LEHIGH VALLEY HEALTH NETWORK
AND COMPONENT ENTITIES

Combined Financial Statements
As of and for the Years Ended June 30, 2013 and 2012
and Independent Auditors' Report

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Lehigh Valley Health Network
Allentown, Pennsylvania

We have audited the accompanying combined financial statements of Lehigh Valley Health Network and Component Entities (the "Organization"), which comprise the combined statement of financial position as of June 30, 2013 and 2012, and the related combined statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these combined 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 combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these combined financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization's preparation and fair presentation of the combined 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 Organization'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 combined 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 combined financial statements referred to above present fairly, in all material respects, the combined financial position of Lehigh Valley Health Network and Component Entities as of June 30, 2013 and 2012, and the results of their combined operations, changes in their net assets, and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-Matter

As discussed in Note 1 to the combined financial statements, the Organization adopted the requirements of accounting guidance related to the presentation of the provision for bad debts in the 2013 and 2012 combined statements of operations. Our opinion is not modified with respect to this matter.

Deloitte & Touche LLP

September 4, 2013

Lehigh Valley Health Network and Component Entities
Combined Statements of Financial Position
June 30, 2013 and 2012
(In Thousands)

	2013	2012
Assets		
Current assets:		
Cash and cash equivalents	$25,989	$26,062
Patient accounts receivable, net	223,856	209,002
Other accounts receivable	17,777	19,697
Inventories	18,696	16,983
Prepaids	15,048	12,487
Assets limited under bond debt service fund - current portion	15,186	14,984
Assets limited under primary professional liability arrangements - current portion	5,392	4,790
Total current assets	321,944	304,005
Noncurrent assets:		
Assets whose use is limited or restricted:		
Assets limited by board of trustees for capital improvements	804,304	716,810
Assets limited by board of trustees for retained excess professional liability arrangements	16,745	17,755
Assets limited under primary professional liability arrangements	45,675	42,637
Assets limited by management	29,475	30,632
Assets limited under bond indenture, bond construction, debt service, and debt service reserve agreements - held by trustee	5,274	11,084
Assets restricted by donors or grantors	151,123	139,693
Assets limited to fund deferred compensation and other liabilities	49,147	39,874
Property and equipment, net	638,460	620,635
Partnership investments	9,481	10,665
Deferred financing costs, net and other noncurrent assets	38,919	35,501
Total noncurrent assets	1,788,603	1,665,286
Total assets	$2,110,547	$1,969,291
Liabilities and net assets		
Current liabilities:		
Accounts payable	$59,714	$60,178
Accrual for estimated third-party payer settlements	2,419	3,475
Accrued compensation	49,444	53,282
Other accrued expenses	32,054	34,562
Pension	4,054	3,154
Professional liability	5,892	4,790
Current portion of long-term debt	12,303	11,530
Total current liabilities	165,880	170,971
Noncurrent liabilities:		
Long-term debt, net of current portion	569,369	502,276
Deferred compensation and other liabilities funded with matching assets	49,147	39,874
Pension	176,836	267,849
Professional liability	55,273	54,177
Other liabilities	28,249	37,443
Total noncurrent liabilities	878,874	901,619
Total liabilities	1,044,754	1,072,590
Net assets:		
Unrestricted:		
Lehigh Valley Health Network and component entities	895,304	737,944
Noncontrolling interests in subsidiaries	19,366	19,064
Total unrestricted net assets	914,670	757,008
Temporarily restricted	103,382	93,252
Permanently restricted	47,741	46,441
Total net assets	1,065,793	896,701
Total liabilities and net assets	$2,110,547	$1,969,291

See notes to combined financial statements

Lehigh Valley Health Network and Component Entities
Combined Statements of Operations
Years Ended June 30, 2013 and 2012
(In Thousands)

	2013	2012
Patient services and supporting operations		
Revenues		
Net patient service revenue (net of contractual allowances & discounts)	$1,637,519	$1,579,506
Provision for bad debts	(117,493)	(106,247)
Net patient service revenue (net of bad debts)	1,520,026	1,473,259
Other supporting operations revenue	36,988	36,941
Net assets released from restrictions used for operations	4,858	4,083
Total revenues	1,561,872	1,514,283
Expenses		
Salaries and wages	741,399	688,013
Benefits	146,794	129,552
Supplies	272,036	259,176
Purchased services	155,487	148,084
Other	105,879	100,355
Depreciation and amortization	84,574	83,867
Interest expense	22,719	22,318
Total expenses	1,528,888	1,431,365
Operating income	32,984	82,918
Other nonoperating gains and losses		
Realized investment earnings	27,823	64,500
Change in net unrealized gains (losses) on swaps	8,459	(11,459)
Loss on refinancing of debt	(4,537)	(309)
Nonoperating (losses) gains, net	(1,890)	212
Other nonoperating gains and losses, net	29,855	52,944
Revenues and gains in excess of expenses and losses before income taxes	62,839	135,862
Provision for income taxes	(2,935)	(3,430)
Revenues and gains in excess of expenses and losses attributed to Lehigh Valley Health Network and component entities	59,904	132,432
Net assets released from restrictions - capital acquisitions	1,846	3,270
Contribution of long lived assets	491	2,114
Adjustment to funded status of pension plan	69,310	(148,920)
Change in noncontrolling interests	302	5,335
Change in net unrealized gains (losses) on swaps	290	(170)
Change in net unrealized gains (losses) on investments	25,519	(56,058)
Increase (decrease) in unrestricted net assets	$157,662	($61,997)

See notes to combined financial statements

Lehigh Valley Health Network and Component Entities
Combined Statements of Changes in Net Assets
Years Ended June 30, 2013 and 2012
(In Thousands)

	2013	2012
Unrestricted net assets		
Revenues and gains in excess of expenses and losses attributed to Lehigh Valley Health Network and component entities	$59,904	$132,432
Net assets released from restrictions - capital acquisitions	1,846	3,270
Contribution of long lived assets	491	2,114
Adjustment to funded status of pension plans	69,310	(148,920)
Change in noncontrolling interests	302	5,335
Change in net unrealized gains (losses) on swaps	290	(170)
Change in net unrealized gains (losses) on investments	25,519	(56,058)
Increase (decrease) in unrestricted net assets	157,662	(61,997)
Temporarily restricted net assets		
Contributions	2,969	1,977
Reclassification from permanently restricted net assets	231	464
Increase in assets temporarily held in trust	1	2
Realized and unrealized investment gains, net	14,124	1,408
Net assets released from restrictions	(7,195)	(9,467)
Increase (decrease) in temporarily restricted net assets	10,130	(5,616)
Permanently restricted net assets		
Contributions	1,252	4,193
Reclassification (to) from temporarily restricted & unrestricted net assets	(236)	185
Increase (decrease) in beneficial interest in perpetual trusts	284	(459)
Increase in permanently restricted net assets	1,300	3,919
Increase (decrease) in net assets	169,092	(63,694)
Net assets, beginning of year	896,701	960,395
Net assets, end of period	$1,065,793	$896,701

See notes to combined financial statements

Lehigh Valley Health Network and Component Entities
Combined Statements of Cash Flows
Years Ended June 30, 2013 and 2012
(In Thousands)

	2013	**2012**
Cash flows from operating activities:		
Increase (decrease) in net assets	$169,092	($63,694)
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	84,574	83,867
Loss on refinancing of debt	4,537	309
Net realized and unrealized (gains) losses on unrestricted investments	(37,626)	7,277
Restricted contributions received for capital and endowments and related investment (gains)	(11,586)	(4,810)
Adjustment to funded status of pension plans	(69,310)	148,920
Increase in capital leases obligation	212	242
Change in net unrealized (gains) losses on swaps	(8,749)	11,629
Provision for bad debts	117,493	106,247
Adjustment to noncontrolling interests due to a change in control of equity investee	(80)	(3,420)
Changes in assets and liabilities:		
Increase in patient accounts receivable, net	(132,347)	(130,124)
Increase in prepaids, inventories and other current assets	(2,354)	(11,595)
Increase in other noncurrent assets	(4,562)	(7,023)
Increase in interest earned but not received on assets whose use is limited or restricted	(41)	(147)
(Decrease) increase in accounts payable	(1,750)	10,586
(Decrease) in other accrued expenses	(2,508)	(748)
(Decrease) increase in accrual for estimated third party payer settlements	(1,056)	877
(Decrease) in accrued compensation	(3,838)	(13,136)
(Decrease) in pension liability	(20,803)	(35,987)
Increase in professional liability	2,198	6,303
Increase in deferred compensation and other liabilities funded with matching assets, and other liabilities	3,983	1,746
Net cash provided by operating activities	85,479	107,319
Cash flows from investing activities:		
Purchases of property and equipment	(100,272)	(84,509)
Purchase of investment in partnerships	0	(9,813)
Purchases of investments	(1,040,778)	(1,169,232)
Proceeds from sales of investments	990,578	1,162,630
Net cash (used in) investing activities	(150,472)	(100,924)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	166,085	7,512
Payment of financing costs	(2,066)	(274)
Repayment of debt	(101,177)	(18,762)
Proceeds from restricted contributions for capital and endowments	2,078	1,396
Net cash provided by (used in) financing activities	64,920	(10,128)
Net (decrease) in cash and cash equivalents	(73)	(3,733)
Cash and cash equivalents, beginning of year	26,062	29,795
Cash and cash equivalents, end of year	$25,989	$26,062
Supplemental cash flow information:		
Cash paid for interest	$19,757	$20,070
Cash paid for income taxes	$2,208	$1,408
Non-cash increase in capital lease obligation	$212	$242
Amounts accrued for purchase of property and equipment in excess of amounts paid	$9,762	$8,476

See notes to combined financial statements

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization
Lehigh Valley Health Network ("LVHN") is a not-for-profit 501(c)(3) corporation that controls related organizations in a health care delivery network providing a wide array of health care services and products to the Lehigh Valley and surrounding communities in Pennsylvania. The combined financial statements of Lehigh Valley Health Network and Component Entities (the "Organization") at June 30, 2013 and 2012 include the accounts of the following entities:

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

All significant intercompany balances and transactions have been eliminated. Fairgrounds Surgical Center became 100% owned by Lehigh Valley Hospital effective November 1, 2011.

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

Prior to the acquisition date, the Organization accounted for its 43.33%interest in LMIC as an equity method investment. The acquisition date fair value of the previously held equity interest was valued at $6,308. A gain of $2,064 has been recorded as a result of revaluing the previously held equity interest to fair value as of the acquisition date. This gain is recorded in the June 30, 2012, Combined Statements of Operations in Nonoperating gains (losses), net.

Acquisition/Merger
On April 24, 2013, Lehigh Valley Health Network (LVHN) and the Greater Hazleton Health Alliance (GHHA) signed an agreement and announced plans for a full asset merger. The GHHA Board of Directors approved the merger on April 3, 2013, with the LVHN Board of Trustees approving the same on May 1, 2013.

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

Acquisition/Merger (continued)
GHHA is a not-for-profit healthcare system that is dedicated to providing high quality, state-of-the-art, customer-focused healthcare services. Its affiliated entities include the 150 bed Hazleton General Hospital (for inpatient acute and rehab care, emergency care, maternity and home care), the Hazleton Health & Wellness Center (for outpatient surgery, diagnostic testing, and rehabilitation services), and Alliance Medical Group (a multi-specialty physician network). GHHA employs over 1,000 people and has a medical staff of more than 100 physicians. The multi-specialty medical group includes a network of primary care and specialty care physicians in 15 offices throughout the northeast region.

The merger is pending regulatory approvals.

Basis of Accounting
The combined financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America and in accordance with the American Institute of Certified Public Accountants' Audit and Accounting Guide, *Health Care Entities*, and other pronouncements applicable to not-for-profit healthcare organizations. The Organization evaluated subsequent events through September 4, 2013, the date the financial statements were issued, and determined there were no subsequent events requiring disclosure.

Use of Estimates
The preparation of combined financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the combined financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include the bad debts reserve, contractual allowances, estimated third party payers settlements, professional liabilities, liabilities for pension and other benefits, swaps, alternative investments, and asset retirement obligations.

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

Cash and Cash Equivalents
Cash and cash equivalents include highly liquid investments purchased with an initial maturity of three months or less, excluding amounts included in assets whose use is limited or restricted. At June 30, 2013 and 2012, the Organization had cash balances at financial institutions that exceeded federal depository insurance limits. Management believes that credit risk related to these deposits is minimal. Cash and cash equivalents are carried at cost, which approximate fair value.

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

Goodwill
Goodwill represents the excess of the purchase price over the estimated fair value of the net assets or equity acquired. Effective July 1, 2012, the Organization adopted ASU 2011-08 and no longer amortizes goodwill.

The Organization evaluates goodwill for impairment annually and whenever events or changes in circumstances indicate that the value of the asset may be impaired. Impairment testing consists of performing internal qualitative assessment and considers other publicly available market information. If the carrying amount of the goodwill exceeds the estimated fair value, an impairment charge to current operations is recorded to reduce the carrying value to the estimated fair value. As of June 30, 2013 and 2012, there was no indication of impairment of goodwill.

Temporarily and Permanently Restricted Net Assets
Temporarily restricted net assets are those whose use by the Organization has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by the Organization or outside trustees in perpetuity.

Donor Restricted Gifts

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

Income Taxes

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

Property and Equipment

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

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

Assets under capital lease are amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the assets. Such amortization is included in depreciation and amortization in the Combined Statements of Operations. Interest costs, net of related interest earnings, incurred on related funds acquired through the issuance of tax-exempt bonds is capitalized during the period of construction of capital assets as a component of the cost of acquiring those assets. No interest costs were capitalized for the years ended June 30, 2013 and 2012. Leasehold improvements and software licenses are amortized over the shorter of their useful lives or the term of the lease using the straight-line method. The cost of assets and the related accumulated depreciation are removed from the records upon retirement or other disposition and any gain or loss is included in the Combined Statements of Operations.

Asset Retirement Obligations

The Organization recognizes the fair value of a liability for legal obligations associated with conditional asset retirement obligations ("ARO's") in the period in which the liability is incurred. ARO's are accreted to their present value at the end of each reporting period. The associated estimated asset retirement costs are capitalized as part of the carrying amount of the long-lived asset and depreciated over its useful life. ARO's are adjusted each year for any liabilities incurred or settled during the period, accretion expense, and any revisions made to the estimated cash flows. The Organization has identified ARO's related to the legally required remediation of asbestos existing within the Organization's facilities. While all hazardous materials within the Organization's facilities are currently contained and meet existing safety standards, the capitalized asset and liability recorded relate to the eventual remediation and removal that is legally required upon the ultimate repair, renovation, or demolition of facilities containing the hazardous materials. ARO liabilities recorded at June 30, 2013 and 2012 were $4,867 and $4,975, respectively.

Long-Lived Assets

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

Deferred Financing Costs

Deferred financing costs, principally legal fees and bond issuance costs, are amortized over the period of financing. Gross deferred financing costs at June 30, 2013 and 2012 were $14,904 and $15,346 respectively. Accumulated amortization of deferred financing costs was $3,817 and $3,944 at June 30, 2013 and 2012, respectively.

Partnership Investments

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

Pledges

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

Estimated Third-Party Payer Settlements

The Organization has agreements with third party payers that provide for payments at amounts different than the Organization's established rates. Payment arrangements include primarily prospectively determined rates per discharge, per visit, and per diem payments and to a lesser extent, reimbursed costs at discounted charges.

Estimated third-party payer settlement liabilities recorded at June 30, 2013 and 2012 were $2,419 and $3,475, respectively. Estimated third-party payer settlement assets recorded at June 30, 2013 and 2012 were $2,967 and $7,882, respectively, and were recorded in Other accounts receivable on the Combined Statements of Financial Position.

Noncontrolling Interests in Subsidiaries

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

Combined Statements of Operations

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

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

Performance Indicator

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

Net Patient Service Revenue

Effective July 1, 2012, the Organization adopted the provisions of Accounting Standards Update ("ASU") 2011-07, "Health Care Entities (Topic 954)*: Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities*." This ASU requires a health care organization to change the presentation of their statement of operations by reclassifying the Provision for bad debts associated with patient service revenue from an operating expense to a deduction from patient service revenue (net of contractual allowances and discounts). All periods presented have been reclassified in accordance with the provisions of ASU 2011-07.

The Organization records gross patient service revenue in the period that the services are rendered. Net revenue before the provision for bad debts represents gross patient service revenue less provisions for contractual adjustments. Payments for services rendered to patients covered by Medicare, Medicaid and other government programs are generally less than billed charges and, therefore, provisions for contractual adjustments are made to reduce gross patient service revenue to the estimated cash receipts based on each program's principles of payment/reimbursement. Estimates of contractual allowances for services rendered to patients covered by commercial insurance, including managed care health plans, are primarily based on the payment terms of contractual arrangements, such as predetermined rates per diagnosis, per diem rates or discounted fee for service rates. Revenue related to uninsured patients may have uninsured discounts applied. The Organization records a Provision for bad debts related to uninsured accounts to record the net self pay accounts receivable at the estimated amounts the Organization expects to collect. Coinsurance and deductibles within the third-party payer agreements are the patient's responsibility and the Organization includes these amounts in the self pay accounts receivable and considers these amounts in its determination of the provision for bad debts based on collection experience.

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

Net Patient Service Revenue (continued)

Net patient accounts receivable includes reserves for bad debts of $150,905 and $135,085 at June 30, 2013 and 2012, respectively. Bad debt reserves are estimated based on the Organization's belief that a patient has the ability to pay for services but payment is not expected to be received. The reserve for bad debt is based on management's assessment of historical and expected collections, business economic conditions, trends in health care coverage, and other collection indicators. Accounts receivable are written off against the reserve for bad debt when management determines that recovery is unlikely and the Organization ceases collection efforts. The total bad debt and charity write offs have not changed significantly for the year ended June 30, 2013. The Organization has not experienced significant changes in write off trends nor has the Organization changed its charity care policy.

Patient service revenue, net of contractual allowances, discounts, and provisions for bad debts recognized is as follows at June 30, 2013:

	2013	
Medicare	$372,316	24%
Medicare Managed Care	138,320	9%
Medicaid	63,610	4%
Medicaid Managed Care	76,303	5%
Commercial Insurance	754,673	50%
Other	101,102	7%
Uninsured	13,702	1%
Net patient service revenue (net of bad debts)	$1,520,026	100%

Net patient service revenue also includes estimates for retroactive adjustments under reimbursement agreements with third-party payers. Retroactive adjustments are recorded on an estimated basis in the period the related services are rendered or when known by the Organization and adjusted in future periods as final settlements are determined. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is a reasonable possibility that recorded estimates will change by a material amount in the near term. Changes in prior year estimates increased net patient service revenue by $7,344 and $13,484 in the fiscal years ended June 30, 2013 and 2012, respectively.

Other Supporting Operations Revenue

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

Meaningful Use

Under the Health Information Technology for Economic and Clinical Health (HITECH) Act, qualifying acute care hospitals are eligible for incentive payments from both Medicare and Medicaid for achieving prescribed standards for the meaningful use of electronic health records. The Organization records amounts earned as Other supporting operations revenue when the Organization has met the compliance requirements as set forth by Medicare and Medicaid. During the year ended June 30, 2013, the Organization recorded as Other supporting operations revenue an estimated $4,580 from both Medicare and Medicaid.

Patient Accounts Receivable

Patient accounts receivable for which the Organization receives payment under cost reimbursement, prospective payment formulas or negotiated rates, which cover the majority of patient services, are stated at the estimated net amounts receivable from payers, which are generally less than the established billing rates of the Organization. Patient accounts receivable is reported at its net realizable value.

Concentrations of Credit Risk

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

	2013	2012
Medicare	19%	18%
Medicare Managed Care	6%	7%
Medicaid	10%	10%
Medicaid Managed Care	6%	5%
Commercial Insurance	34%	37%
Other	5%	8%
Self Pay	20%	15%
Total	100%	100%

Estimated Medical Malpractice Costs

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

Self-insured loss reserves are the Organization's best estimate based on actuarial estimates of the ultimate net cost of settling losses on incurred claims. The estimates are reviewed and adjusted, as necessary, as experience develops or new information becomes known. The Organization believes that the loss reserves are adequate; however, the ultimate settlement of losses may vary significantly from the amounts recorded in the accompanying combined financial statements.

The June 30, 2013 and 2012 combined financial statements include actuarially determined self-insured medical malpractice expenses of $9,618 and $8,757, respectively, and are reported as Other expense in the Combined Statements of Operations. Corresponding reserves are reported as current and non-current Professional liability in the Combined Statements of Financial Position. Commercial excess insurance expense and MCARE assessments totaled $5,243 and $4,726 for the years ended June 30, 2013 and 2012, respectively, and were recorded in Other expense in the Combined Statements of Operations.

Assets Whose Use is Limited

Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value in the Combined Statements of Financial Position. The Organization also invests in a diversified program of alternative investment funds. These investments utilize a "fund of funds" approach resulting in diversified multistrategy, multimanager investments. Certain investments include liquidation restrictions of 5 to 90 days notice prior to withdrawal. The Organization reports these investments at their net asset value, which approximates fair value.

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

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

Assets whose use is limited includes (1) assets set aside by the Board of Trustees (the "Board") for future purposes over which the Board retains control and may at its discretion subsequently use for capital improvements, (2) Assets limited by the Board for retained excess professional liability arrangements, (3) Assets limited under primary professional liability arrangements, (4) Assets internally designated by management for various purposes, (5) Assets limited under bond indenture, bond construction, debt service, and debt service reserve agreements –held by trustee, (6) Assets restricted by donors and grantors, and (7) Assets limited to fund deferred compensation and other liabilities.

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

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

Investments carried primarily at fair value and other assets carried at cost at June 30, 2013 and 2012 are summarized as follows:

	Short-term investments	U.S. government, agencies, and authorities	Corporate bonds	Marketable equity securities (C)	Equity investments in partnerships	Pledges receivable, perpetual trust & other investments (A)	Accrued interest	Total
2013								
Assets limited under bond debt service fund-current portion	$15,186	$0	$0	$0	$0	$0	$0	$15,186
Assets limited under primary professional liability arrangements - current portion	65	1,930	1,871	1,512	0	0	14	5,392
Assets limited by board of trustees for capital improvements	36,362	212,552	187,994	365,806	0	0	1,590	804,304
Assets limited by board of trustees for retained excess professional liability arrangements	802	4,261	4,029	7,619	0	0	34	16,745
Assets limited under primary professional liability arrangements	703	15,850	15,337	13,666	0	0	119	45,675
Assets limited by management (B)	1,446	2,897	2,829	13,800	0	8,477	26	29,475
Assets limited under bond indenture, bond construction, debt service, and debt service reserve agreements - held by trustee	5,274	0	0	0	0	0	0	5,274
Assets restricted by donors or grantors	8,340	17,605	18,031	92,380	0	14,612	155	151,123
Partnership investments	0	0	0	0	9,481	0	0	9,481
Assets limited to fund deferred compensation and other liabilities	3,872	6,073	8,742	27,734	0	2,662	64	49,147
Total Investments	$72,050	$261,168	$238,833	$522,517	$9,481	$25,751	$2,002	$1,131,802
2012								
Assets limited under bond debt service fund-current portion	$14,984	$0	$0	$0	$0	$0	$0	$14,984
Assets limited under primary professional liability arrangements - current portion	327	1,833	1,198	1,417	0	0	15	4,790
Assets limited by board of trustees for capital improvements	64,713	205,025	124,107	321,410	0	0	1,555	716,810
Assets limited by board of trustees for retained excess professional liability arrangements	1,640	4,865	3,150	8,061	0	0	39	17,755
Assets limited under primary professional liability arrangements	2,996	15,912	10,401	13,200	0	0	128	42,637
Assets limited by management (B)	1,755	3,269	2,155	14,950	0	8,477	26	30,632
Assets limited under bond indenture, bond construction, debt service, and debt service reserve agreements - held by trustee	11,084	0	0	0	0	0	0	11,084
Assets restricted by donors or grantors	9,952	16,740	11,980	85,301	0	15,586	134	139,693
Partnership investments	0	0	0	0	10,665	0	0	10,665
Assets limited to fund deferred compensation and other liabilities	3,499	6,626	5,592	21,615	0	2,478	64	39,874
Total Investments	$110,950	$254,270	$158,583	$465,954	$10,665	$26,541	$1,961	$1,028,924

(A) Includes $6,939 and $6,655 representing the Organization's interest in certain perpetual trusts stated at net present value at June 30, 2013 and 2012, respectively (see Note 1). Includes $5,176 and $6,456 of pledges receivable at June 30, 2013 and 2012, respectively (see Note 14). Includes other investments, primarily cash surrender value of life insurance of $4,336 and $4,130 at June 30, 2013 and 2012, respectively, Includes an unrestricted gift of land valued at $8,250 at June 30, 2013 and 2012. Includes $1,050 representing LVH's remaining interest in the Elsa K. Farr Trust at June 30, 2013 and 2012, respectively.

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

(C) Includes $92,900 and $89,694 in alternative investments at June 30, 2013 and 2012, respectively. Because alternative investments are not readily marketable, the estimated fair value is subject to uncertainty and, therefore, may differ from the fair value that would have been used had a ready market existed, and such differences could be material (see Note 13).

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

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

	2013	2012
Income:		
Interest and dividend income	$18,372	$17,887
Net realized gains on investments	15,474	56,367
Net unrealized gains (losses) on investments	33,620	(64,404)
Total	$67,466	$9,850
Reported as follows:		
Combined Statements of Operations:		
Other nonoperating gains and losses - Realized investment earnings	$27,823	$64,500
Change in net unrealized gains (losses) on investments	25,519	(56,058)
Combined Statements of Changes in Net Assets:		
Temporarily restricted net assets - Realized and unrealized investment gains, net	14,124	1,408
Total	$67,466	$9,850

Other Than Temporary Impairment

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

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

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

During years ended June 30, 2013 and 2012, assessments of other than temporary impairment were performed on each security held by the Organization. Factors considered in determining whether an other than temporary impairment existed included: the financial condition, business prospects and creditworthiness of the issuer, and the length of time and extent to which fair value had been less than cost for equity securities or amortized cost for fixed income securities.

The other than temporary impairment losses recorded during the years ended June 30, 2013 and 2012 were $4,388 and $4,787, respectively. These losses are reported in Realized investment earnings in the Combined Statements of Operations.

In addition to the above, certain other investments had fair values below cost at June 30, 2013 and 2012 but were determined to not be other than temporarily impaired due to the Organization's ability and intent to hold the securities until recovery of fair value. The following table presents the unrealized losses and fair value of these investments, aggregated by investment category and length of time individual securities have been in a continuous unrealized loss position.

	Less than 12 months		Greater than 12 months		Total	
	Fair Value	Unrealized loss	Fair Value	Unrealized loss	Fair Value	Unrealized loss
2013						
Marketable equity securities	$49,458	($5,886)	$133,499	($1,023)	$182,957	($6,909)
2012						
Marketable equity securities	$25,338	($3,890)	$103,266	($15,855)	$128,604	($19,745)

Other Than Temporary Impairment (continued)
The unrealized losses on investments in marketable equity securities were caused by a combination of economic, industry, and company factors. The Organization's marketable equity securities portfolios are diversified. The nature of a diversified portfolio is that at any point in time some holdings are reasonably expected to reflect market losses. Since the declines in market value of equity securities are not considered severe in nature on a security by security basis, the financial condition and near term prospects of the issuer are not in question, and the Organization has the ability and intent to hold to recovery, the Organization does not consider those investments to be other than temporarily impaired at June 30, 2013 and 2012.

3. LONG-TERM DEBT

Long-term debt consists of the following at June 30:	2013	2012
Hospital Revenue Bonds, Series of 1994 (net of unamortized bond discount of $3 and $4 at June 30, 2013 and 2012, respectively) at a fixed rate of 7.000% due in various amounts through July 1, 2016.	$5,127	$6,206
Hospital Revenue Bonds, Series B of 2001 (net of unamortized bond discount of $0 and $153 at June 30, 2013 and 2012, respectively) at fixed rates ranging from 4.400% to 5.375% due in various amounts through July 1, 2031. These bonds were refinanced with the the issuance of the Hospital Revenue Bonds, Series B of 2012 (see below).	0	27,242
Hospital Revenue Bonds, Series A of 2003 (net of unamortized bond discount of $0 and $445 at June 30, 2013 and 2012, respectively) at fixed rates ranging from 5.000% to 5.250% due in various amounts through July 1, 2033. These bonds were refinanced with the the issuance of the Hospital Revenue Bonds, Series B of 2012 (see below).	0	60,380
Hospital Revenue Bonds, Series A of 2005 At variable rates of interest (0.134% and 0.167% at June 30, 2013 and 2012, resepectively) due in various amounts through July 1, 2025. These bonds are privately held and the interest rate is indexed and resets on a monthly basis. See Page 17 "Swap Agreements".	48,400	49,850
Hospital Revenue Bonds, Series B of 2005 At a fixed rate of 5.000% due in various amounts through July 1, 2035.	81,000	81,000
Hospital Revenue Bonds, Series A of 2008 (net of unamortized bond premium of $292 and $304 at June 30, 2013 and 2012, respectively) at fixed rates ranging from 4.000% to 5.000% due in various amounts through July 1, 2038.	67,742	69,024
Hospital Revenue Bonds, Series B of 2008 At variable rates of interest (0.134% and 0.167% at June 30, 2013 and 2012, respectively) due in various amounts through July 1, 2028. These bonds are privately held and the interest rate is indexed and resets on a montly basis. See Page 16 "Swap Agreements".	86,235	88,235
Hospital Revenue Bonds, Series C of 2008 At variable rates of interest (0.143% and 0.176% at June 30, 2013 and 2012, respectively) due in various amounts through July 1, 2029. These bonds reprice daily.	57,915	58,790
Hospital Revenue Bonds, Series A of 2011 At variable rates of interest (0.134% and 0.167% at June 30, 2013 and 2012, respectively) due in various amounts through July 1, 2029. These bonds reprice daily.	23,685	25,755
Hospital Revenue Bonds, Series A of 2012 At variable rates of interest (0.185% at June 30, 2013 and 2012) due in various amounts through July 1, 2021. These bonds are privately held and the interest rate is indexed and resets on a monthly basis. See Page 16 "Swap Agreements".	16,885	7,512
Hospital Revenue Bonds, Series B of 2012 (net of unamortized bond premium of $2,576 and $0 at June 30, 2013 and 2012, respectively) at fixed rates ranging from 2.000% to 4.000% due in various amounts through July 1, 2043.	154,856	0

3. LONG-TERM DEBT (Continued)

	2013	2012
Capital Lease Liability on parking deck and The Center for Advanced Health Care MOB located on LVH campus at Cedar Crest & I78. Payable in monthly installments through February 2027 with subsequent renewal options.	$34,817	$34,605
Mortgage liability to Firstrust Bank on property located at 2649 Schoenersville Road, Bethlehem, PA containing a medical office building on the LVHM campus. At a fixed rate of 5.5% with monthly payments of $37 through March 2016.	5,010	5,189
Other long term debt	0	18
Subtotal (net of unamortized bond premium and discount of $2,865 and $298 at June 30, 2013 and 2012, respectively)	581,672	513,806
Less current maturities	(12,303)	(11,530)
Total long-term debt	$569,369	$502,276

Maturities of Long-Term Debt

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

2014	$12,303
2015	12,756
2016	17,681
2017	13,645
2018	14,205
Thereafter	473,400
Total principal for long-term debt	$543,990

Long-Term Debt – Authority Bond Issues

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

Swap Agreements

The Organization has hedged its long term exposure to rising interest rates on portions of its variable rate debt through the participation in interest rate swaps. As of June 30, 2013, interest rate swap agreements with external counter parties were in place on the Series A of 2005 Bonds (the "2005 Swap"), the Series B of 2008 Bonds (the "2006 Swaps"), and Series A of 2012 (the "2012 Swap") bonds. These interest rate swaps effectively convert these variable rate bonds to a fixed rate. The Swaps carry a fair value based on long term interest rates and are further described in the table below:

	Asset Derivatives		
		Fair Value	
Derivatives designated as hedging instruments	Combined Statements of Financial Position - location	2013	2012
Interest rate contracts - 2012 Swaps	Deferred financing costs, net and other noncurrent assets	$120	$0

	Liability Derivatives		
		Fair Value	
Derivatives not designated as hedging instruments	Combined Statements of Financial Position - location	2013	2012
Interest rate contracts - 2005 Swap	Other liabilities	$6,288	$9,280
Interest rate contracts - 2006 Swaps	Other liabilities	11,891	17,358
Total derivatives not designated as hedging instruments		$18,179	$26,638
Derivatives designated as hedging instruments			
Interest rate contracts - 2012 Swaps	Other liabilities	$0	$170
Total derivatives, net		$18,059	$26,808

3. LONG-TERM DEBT (Continued)

Swap Agreements (continued)
For the years ended June 30, 2013 and 2012, the 2005 and 2006 Swaps were determined to be ineffective hedges for accounting purposes and as a result did not qualify for hedge accounting treatment. Consequently, changes in the Swaps fair values are reported as a component of Other nonoperating gains and losses. The 2012 Swaps are considered to be effective hedges and qualify for hedge accounting treatment where all changes in the Swaps' fair values are reported below Revenues and gains in excess of expenses and losses.

The below table presents the unrealized gains and losses on the 2005, 2006, and 2012 Swaps within the Combined Statements of Operations for the years ended June 30, 2013 and 2012:

		Amount of unrealized gains (losses) recognized in	
Derivatives not designated as hedging instruments	Location of losses on ineffective portion	2013	2012
Interest rate contracts - 2005 Swap	Other nonoperating gains and losses - Change in net unrealized gains (losses) on swaps	$2,992	($4,177)
Interest rate contracts - 2006 Swaps	Other nonoperating gains and losses - Change in net unrealized gains (losses) on swaps	5,467	(7,282)
Total derivatives not designated as hedging instruments		$8,459	($11,459)
Derivatives designated as hedging instruments	Location of losses on effective portion		
Interest rate contracts - 2012 Swaps	Change in net unrealized gains (losses) on swaps	$290	($170)
Total derivatives		$8,749	($11,629)

In addition to the above, the 2005, 2006, and 2012 Swaps also impose collateralization requirements on both parties if certain conditions occur. Collateralization for the 2005, 2006, or 2012 Swaps was not required as of June 30, 2013 and 2012.

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

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

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

As of June 30, 2013 the 2005 and 2006 Swaps where Merrill Lynch is the counter party had negative market values of $6,288 and $5,957 respectively, and the 2006 Swap where Goldman Sachs is the counter party had a market value of negative $5,934, and the 2012 Swaps where JPMorgan is the counterpart had positive market values of $52 and $68 for the 2012A and 2012B, respectively. Accordingly collateralization for the 2005, 2006, and 2012 Swaps was not required as of June 30, 2013.

3. LONG-TERM DEBT (Continued)

Issuance of Tax-Exempt Bonds – Series A of 2012
In February 2012, the Obligated Group issued $7,512 in variable rate Hospital Revenue Bonds, Series A of 2012 to refinance $7,255 of fixed rate Hospital Revenue Bonds, Series 01A and pay for cost of issuance fees of $334. A loss on refinancing of $309 was recorded and is reported as Loss on refinancing of debt in Other nonoperating gains and losses in the 2012 Combined Statements of Operations. In July 2012, the Obligated Group issued $10,905 in variable rate Hospital Revenue Bonds, Series A of 2012 to refinance $10,905 of fixed rate Hospital Revenue Bonds, Series 01B. A loss on refinancing of $547 was recorded and is reported as Loss on refinancing of debt in Other nonoperating gains and losses in the 2013 Combined Statements of Operations.

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

Issuance of Tax-Exempt Bonds – Series B of 2012
In December 2012, the Obligated Group issued $152,280 net of issuance premium of $2,645 in fixed rate Hospital Revenue Bonds, Series B of 2012 to finance a variety of capital investments and refinance $80,641 of fixed rate Hospital Revenue Bonds. Proceeds from the issuance included $78,675 to pay for capital projects and related costs, $15,950 to refinance the 2001B bonds, $57,655 to refinance the 2003A bonds, and cost of issuance fees of $1,860. A loss on refinancing of $3,990 was recorded and is reported as Loss on refinancing of debt in Other nonoperating gains and losses in the 2013 Combined Statements of Operations.

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

Lease payments are approximately $2,319 to $2,525 annually over the next five years and are subject to annual adjustments. Interest expense related to this financing is recorded throughout the life of the financing.

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

	Principal	Interest	Scheduled Payments
2014	$0	$2,319	$2,319
2015	0	2,369	2,369
2016	0	2,420	2,420
2017	0	2,472	2,472
2018	0	2,525	2,525
Thereafter	34,817	50,197	85,014
Totals for capital lease	$34,817	$62,302	$97,119

Lines of Credit
LVHN and LVH have a combined line of credit, expiring January 31, 2014, available which provide for borrowings and letters of credit up to an aggregate of $19,000 at June 30, 2013 and 2012. Although no borrowings were outstanding against this line of credit at June 30, 2013 and 2012, a total of $5,015 and $5,714, respectively, in the form of letters of credit was committed as of June 30, 2013 and 2012, respectively, and is described further in the table below. The remaining amount available under the line of credit at June 30, 2013 and 2012 was $13,985 and $13,286, respectively.

3. LONG-TERM DEBT (Continued)

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

Beneficiary	Purpose	2013	2012
South Carolina Dept Of Insurance	RRG capitalization collateral	$4,980	$4,980
Commonwealth of PA	LVH Cedar Crest highway expansion collateral	0	648
City of Bethlehem, PA	LVHM North Campus expansion collateral	35	35
Township of Salisbury	LVH Cedar Crest Family Lodging Center collateral	0	51
Total letters of credit commitments outstanding		$5,015	$5,714

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

The 1994 Series A bonds include requirements to maintain a Debt Service Coverage Ratio of at least 110%, or if such percentage cannot be achieved in any fiscal year as a result of restrictions imposed under applicable laws and regulations (including cost containment requirements, restrictions on rates or revenues or reimbursement regulations or policies imposed by governmental third-party payers) or as a result of restrictions or policies imposed by private third-party payers affecting any particular Obligated Issuer or Issuers, at least 100%. If the covenant is not met, the engagement of a consultant is required. However, failure to meet the covenant will not be an event of default as long as the Debt Service Coverage Ratio for the Obligated Group is at least 100%, the Debt Service Coverage Ratio for all Obligated Issuers which were not affected by such laws or regulations, as referred to above, is at least 110%, a consultant is engaged and a good faith effort is made to implement the recommendations of the consultant.

The 2005 Series A bonds include requirements to (a) maintain a Debt Service Coverage Ratio of 1.25, (b) maintain Days Cash on Hand of at least 70 days and (c) maintain an Indebtedness Ratio not to exceed 66 2/3%. However, failure to maintain any of these covenants will not be a violation if it is remedied by the end of the next fiscal quarter. Failure to maintain a Debt Service Coverage Ratio of 1.00, Days Cash on Hand of at least 60 days or an Indebtedness Ratio of not greater than 70% is an event of default and LVHN would have 30 days to cure the default. In the event of default, the bank has the right to accelerate the bonds, at which time LVHN would have at least 30 days to repurchase some or all of the bonds from the bank or remarket the bonds. Failure to maintain a Debt Service Coverage Ratio of 1.25, Days Cash on Hand of at least 60 days or an Indebtedness Ratio of not greater than 0.67 to 1 requires the engagement of a consultant. Also, failure to maintain a Debt Service Coverage Ratio of at least 1.75 or maintain Days Cash on Hand of at least 90 days will result in the requirement to immediately fund a Debt Service Reserve account in the amount of $6.1 million.

The 2005 Series B bonds include requirements to (a) maintain a Debt Service Coverage Ratio of 1.25, (b) maintain Days Cash on Hand of at least 60 days and (c) maintain an Indebtedness Ratio not to exceed 0.67 to 1. If any of the preceding covenants are not met; the engagement of a consultant is required. Also, failure to maintain a Debt Service Coverage Ratio of at least 1.75 or maintain Days Cash on Hand of at least 90 days will result in the requirement to immediately fund a Debt Service Reserve account in the amount of $8.1 million. Upon issuance the 2005 Series B bonds required the establishment of a Debt Service Reserve account in the amount of $5.0 million which remained in place at June 30, 2013 and 2012. If additional funding of the Series B Debt Service Reserve is required as described above, the amount of funding required will be reduced by the current $5.0 million Series 2005 B Debt Service Reserve, resulting in an additional funding requirement of $3.1 million. This debt service account is reported under Noncurrent assets as Assets limited under bond indenture, bond construction, debt service, and debt service reserve agreements – held by trustee in the Combined Statements of Financial Position.

3. LONG-TERM DEBT (Continued)

Restrictive Covenants (continued)

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

The 2008 Series B bonds include requirements to (a) maintain a Debt Service Coverage Ratio of 1.25, (b) maintain Days Cash on Hand of at least 70 days and (c) maintain an Indebtedness Ratio not to exceed 66 2/3%. However, failure to maintain any of these covenants will not be a violation if it is remedied by the end of the next fiscal quarter. Failure to maintain a Debt Service Coverage Ratio of 1.00, Days Cash on Hand of at least 60 days or an Indebtedness Ratio of not greater than 70% is an event of default and LVHN would have 30 days to cure the default. In the event of default, the bank has the right to accelerate the bonds, at which time LVHN would have at least 30 days to repurchase some or all of the bonds from the bank or remarket the bonds. Failure to maintain a Debt Service Coverage Ratio of 1.25, Days Cash on Hand of at least 65 days or an Indebtedness Ratio of not greater than 0.67 to 1 requires the engagement of a consultant. Also, failure to maintain a Debt Service Coverage Ratio of at least 1.75 or maintain Days Cash on Hand of at least 90 days will result in the requirement to immediately fund a Debt Service Reserve account in the amount of $9.5 million.

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

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

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

The 2012 Series B bonds include requirements to maintain a Debt Service Coverage Ratio of at least 1.25, or if such percentage cannot be achieved in any fiscal year as a result of restrictions imposed under applicable laws and regulations (including cost containment requirements, restrictions on rates or revenues or reimbursement regulations or policies imposed by governmental third-party payers) or as a result of restrictions or policies imposed by private third-party payers affecting any particular Obligated Issuer or Issuers, at least 1.0. If the covenant is not met, the engagement of a consultant is required. However, failure to meet the covenant will not be an event of default as long as the Debt Service Coverage Ratio for the Obligated Group is at least 1.0, the Debt Service Coverage Ratio for all Obligated Issuers which were not affected by such laws or regulations, as referred to above, is at least 1.0, a consultant is engaged and a good faith effort is made to implement the recommendations of the consultant.

For the years ended June 30, 2013 and 2012, the financial covenants noted above were met and the Obligated Group was not aware of any instances of non-compliance with its other covenants.

4. PROPERTY AND EQUIPMENT, NET

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

	2013	2012
Land and land improvements	$67,156	$66,332
Buildings and building equipment	848,311	819,061
Fixed and major movable equipment	446,473	418,621
Assets under capital lease	32,188	32,188
Construction in progress	46,728	31,681
Total original cost	1,440,856	1,367,883
Accumulated depreciation and amortization	(802,396)	(747,248)
Property and equipment, net	$638,460	$620,635

Depreciation and amortization expense for the years ended June 30, 2013 and 2012 was $83,362 and $82,498, respectively. Depreciation of assets under capital lease included in depreciation and amortization expense was $1,414 at June 30, 2013 and 2012. Accumulated depreciation relating to the assets under capital lease was $9,182 and $7,768 at June 30, 2013 and 2012, respectively, and is included in accumulated depreciation.

5. FUNCTIONAL EXPENSES

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

	2013	%	2012	%
Health care services	$1,433,517	94%	$1,342,411	94%
General and administrative	98,306	6%	92,384	6%
Total	$1,531,823	100%	$1,434,795	100%

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

Effective July 1, 2012, the Organization adopted the provisions of Accounting Standards Update ("ASU") 2011-07, "Health Care Entities (Topic 954)*: Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities"*. As a result of retrospectively reclassifying the Provision for bad debts associated with patient service revenue from an operating expense to a deduction from patient service revenue (net of contractual allowances and discounts), the Functional expenses disclosure above is also reported on a retrospective basis.

6. FUNDS HELD BY FIDUCIARY

LVH is the primary beneficiary of the Dorothy Rider Pool Health Care Trust (the "Pool Trust") which was established through the estate of a former director of LVH. The fair value of the Pool Trust at June 30, 2013 and 2012 was $79,538 and $76,336, respectively. The assets of the Pool Trust are not included in the accompanying combined financial statements. Under the general provisions of the Trust, distributions from the Pool Trust are to be made to or for the benefit of LVH to supplement, not replace, LVH's ordinary operating expenses, so that LVH can be operated and managed in a manner that will improve its medical standards, knowledge and procedures, and sustain at the highest level of quality the health maintenance and hospital care it provides to members of the community it serves. Under certain circumstances, distributions from the Pool Trust may be made to other designated health care related organizations. Distributions to LVH from the Pool Trust were $3,518 and $3,531 during the years ended June 30, 2013 and 2012, respectively, and are reported as a component of Other supporting operations revenue.

7. CHARITY CARE

As a community organization, all revenues and gains in excess of expenses and losses of the Organization are, or will be, used for the repayment of debt, acquisition of equipment and facilities, and to provide for the present and future health care needs of the patients and communities it serves. The Organization provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates regardless of their ability to pay. Because the Organization does not pursue collection of amounts determined to qualify as charity care, they are not reported as patient service revenues. The amount of charity care to patients for the years ended June 30, 2013 and 2012, at cost, was $25,767 and $23,903 respectively. Costs of these services were estimated by calculating a ratio of overall cost to gross charges for all patients and then applying this ratio to gross charges for patients receiving charity care.

8. BAD DEBTS

In instances where the Organization believes a patient has the ability to pay for services and, after appropriate collection effort, payment is not made, the amount of services not paid is written-off, at charges, as bad debts. Amounts recorded as Provision for bad debts do not include charity care. The amount of Provision for bad debts for the years ended June 30, 2013 and 2012, at charges, was $117,493 and $106,247, respectively.

9. RETIREMENT PLAN

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

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

Information for the noncontributory defined benefit option regarding funded status, net periodic pension cost, benefit obligation, assumptions, etc., as of June 30, 2013 and 2012, is presented below and on the following pages and includes the impact of employee selection of pension benefit options. The Plan's assets described below and on the following pages are not included in the combined financial statements of the Organization.

Description of Investment Policies

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

Plan Assets

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

	2013		2012	
Investment category	Actual	Target	Actual	Target
Domestic equity	32.4%	30.0%	33.0%	30.0%
International equity	21.2%	20.0%	20.5%	20.0%
Private equity	2.2%	5.0%	2.5%	5.0%
Hedge funds	5.3%	5.0%	4.4%	5.0%
Real estate securities	4.8%	5.0%	5.1%	5.0%
Commodities contracts	5.1%	5.0%	5.1%	5.0%
Fixed income	29.0%	30.0%	29.4%	30.0%
Total	100.0%	100.0%	100.0%	100.0%

9. RETIREMENT PLAN (Continued)

Determination of Expected Return on Plan Assets

To develop the expected return on Plan assets assumption reported below, the Organization considered the current level of expected returns on risk free investments (primarily government bonds), the historical level of the risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each class. The expected return for each asset class was weighted based on the target asset allocation to develop the expected long-term rate of return on assets assumption for the portfolio. This resulted in the selection of the 7.0% return on plan assets assumptions for 2013 and 2012.

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

2013

Type of Investment	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$0	$8,398	$0	$8,398
Equity securities:				
Domestic equity	195,269	0	0	195,269
International equity	128,082	0	0	128,082
Real estate equity	28,516	0	0	28,516
Fixed income:				
U.S. Treasury securities and obligations of U.S. Government agencies	101,921	21,896	0	123,817
Corporate bonds	0	41,196	0	41,196
Asset-backed securities	0	1,596	0	1,596
Collateralized mortgage obligations	0	232	0	232
Hedge funds (multi-strategy)	0	13,140	18,639	31,779
Commodities contracts	0	30,827	0	30,827
Private equity	0	0	13,132	13,132
Total assets at fair value	$453,788	$117,285	$31,771	$602,844

2012

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

For the years ended June 30, 2013 and 2012, respectively, there were no transfers between valuation levels.

9. RETIREMENT PLAN (Continued)

The Plan's use of Level 3 unobservable inputs as of June 30, 2013 and, 2012 accounted for 5.3% and 6.8%, respectively, of the total fair value of investments. The following table summarizes changes in Level 3 assets measured at fair value at June 30:

2013	Private equity	Hedge funds	Total
Beginning balance at July 1, 2012	$13,602	$21,926	$35,528
Realized investment earnings	$673	$27	700
Net appreciation in market value of investments	671	1,886	2,557
Purchases	171	16,728	16,899
Sales	(1,985)	(21,928)	(23,913)
Ending balance at June 30, 2013	$13,132	$18,639	$31,771

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

Additional Pension Information

The Organization uses a June 30 measurement date for the Plan. The following tables set forth the Plan's funded status at June 30, benefits paid, and employer contributions made during the years ended June 30, 2013 and 2012 and certain other information and amounts recognized in the combined financial statements at June 30:

	2013	2012
Change in benefit obligation		
Projected benefit obligation at beginning of year	$787,465	$578,196
Service cost	26,356	21,097
Interest cost	36,450	35,281
Actuarial (gain) loss	(57,086)	164,411
Benefits paid	(13,505)	(11,520)
Projected benefit obligation at end of year	$779,680	$787,465
Change in plan assets		
Fair value of plan assets at beginning of year	$519,616	$423,070
Actual return on plan assets	39,096	46,732
Employer contributions	57,637	61,334
Benefits paid	(13,505)	(11,520)
Fair value of plan assets at end of year	$602,844	$519,616
Funded status at end of year	($176,836)	($267,849)
Amounts recognized in the statements of financial position consists of:		
Accrued pension liability - noncurrent portion	(176,836)	(267,849)
Net amount recognized	($176,836)	($267,849)

9. RETIREMENT PLAN (Continued)

Additional Pension Information (continued)

	2013	2012
Amounts recognized in unrestricted net assets but not yet recognized in net periodic benefit cost		
Prior service costs	$5	$14
Net loss	136,721	205,993
Total amount recognized in unrestricted net assets	$136,726	$206,007
Components of net periodic benefit cost (NPBC)		
Service cost	$26,356	$21,097
Interest cost	36,450	35,281
Expected return on plan assets	(37,726)	(31,786)
Amortization of prior service cost	9	9
Recognized actuarial loss	10,815	649
Net periodic benefit cost (pension expense)	$35,904	$25,250
Other changes in plan assets and benefit obligation recognized in unrestricted net assets		
Net actuarial (gain) loss	($58,456)	$149,465
Amortization of loss	(10,815)	(649)
Amortization of prior service cost	(9)	(9)
Total (gain) loss recognized in unrestricted net assets	($69,280)	$148,807
Reconciliation of accrued pension cost		
Balance at beginning of year	($267,849)	($155,126)
Annual pension expense	(35,904)	(25,250)
Adjustments to funded status of pension plan	69,280	(148,807)
Annual contributions	57,637	61,334
Balance at end of year	($176,836)	($267,849)
Accumulated benefit obligation at year end	$705,824	$699,551
Weighted - average assumptions used to determine projected benefit obligation		
Discount rate	5.124%	4.689%
Rate of compensation increase	3.500%	3.500%
Weighted - average assumptions used for NPBC development		
Discount rate	4.689%	6.076%
Expected return on plan assets	7.000%	7.000%
Rate of compensation increase	3.500%	4.000% *

* (used 4% for 2 years, 3.5% thereafter)

The actuarial net loss and prior service cost that will be amortized from unrestricted net assets into net periodic benefit cost over the next fiscal year are $5,074 and $5, respectively.

Estimated Future Benefit Payments

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

Fiscal 2014	$18,666
Fiscal 2015	21,670
Fiscal 2016	24,875
Fiscal 2017	28,246
Fiscal 2018	32,130
Fiscal 2019-2023	224,321
Total	$349,908

9. RETIREMENT PLAN (Continued)

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

Fiscal Year 2013 Activity

During the years ended June 30, 2013 and 2012, the Organization made contributions of $12.2 million and $10.5 million, respectively, to the defined contribution component of the Plan and recorded $13.0 million and $11.0 million, respectively, in related pension expense. The liability recognized under the Current portion "Pension" in the Combined Statements of Financial Position at June 30, 2013 and 2012 for the defined contribution component of the Plan was $3.9 million and $3.1 million, respectively. Total expected contributions to the defined contribution component of the Plan in fiscal year 2014 are $14.3 million.

During the years ended June 30, 2013 and 2012, the Organization made contributions of $6.6 million and $6.1 million, respectively, to the matched savings benefit component of the Plan and recorded $6.6 million and $5.8 million, respectively, in related pension expense. The liability recognized under the Current portion "Pension" in the Combined Statements of Financial Position at June 30, 2013 and 2012 for the matched savings benefit component of the Plan was $0.1 million and $0.1 million, respectively. Total expected contributions to the matched savings component of the Plan in fiscal year 2013 are $7.4 million.

10. COMMITMENTS AND CONTINGENCIES

Operating Leases

Rental expense reported on the Other expense line of the Combined Statements of Operations for the years ended June 30, 2013 and 2012 was $25,296 and $23,784, respectively.

Minimum future rentals under non-cancelable operating leases with terms in excess of one year as of June 30, 2013 are as follows:

Fiscal Year	Real Estate	Vehicles	Equipment	Total
2014	$13,755	$363	$204	$14,322
2015	$14,281	$204	$122	$14,607
2016	$13,647	$96	$15	$13,758
2017	$12,675	$53	$0	$12,728
2018	$10,869	$25	$0	$10,894
Thereafter	$55,140	$0	$0	$55,140

Litigation

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

11. TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

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

	2013	2012
Purchase of capital assets	$245	$244
Specific health care services and education	103,137	93,008
Total temporarily restricted net assets	$103,382	$93,252

Permanently restricted net assets, which total $47,741 and $46,441 at June 30, 2013 and 2012, respectively, are required to be held in perpetuity with the expendable income earned thereon to be used to support health care services and education.

12. ENDOWMENT FUNDS

Endowment funds are defined as funds established by donors or the Board of Trustees to provide the Organization with either a permanent source of income or a source of income for a specified period of time. The Organization's endowment funds consist of 113 and 103 individual donor-restricted funds at June 30, 2013 and 2012, respectively, established for a variety of purposes hereinafter referred to as the "LVHN Endowment Fund". The Organization does not have Board Designated endowment funds or unrestricted endowment funds.

Interpretation of Relevant Law

The Organization has interpreted Pennsylvania law as requiring preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds when explicit donor stipulations requiring permanent maintenance of the historical fair value are present. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment when explicit donor stipulations requiring permanent maintenance of the historical fair value are present, (b) the original value of the subsequent gifts to the permanent endowment when explicit donor stipulations requiring permanent maintenance of the historical fair value are present, and (c) accumulations of investment earnings to the permanent endowment in cases where the donor explicitly instructed a portion of investment earnings be added to the permanent fund. The remaining portion of the donor-restricted endowment funds comprised of accumulated investment earnings not required to be maintained in perpetuity is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with donors' stipulations. The Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: duration and preservation of the fund, purposes of the donor-restricted endowment fund, general economic conditions, the possible effect of inflation and deflation, the expected total return from income and the appreciation of investments, other resources of the Organization, and the investment policies of the Organization.

The net asset composition of the LVHN Endowment Fund at June 30, 2013 and 2012 was as follows:

	Temporarily restricted	Permanently restricted	Total
2013			
Donor restricted endowment funds	$80,032	$40,802	$120,834
2012			
Donor restricted endowment funds	$71,329	$39,786	$111,115

Changes in the LVHN Endowment Fund Net Assets during the years ended June 30, 2013 and 2012 were as follows:

2013	Temporarily restricted	Permanently restricted	Total
Endowment net assets, beginning of year	$71,329	$39,786	$111,115
Investment Return:			
Investment income	1,785	0	1,785
Net appreciation (realized and unrealized)	9,754	0	9,754
Total investment return	11,539	0	11,539
Contributions	74	1,252	1,326
Reclassification to temporarily restricted from permanently restricted	0	(236)	(236)
Appropriation of endowment assets for expenditures (expense)	(2,910)	0	(2,910)
Endowment net assets, end of year	$80,032	$40,802	$120,834

12. ENDOWMENT FUNDS (Continued)

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

Investment Return Objectives

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

To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The actual and target investment allocations were as follows for the LVHN Endowment Fund Assets as of June 30, 2013:

LVHN Endowment assets	Actual %	Target %
Domestic equity	34%	34%
International equity	22%	23%
Real estate	6%	6%
Fixed income	26%	25%
Hedge funds	6%	6%
Commodities	6%	6%
Total	100%	100%

Spending Policy and How the Investment Objectives Relate to Spending Policy

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

13. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

The availability of observable inputs for valuation of investments varies and is affected by a wide variety of factors. When the valuation is based on models or inputs that are less observable or unobservable in the market, the determination of fair value requires significantly more judgment. The degree of judgment exercised by management in determining fair value is greatest for investments categorized as Level 3. For investments in this category, the Organization considers prices and inputs that are current as of the measurement date. In periods of market dislocation the observability of prices and inputs may be reduced.

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

Level 2 – Valuations based on quoted prices in active markets for *similar* assets or liabilities, quoted in markets that are not active or for which an identical asset or liability was not traded on the financial statement date or where all significant inputs are not observable, directly or indirectly. Level 2 primarily includes investments in U.S. Treasury securities and obligations of U.S. government agencies, together with municipal bonds, corporate debt securities, commercial mortgage and asset-backed securities, certain residential mortgage-backed securities that are generally investment grade, certain equity securities, hedge funds, commodities, and perpetual trusts. The Organization based the fair value of hedge funds and commodity contracts on the fair value of the underlying reported net asset values of each fund held. The hedge funds, a fund of funds investment, totaling $42,476 and $0 at June 30, 2013 and 2012, respectively, has a redemption period of 15 days. Commodity contracts, a fund of commodity contracts, totaling $45,137 and $40,256 at June 30, 2013 and 2012, respectively, has a redemption period of 5 days.

Level 3 – Valuations based on inputs that are unobservable and significant to the overall fair value measurement. These are generally organization or individual investment manager generated inputs and are not observable market based inputs. Material assumptions and factors considered in the valuation may include, but are not limited to, operational activity of private equity holdings, reliance on third party estimates, share valuations, and appraisals. Level 3 investments include investments in hedge funds and perpetual trusts. The Organization based the fair value of Hedge funds, a fund of funds investment of $50,424 and $89,694 at June 30, 2013 and 2012, respectively, on the fair value of the underlying reported net asset values of each fund held. The hedge fund requires a redemption period of 60-90 days.

13. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

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

2013

Type of Investment	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$6,012	$22,730	$0	$28,742
Equity securities:				
Domestic equity	238,645	0	0	238,645
International equity	141,437	0	0	141,437
Real estate equity	49,673	0	0	49,673
Fixed income:				
U.S. Treasury securities and obligations of U.S. Government agencies	131,008	63,445	0	194,453
Corporate bonds	13,606	155,528	0	169,134
Asset-backed securities	0	69,121	0	69,121
Collateralized mortgage obligations	0	67,394	0	67,394
Hedge funds (multi-strategy)	0	42,476	50,424	92,900
Commodities contracts	0	45,137	0	45,137
Perpetual trust	0	0	6,939	6,939
Other	0	4,108	0	4,108
Other assets - swap assets	0	120	0	120
Total assets at fair value	$580,381	$470,059	$57,363	$1,107,803
Liabilities at Fair Value				
Deferred compensation and other liabilities funded with matching assets	$29,976	$15,430	$0	$45,406
Other liabilities - swap liabilities	0	18,179	0	18,179
Total liabilities at fair value	$29,976	$33,609	$0	$63,585

13. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

2012

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

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

The Organization’s use of Level 3 unobservable inputs at June 30, 2013 and 2012 accounted for 5.12% and 8.95%, respectively, of the total fair value of investments. The following tables summarize changes in Level 3 assets measured at fair value at June 30, 2013 and 2012:

2013	Perpetual Trusts	Hedge funds	Total
Balance at July 1, 2012	$0	$89,694	$89,694
Realized investment earnings	0	1,569	1,569
Change in net unrealized gains (loss) on investments	0	4,603	4,603
Transfer from level 2	6,655	0	6,655
Increase in beneficial interest in perpetual trusts	284	0	284
Purchases	0	44,258	44,258
Sales	0	(89,700)	(89,700)
Balance at June 30, 2013	$6,939	$50,424	$57,363

2012	Perpetual Trusts	Hedge funds	Total
Balance at July 1, 2011	$0	$90,497	$90,497
Change in net unrealized gains (loss) on investments	0	(1,803)	(1,803)
Purchases	0	1,000	1,000
Balance at June 30, 2012	$0	$89,694	$89,694

13. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The fair value of long-term debt, which was estimated at $565,079 and $525,208 at June 30, 2013 and 2012, respectively, was determined using the Organization's current borrowing rates for similar types of borrowing arrangements. The recorded value of long-term debt reported in the combined Statements of Financial Position at June 30, 2013 and 2012 was $581,672 and $513,806, respectively. The excess of recorded value over fair value for long-term debt at June 30, 2013 and 2012 indicates market interest rates for debt of similar term and quality were higher than the weighted average interest rates of the Organization's outstanding debt. The excess of fair value over recorded value for long-term debt at June 30, 2013 and 2012 indicates market interest rates for debt of similar term and quality were lower than the weighted average interest rates of the Organization's outstanding debt.

14. PLEDGES RECEIVABLE

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

	2013	2012
Pledges receivable within next fiscal year	$3,112	$3,125
Pledges receivable in future periods beyond next fiscal year	2,538	3,943
Total pledges receivable before unamortized discount and allowance for uncollectible pledges	5,650	7,068
Less: unamortized discount	(258)	(360)
Less: allowance for uncollectible pledges	(216)	(252)
Net pledges receivable	$5,176	$6,456
Amounts due in:		
Less than one year	$3,112	$3,125
One to five years	2,064	3,204
More than five years	474	739
Total	$5,650	$7,068

Cash payments received applicable to prior pledges were $2,002 and $2,825 for the years ended June 30, 2013 and 2012, respectively. Pledges written off as uncollectible were $1 and $31 for the years ended June 30, 2013 and 2012, respectively. The Organization's policy regarding the recording of pledges receivable in the combined financial statements requires pledges to be in writing, signed by the donor, and to indicate the specific amount of the pledge and expected timing the pledge payment will be received. LVHN does not record pledges based on bequests or life insurance. The Organization's historical write off of pledges receivable has been in the 1-5% range. The allowance for uncollectible pledges as of June 30, 2013 and 2012 was $216 (4%) and $252 (4%), respectively.

15. RECENT ACCOUNTING PRONOUNCEMENTS

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

In August 2010, the FASB issued ASU 2010-24, "Health Care Entities (Topic 954)*: Presentation of Insurance Claims and Related Insurance Recoveries*." This ASU requires a HCO to present a liability related to medical malpractice claims (and other contingent claims) gross; such a liability would not be offset against related insurance recoveries unless the criteria in ASC 210-20 for offsetting were met. Also, the industry specific guidance for the accrual of legal fees associated with resolving contingent claims would be eliminated and HCO's should follow the guidance for such fees in ASC 450-20-S99-2. This guidance is effective for annual reporting periods beginning after December 15, 2010. On July 1, 2011, the Organization adopted this guidance which did not have a material impact on the combined financial statements.

15. RECENT ACCOUNTING PRONOUNCEMENTS (continued)

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

In July 2011, the FASB issued ASU 2011-07, "Health Care Entities (Topic 954)*: Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities*." This ASU requires a HCO to change the presentation of their statement of operations by reclassifying the provision for bad debts associated with patient service revenue from an operating expense to a deduction from patient service revenue (net of contractual allowances and discounts). Additionally, a HCO is required to provide enhanced disclosure about their policies for recognizing revenue and assessing bad debts. The ASU also requires disclosures of patient service revenue (net of contractual allowances and discounts) as well as qualitative and quantitative information about changes in the allowance for doubtful accounts. This guidance is effective for annual reporting periods ending after December 15, 2012. The income statement presentation change was required to be adopted on a retrospective basis but the enhanced disclosures were permitted to be adopted either retrospectively or prospectively. On July 1, 2012, the Organization adopted this guidance and included the enhanced disclosures on a prospective basis in Note 1.