,450,472	(69,393,229)	65,462,993
Increase (decrease) in unrestricted net assets	\$ (1,190,644)	\$ 28,203	\$ -	\$ (166,774)	\$ -	\$ (306,938)	\$ 1,450,472	\$ (69,393,229)	\$ 65,462,993

St. Luke's University Health Network, Inc. and Controlled Entities
Consolidating Statement of Operations
Year Ended June 30, 2013

	St. Luke's University Health Network, Inc.	St. Luke's Hospital of Bethlehem, Pennsylvania	St. Luke's Physician Group	St. Luke's Quakertown Hospital	Emergency and Transport Services	Quakertown Rehabilitation Center	Miners Memorial Medical Center	St. Luke's Hospital Anderson Campus	St. Luke's Warren Hospital	New Valley Rehab LLC
Patient service revenue (net of contractual allowances and discounts)	\$ -	\$ 771,700,946	\$ 142,205,349	\$ 67,377,394	\$ 3,280,335	\$ -	\$ 49,146,627	\$ -	\$ 133,519,761	\$ 423,641
Provision for bad debts	-	(48,043,398)	(17,826,746)	(7,213,952)	(338,648)	-	(4,214,025)	-	(20,374,048)	-
Net patient service revenue less provision for bad debts	-	723,657,548	124,378,603	60,163,442	2,941,687	-	44,932,602	-	113,145,713	423,641
Other operating revenue and gains	-	27,079,462	2,655,711	2,810,471	103,233	-	2,284,317	-	1,912,035	1,268
Net assets released from restrictions used for operations	-	1,199,254	177,008	33,742	5,903	-	23,095	-	-	-
Equity in net income from controlled entities	153,712,718	-	-	-	-	-	-	-	-	-
Total revenue	153,712,718	751,936,264	127,211,322	63,007,655	3,050,823	-	47,240,014	-	115,057,748	424,909
Operating expenses										
Salaries and employee benefits	-	339,945,267	148,763,585	29,914,641	2,655,474	-	24,753,601	-	59,533,793	149,245
Supplies and other	-	265,930,842	37,078,028	22,347,068	624,563	-	13,911,067	-	41,184,969	68,925
Depreciation and amortization	-	51,952,121	2,300,876	3,830,826	165,149	-	2,719,853	-	5,620,631	93,597
Interest	-	20,458,554	12,090	120,168	3,001	-	4,475	-	2,675,747	1,917
Total expenses	-	678,286,784	188,154,579	56,212,703	3,448,187	-	41,388,996	-	109,015,140	313,684
Income (loss) from operations	153,712,718	73,649,480	(60,943,257)	6,794,952	(397,364)	-	5,851,018	-	6,042,608	111,225
Nonoperating gains (losses)										
Support of Physician Practices	-	(47,221,716)	51,019,438	(2,342,608)	-	-	(1,455,113)	-	-	-
Unrestricted investment income from assets limited as to use	-	7,345,118	-	44,281	-	-	-	-	-	-
Realized gain (loss) on unrestricted investment	-	1,104,097	-	1,313	-	-	-	-	-	-
Unrestricted gifts, grants and bequests	-	188,596	-	12,973	8,160	-	4,030	-	300	-
Unrestricted investment income from restricted net assets	-	257,854	-	(4,606)	-	-	(3,755)	-	-	-
Unrestricted investment (loss) income	-	2,265,655	-	-	-	-	-	-	286,973	-
Gain (loss) on disposal of property and equipment	-	(776,749)	1,750	-	-	-	715,435	-	21,612	(384)
Restructuring Costs	-	(595,585)	(304,947)	(37,530)	(725)	-	(30,270)	-	(18,925)	-
Pre-Acquisition/Merger Costs	-	(138)	-	-	-	-	-	-	-	-
Donations to Other Organizations	-	(481,834)	-	(16,800)	-	-	(200)	-	-	-
Unrealized gain (loss) on derivative	-	2,006,392	-	-	-	-	-	-	-	-
Goodwill Impairment	-	-	(547,850)	-	-	-	-	-	-	-
Gain on Retirement/Purchase of Bonds	-	-	-	-	-	-	-	-	1,088,875	-
Nonoperating gains	-	(35,908,310)	50,168,391	(2,342,977)	7,435	-	(769,873)	-	1,378,835	(384)
Excess (deficiency) of revenue and gains in excess of expenses	153,712,718	37,741,170	(10,774,866)	4,451,975	(389,929)	-	5,081,145	-	7,421,443	110,841
Net assets released from restrictions used for purchase of property and equipment	-	1,698,753	-	27,067	8,720	-	37,827	-	26,784	-
Contribution of building	-	722,300	-	-	-	-	-	-	-	-
Other Changes in Unrestricted Assets	-	-	-	-	-	-	-	-	(886,251)	-
Net Asset Transfer To/From Affiliate	-	(4,347,117)	-	-	-	-	-	-	5,609,720	-
Net assets released to Specific Purpose Fund	-	-	-	-	-	-	-	-	-	-
Change in additional pension liability	-	48,612,754	9,814,807	3,233,899	396	-	517,492	-	10,113,670	-
Warren Physician Practice Support	-	-	-	-	-	-	-	-	(2,277,407)	-
Change in fair market value of total return SWAP	-	26,862,226	-	-	-	-	-	-	-	-
Pocono MRI Beginning unrestricted net assets	-	293,351	-	-	-	-	-	-	-	-
Net unrealized gains on investments	-	15,887,681	-	138,944	-	-	-	-	3,098	-
Extraordinary Gains/(Losses)	-	(2,661,253)	-	-	-	-	-	-	-	-
	153,712,718	124,809,865	(960,059)	7,851,885	(380,813)	-	5,636,464	-	20,011,057	110,841
Increase (decrease) in unrestricted net assets	\$ 153,712,718	\$ 124,809,865	\$ (960,059)	\$ 7,851,885	\$ (380,813)	\$ -	\$ 5,636,464	\$ -	\$ 20,011,057	\$ 110,841

St. Luke's University Health Network, Inc. and Controlled Entities
Consolidating Statement of Operations
Year Ended June 30, 2013

Schedule II

	St. Luke's Physician Group NJ	St. Luke's Warren Hospital Foundation	Hillcrest Emergency Services PC	Warren PA Professional Alliance PC	Warren Risk Retention Group, Inc	Hillcrest MSO, Inc	Two Rivers Enterprises Inc	Eliminations	Consolidated Totals
Patient service revenue (net of contractual allowances and discounts)	\$ 7,206,824	\$ -	\$ 9,183,437	\$ -	\$ -	\$ -	\$ -	\$ (801,900)	\$ 1,183,242,414
Provision for bad debts	(199,390)	-	(2,462,504)	(700)	-	-	-	-	(100,673,411)
Net patient service revenue less provision for bad debts	7,007,434	-	6,720,933	(700)	-	-	-	(801,900)	1,082,569,003
Other operating revenue and gains	13,289	287,196	-	4,362	426,972	2,083,296	65,029	(1,685,455)	38,041,186
Net assets released from restrictions used for operations	-	-	-	-	-	-	-	-	1,439,002
Equity in net income from controlled entities	-	-	-	-	-	-	-	(153,712,718)	-
Total revenue	7,020,723	287,196	6,720,933	3,662	426,972	2,083,296	65,029	(156,200,073)	1,122,049,191
Operating expenses									
Salaries and employee benefits	6,278,084	37,809	3,880,905	-	-	908,574	-	-	616,820,978
Supplies and other	3,313,070	104,496	2,840,028	172,640	1,017,704	369,732	165,995	(2,457,020)	386,672,107
Depreciation and amortization	113,099	-	-	7,573	-	10,805	35,622	-	66,850,152
Interest	-	-	-	60,316	-	-	29,953	-	23,366,221
Total expenses	9,704,253	142,305	6,720,933	240,529	1,017,704	1,289,111	231,570	(2,457,020)	1,093,709,458
Income (loss) from operations	(2,683,530)	144,891	-	(236,867)	(590,732)	794,185	(166,541)	(153,743,053)	28,339,733
Nonoperating gains (losses)									
Support of Physician Practices	-	-	-	-	-	-	-	(1)	-
Unrestricted investment income from assets limited as to use	-	-	-	-	-	-	-	-	7,389,399
Realized gain (loss) on unrestricted investment	-	-	-	-	-	-	-	-	1,105,410
Unrestricted gifts, grants and bequests	-	-	-	-	-	-	-	-	214,059
Unrestricted investment income from restricted net assets	-	-	-	-	-	-	-	-	249,493
Unrestricted investment (loss) income	-	5,126	-	-	25,402	-	-	631,282	3,214,438
Gain (loss) on disposal of property and equipment	-	-	-	-	-	-	-	-	(38,336)
Restructuring Costs	-	-	-	-	13,014	-	-	-	(974,968)
Pre-Acquisition/Merger Costs	-	-	-	-	-	-	-	-	(138)
Donations to Other Organizations	-	-	-	-	-	-	-	-	(498,834)
Unrealized gain (loss) on derivative	-	-	-	-	-	-	-	-	2,006,392
Goodwill Impairment	-	-	-	-	-	-	-	-	(547,850)
Gain on Retirement/Purchase of Bonds	-	-	-	-	-	-	-	-	1,088,875
Nonoperating gains	-	5,126	-	-	38,416	-	-	631,281	13,207,940
Excess (deficiency) of revenue and gains in excess of expenses	(2,683,530)	150,017	-	(236,867)	(552,316)	794,185	(166,541)	(153,111,772)	41,547,673
Net assets released from restrictions used for purchase of property and equipment	-	-	-	-	-	-	-	-	1,799,151
Contribution of building	-	-	-	-	-	-	-	-	722,300
Other Changes in Unrestricted Assets	-	-	-	-	-	-	-	-	(886,251)
Net Asset Transfer To/From Affiliate	-	-	-	-	(3,262,603)	-	-	2,000,000	-
Net assets released to Specific Purpose Fund	-	(89,873)	-	-	-	-	-	-	(89,873)
Change in additional pension liability	-	-	-	-	-	-	-	-	72,293,018
Warren Physician Practice Support	2,489,120	-	-	240,000	-	(83,554)	-	(368,159)	-
Change in fair market value of total return SWAP	-	-	-	-	-	-	-	-	26,862,226
Pocono MRI Beginning unrestricted net assets	-	-	-	-	-	-	-	-	293,351
Net unrealized gains on investments	-	23,894	-	-	11,546	-	-	-	16,065,163
Extraordinary Gains/(Losses)	-	-	-	-	-	-	-	-	(2,661,253)
	(194,410)	84,038	-	3,133	(3,803,373)	710,631	(166,541)	(151,479,931)	155,945,505
Increase (decrease) in unrestricted net assets	\$ (194,410)	\$ 84,038	\$ -	\$ 3,133	\$ (3,803,373)	\$ 710,631	\$ (166,541)	\$ (151,479,931)	\$ 155,945,505

Schedule of Expenditures of Federal Awards

St. Luke's University Health Network, Inc. and Controlled Entities

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2014

Federal Grantor/Pass-through Grantor Program or Cluster Title	Pass-Through Entity Identification Number	Federal CFDA Number	Federal Expenditures
Student Financial Assistance - Cluster			
United States Department of Education			
Federal Pell Grant Program		84.063	\$ 379,040
Federal Direct Loan Program		84.268	878,825
Total Student Financial Assistance Cluster			<u>1,257,865</u>
Research and Development - Cluster			
United States Department of Health and Human Services			
National Institutes of Health (NIH)			
Pass-Through Programs			
American College of Radiology - Radiation Therapy Oncology Group (RTOG)	U10CA021661	93.394	15,650
Frontier Science & Technology Research Foundation, Inc. - Eastern Cooperative Oncology Group (ECOG)	U10CA021115	93.395	9,525
John Wayne Cancer Institute - Multicenter Selective Lymphadenectomy Trial-II (MSLT-II)	P01CA029605	93.395	2,625
Subtotal: CFDA 93.395			<u>12,150</u>
Frontier Science & Technology Research Foundation, Inc. - Eastern Cooperative Oncology Group (ECOG)	U10CA037403	93.399	1,000
Brigham & Women's Hospital - Pre-Determine: Biologic Markers and MRI SCD Cohort Study	5R01HL091069	93.837	1,800
Brigham & Women's Hospital - Cardiovascular Inflammation Reduction Trial (CIRT)	5U01HL101422	93.837	100
New York University School of Medicine - International Study of Comparative Health Effectiveness with Medical and Invasive Approaches (ISCHEMIA)	U01HL105907	93.837	4,590
Subtotal: CFDA 93.837			<u>6,490</u>
Temple University - COPD Clinical Research Network & Clinical Research Skills Core Development (STATCOPE)	U10HL074424	93.838	6,000
Washington University - Acute Venous Thrombosis (ATTRACT)	U01HL088476	93.839	6,250
Duke University - BRIDGE Trial	U01HL087229	93.839	11,250
Subtotal: CFDA 93.839			<u>17,500</u>
University of Pennsylvania - ProTECT III - Trauma	1U0NS062778-01	93.853	126,251
Massachusetts General Hospital - Neuroscience - 2CARE	U01NS052592-07	93.853	13,035
Subtotal: CFDA 93.853			<u>139,286</u>
Total National Institutes of Health (NIH)			<u>198,076</u>
National Science Foundation (NSF)			
Pass-Through Programs			
Princeton University - MIRTHE	EEC-0540832	47.041	83,333
Total National Science Foundation (NSF)			<u>83,333</u>
Total Research and Development Cluster			<u>281,409</u>
CCDF Cluster			
Administration for Children and Families (ACF)			
Pass-Through Programs			
PA - DPW (Office of Child Development & Early Learning) - Administration for Children and Families (ACF) - CC & DBG	4100045180	93.575	964,943
Total CCDF Cluster			<u>964,943</u>
TANF Cluster			
Administration for Children and Families (ACF)			
Pass-Through Programs			
Lehigh County - Administration for Children and Families (ACF) - TANF	#13-CY-232	93.558	62,421
Northampton County - Administration for Children and Families (ACF) - TANF	#13-467	93.558	135,574
Total TANF Cluster			<u>197,995</u>
Other Programs			
Department of Health and Human Services Office of the Secretary			
Pass-Through Programs			
PA DOH - ARRA/HITECH	81CSS06	93.719	864,421
Total Department of Health and Human Services			<u>864,421</u>
Health Resources and Services Administration (HRSA)			
Pass-Through Programs			
PA DOH - Health Resources and Services Administration (HRSA) National Bioterrorism Hospital Preparedness Program	4100051124, 4100062715, 4100062713, 4100051027, 4100062590, 4100062714	93.889	165,911
NJDHSS - Health Resources and Services Administration (HRSA) National Bioterrorism Hospital Preparedness Program	PHLP13FUL011	93.889	10,576
Total Pass-Through Health Resources and Services Administration (HRSA)			<u>176,487</u>
Direct Programs			
Ryan White Part C Outpatient EIS Program	H76HA26804	93.918	68,644
Total Direct Health Resources and Services Administration (HRSA)			<u>68,644</u>
Total Other Programs			<u>1,109,552</u>
Total Expenditures of Federal Awards			<u>\$ 3,811,764</u>

St. Luke’s University Health Network, Inc. and Controlled Entities
Notes to Schedule of Expenditures of Federal Awards
June 30, 2014

1. Organization

St. Luke’s University Health Network, Inc. (“Network”) is inclusive of St. Luke’s University Health Network, Inc. (“Parent”) and controlled entities as described within Footnote 1 of the footnotes to the Consolidated Financial Statements. The Network is a not-for-profit tax-exempt corporation which controls four acute care hospitals, an organization of physician practices and several other healthcare related organizations serving Bethlehem, Pennsylvania and surrounding communities. The St. Luke’s Hospital School of Nursing of Bethlehem, Pennsylvania (“School”) at St. Luke’s Hospital of Bethlehem, Pennsylvania (“Hospital”) is a controlled entity of the Parent. The School provides a program of classroom and clinical preparation for the nursing profession.

The Student Financial Assistance expenditures are solely for the benefit of the School. The Research and Development expenditures are for the benefit of the acute care hospitals and the Other Programs expenditures benefit the acute care hospitals and other entities across the Network.

2. Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards (the “Schedule”) includes the federal grant activity of the Network and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. For purposes of the Schedule, Federal Awards include all Federal assistance entered into directly between the Network and the Federal government and sub-awards from non-Federal organizations made under federally sponsored agreements. Because the Schedule presents only a selected portion of the activities of the Network, it is not intended to and does not present the financial position or the revenues, expenses or changes in net assets of the Network. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

3. Federal Direct Loan Program

During the fiscal year ended June 30, 2014, the Network processed the following amount of new loans under the Federal Direct Loan Program (which includes subsidized and unsubsidized Loans for Nursing Students):

	Amounts Authorized 2014
Direct Loans (Subsidized/Unsubsidized)	\$ 859,855
Direct PLUS Loans	18,970
	<u>\$ 878,825</u>

The Network is responsible only for the performance of certain administrative duties with respect to the program and, accordingly, balances and transactions related to it are not included in the Network’s financial statements.



**Independent Auditor's 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 Board of Trustees
St. Luke's University Health Network, Inc.

We have audited, 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, the consolidated financial statements of St. Luke's University Health Network, Inc. and its controlled entities (collectively, the "Network"), which comprise the consolidated balance sheet as of June 30, 2014, and the related consolidated statement of operations, changes in net assets and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 31, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the Network's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Network's internal control. Accordingly, we do not express an opinion on the effectiveness of the Network's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a 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. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control 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 material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Network's consolidated financial statements are free from 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 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Network's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Network's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

PricewaterhouseCoopers LLP

Philadelphia, Pennsylvania
October 31, 2014



**Independent Auditor's 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
St. Luke's University Health Network, Inc.

Report on Compliance for Each Major Federal Program

We have audited St. Luke's University Health Network, Inc. and its controlled entities (collectively, the "Network") 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 Network's major federal programs for the year ended June 30, 2014. The Network's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Network's major federal programs based on our audit of the types of compliance requirements referred to above. 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 Network'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 on compliance for each major federal program. However, our audit does not provide a legal determination of the Network's compliance.



Opinion on Each Major Federal Program

In our opinion, the Network complied, in all material respects, with the types of compliance 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, 2014.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2014-001. Our opinion on each major federal program is not modified with respect to this matter. The Network's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs and corrective action plan. The Network's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the Network is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Network's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 Network'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. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.



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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as 2014-001 that we consider to be a significant deficiency. The Network's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs and corrective action plan. The Network's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

PricewaterhouseCoopers LLP

Philadelphia, Pennsylvania
March 31, 2015

Schedule of Findings and Questioned Costs

St. Luke's University Health Network, Inc. and Controlled Entities
Schedule of Findings and Questioned Costs
Year Ended June 30, 2014

Section I – Summary of Auditor's Results

Financial Statements

Type of auditor's report issued Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? ___ yes X no
- Significant deficiency(ies) identified that are not considered to be material weaknesses? ___ yes X none reported

Noncompliance material to financial statements noted? ___ yes X no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? ___ yes X no
- Significant deficiency(ies) identified that are not considered to be material weaknesses? X yes ___ none reported

Type of auditor's report issued on compliance for major programs Unmodified

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

Identification of major programs: Name of Federal Program or Cluster
 CFDA Number(s)

93.719	ARRA/HITECH
93.558	Administration for Children and Families –TANF Cluster

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? X yes ___ no

St. Luke's University Health Network, Inc. and Controlled Entities

Schedule of Findings and Questioned Costs

Year Ended June 30, 2014

Section II – Financial Statement Findings

None noted.

Section III – Federal Award Findings and Questioned Costs

Finding Number: 2014-001: Auditee Responsibilities (Significant Deficiency)

Impacted Programs: The Administration for Children and Families (the “ACF Program”) –TANF Cluster

Company: Visiting Nurse Association (“VNA”)- St. Luke's University Health Network, Inc.

Federal Agency: Department of Health and Human Services Administration

Passthrough Award Number: Lehigh County – 13-CY-232; Northampton County 13-467

Award Year: 2014

CFDA # and Title: 93.558 - Temporary Assistance for Needy Families

Criteria:

OMB Circular A-110 *Uniform Administrative Requirements for Grants and Agreements With Institutions of Higher Education, Hospitals, and Other Non-Profit Organizations*, Paragraphs .21 prescribes standards for financial management systems. Specifically, recipients of federal funding should maintain accurate, current and complete disclosure of the financial results of each federally-sponsored project, records that identify adequately the application of funds for federally-sponsored activities and effective controls over and accountability for all funds. .

Condition:

Through our samples selected for the testing of internal controls, we were unable to test the review and approval of clinical reports, time sheets and other direct costs. Evidence of the review of clinical reports and other direct costs was not maintained and time sheets were not maintained after the time was entered into the system.

Questioned Costs:

None noted. The individuals charged to this award work full time on this award and we were able to see evidence validating this, therefore, we have not questioned the costs. Other direct costs were also tested for allowability and while there was no evidence of review, they were deemed to be appropriate to charge to the award based on the nature of the expense..

Cause:

Management did not have a process to ensure adequate review and analysis of all award agreements. As a result, management did not conduct a sufficient review of the ACF agreement, did not identify it as a federal award subject to A-133 and other compliance requirements, and did not fully implement sufficient processes to maintain formal documentation of compliance and internal control over compliance in accordance with OMB Circular A-110 requirements as it relates to the ACF Program.

Effect:

The VNA is at an increased risk of charging federal grants for costs which are unrelated to the award due to a lack of effective controls to prevent or detect unallowable costs.

Recommendation:

Management should ensure a formal, documented process is in place to conduct a complete and sufficient review all federal, state and local award agreements to understand and implement internal controls over compliance requirements of the awards. Additionally, management should ensure that proper documentation of controls is maintained to provide evidence that the VNA is in compliance and proper internal controls over compliance are implemented and operating effectively, particularly for effort reporting and reporting.

St. Luke's University Health Network, Inc. and Controlled Entities
Schedule of Findings and Questioned Costs
Year Ended June 30, 2014

Section IV – Summary of Prior Year Findings

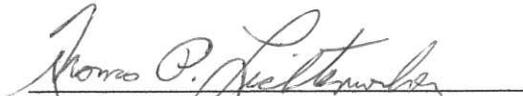
None noted.

**Schedule of Findings and Questioned Costs
Year-Ended June 30, 2014
Section III – Federal Award Findings and Questioned Costs**

Finding Number: 2014-001: Auditee Responsibilities

Management's Views and Corrective Action Plan

Management agrees that policies and procedures need to be enhanced to identify and implement processes to maintain formal documentation of compliance with contracts in accordance with OMB Circular A133 requirements. The Network Director, Mother, Child, Health Initiatives, will have responsibility for completing the documentation of processes by May 31, 2015. Documentation of controls will be maintained to provide evidence that St. Luke's is in compliance and proper internal controls over compliance are implemented and operating effectively for all contracts.



Thomas P. Lichtenwalner
Senior Vice President, Finance, St. Luke's Health Network