



November 11, 2022

Re: \$152,280,000 Lehigh County General Purpose Authority Hospital Revenue Bonds (Lehigh Valley Health Network) Series B of 2012

\$75,000,000 Lehigh County General Purpose Authority Hospital Revenue Bonds (Lehigh Valley Health Network) Series A of 2015

\$139,275,000 Lehigh County General Purpose Authority Hospital Revenue Bonds (Lehigh Valley Health Network) Series A of 2016

\$58,320,000 Monroe County Hospital Authority Hospital Revenue Bonds (Pocono Medical Center) Series of 2016

\$53,255,000 City of Pottsville Hospital Authority Hospital Revenue Bonds (Lehigh Valley Health Network) Series B of 2016

\$418,120,000 Lehigh County General Purpose Authority Hospital Revenue Bonds (Lehigh Valley Health Network) Series A of 2019

\$148,120,000 Lehigh County General Purpose Authority Hospital Revenue Bonds (Lehigh Valley Health Network) Series B of 2019

Attached is certain annual financial and operating information with respect to the Lehigh Valley Health Network Obligated Group for the fiscal year ended June 30, 2022. This information is provided pursuant to continuing disclosure undertakings of the Obligated Group in connection with the above-referenced bonds issued on its behalf.

Sincerely,

/s/ Thomas Marchozzi

Thomas Marchozzi
Executive Vice President & Chief Financial Officer

LEHIGH VALLEY HEALTH NETWORK – ANNUAL DISCLOSURE JUNE 30, 2022

Lehigh Valley Health Network

Management's Discussion and Analysis

(Year Ended June 30, 2022, as Compared to Year Ended June 30, 2021)

LVHN reported operating income of \$78.5 million for the year ending June 30, 2022, resulting in an operating margin of 2.0% compared to a 4.4% margin on income of \$150.7 million in FY21. Net patient service revenue of \$3,686.1 million was 12% above revenues recorded in FY21. Total expenses of \$3,755.2 million were 14% above expenses recorded in FY21. Revenues and Gains in Excess decreased to a deficit of (\$23.6) million from \$402.0 million between FY22 and FY21. Operating Cash Flow Margin decreased to 8.0% from 10.6%. The Network recognized approximately \$54 million in COVID relief funds from federal sources in FY22 (HHS and FEMA).

The significant expense increases were attributable mainly to higher costs associated with wages, supplies and purchased services across most LVHN locations. While staffing challenges and the need for outside contracted labor continues, management has been working diligently to improve staffing and reduce utilization of temporary labor wherever possible. Enhanced recruitment efforts continue in all areas to combat staffing shortages.

Unfavorable trends in the capital markets led to realized and unrealized investment losses of \$109.6 million in FY22, compared to gains of \$269.5 million in FY21. This contributed to a decline in Days Cash on Hand (DCOH) from 216 in FY21 to 150 in FY22. Days Cash on Hand was also materially impacted by the scheduled repayment of \$191.1 million in Advance Medicare dollars and an additional \$25 million in deferred payroll tax payments.

Inpatient and ER volumes continued to improve, with ER visits increasing 21.1% from 235,527 in FY21 to 285,115 in FY22. Inpatient volume continued to experience marginal growth of 0.5% vs FY21 and 1.1% vs FY20. Physician visits and outpatient registrations increased year over year by 12.2% and 3.1%, respectively. ExpressCare visits (walk-in) increased by 47.4% from 276,836 to 408,047.

LVHN opened three hospitals during FY22. LVH- Hecktown Oaks commenced operations on July 1, 2021 and includes 143,000 square foot hospital and cancer center with 18 inpatient beds and 4 OR suites. Continued expansion of LVH-Hecktown Oaks included a 95,000 square foot four-story patient tower in November of 2021, containing 30 additional patient beds with capacity for additional growth, as well as the opening of its Intensive Care Unit in June of 2022. LVH-Dickson City opened May 19, 2022. The campus includes a 100,000 square foot state of the art hospital including 24 private inpatient rooms, a 19-bay emergency room and helipad. Also opening in June was LVH-Carbon, LVHN's newest hospital, which includes 20 private inpatient rooms, a 16 bay emergency department, 2 operating rooms, and helipad. Both LVH-Dickson and LVHN Carbon have adjacent medical office buildings.

During FY22, only interim financing and previously incurred debt was used to complete the construction of the new hospital facilities. Permanent financing for a portion of these project costs was secured in early FY23 through the issuance of the Series 2022A and 2022B direct purchase Hospital Revenue Bonds totaling \$85 million via the Carbon County Hospital Authority, and a \$40 million taxable term loan.

Lehigh Valley Health Network and Subsidiaries
Consolidated Statements of Financial Position
(In Thousands)

	As of June 30,		
	<u>2020</u>	<u>2021</u>	<u>2022</u>
<u>Assets</u>			
Current assets:			
Cash and cash equivalents	\$451,960	\$476,836	\$212,342
Patient accounts receivable	328,365	306,254	410,109
Other accounts receivable	29,085	48,286	62,397
Other current assets	<u>129,684</u>	<u>155,762</u>	<u>172,051</u>
Total current assets	<u>939,094</u>	<u>987,138</u>	<u>856,899</u>
Noncurrent assets:			
Assets whose use is limited or restricted	1,779,713	2,108,933	1,896,141
Property and equipment, net	1,471,989	1,637,131	1,729,572
Right of use asset - leases	203,428	196,952	206,840
Partnership investments	16,557	15,762	18,599
Goodwill and intangible assets, net	180,719	180,563	184,828
Other noncurrent assets	<u>26,197</u>	<u>35,994</u>	<u>48,178</u>
Total noncurrent assets	<u>3,678,603</u>	<u>4,175,335</u>	<u>4,084,158</u>
Total assets	<u>\$4,617,697</u>	<u>\$5,162,473</u>	<u>\$4,941,057</u>
<u>Liabilities and net assets</u>			
Current liabilities:			
Pension	\$14,965	\$17,721	\$17,703
Current portion of long-term debt	16,982	20,021	23,069
Current lease obligations	31,635	30,461	34,879
Other current liabilities	<u>689,059</u>	<u>684,293</u>	<u>542,792</u>
Total current liabilities	<u>752,641</u>	<u>752,496</u>	<u>618,443</u>
Noncurrent liabilities:			
Long-term debt, net of current portion	1,129,533	1,123,770	1,212,771
Long-term lease obligations	303,184	298,690	300,440
Deferred compensation and other liabilities	143,778	171,912	146,243
Pension	249,545	46,365	19,956
Professional liability	121,199	127,577	124,634
Derivative instruments	1,999	1,154	0
Other liabilities	<u>13,953</u>	<u>38,410</u>	<u>19,087</u>
Total noncurrent liabilities	<u>1,963,191</u>	<u>1,807,878</u>	<u>1,823,131</u>
Total liabilities	<u>2,715,832</u>	<u>2,560,374</u>	<u>2,441,574</u>
Net assets:			
Without donor restrictions:			
Lehigh Valley Health Network and Subsidiaries	1,616,866	2,167,931	2,093,732
Noncontrolling interests in subsidiaries	<u>35,905</u>	<u>43,193</u>	<u>43,268</u>
Total net assets without donor restrictions	1,652,771	2,211,124	2,137,000
With donor restrictions	<u>249,094</u>	<u>390,975</u>	<u>362,483</u>
Total net assets	<u>1,901,865</u>	<u>2,602,099</u>	<u>2,499,483</u>
Total liabilities and net assets	<u>\$4,617,697</u>	<u>\$5,162,473</u>	<u>\$4,941,057</u>

Lehigh Valley Health Network and Subsidiaries
Consolidated Statements of Operations
(In Thousands)

	Years Ended June 30,		
	<u>2020</u>	<u>2021</u>	<u>2022</u>
<u>Patient services and supporting operations</u>			
Revenues			
Net patient service revenue	\$2,951,268	\$3,287,343	\$3,686,080
Other supporting operations revenue	168,991	140,480	129,639
Net assets released from restrictions used for operations	<u>9,414</u>	<u>9,193</u>	<u>17,977</u>
Total revenues	<u>3,129,673</u>	<u>3,437,016</u>	<u>3,833,696</u>
Expenses			
Salaries and wages	1,444,976	1,548,478	1,749,450
Benefits	223,842	207,086	233,769
Supplies	573,404	670,261	741,526
Purchased services	355,605	388,381	523,222
Other	233,746	244,352	268,365
Depreciation and amortization	157,078	174,812	182,056
Interest expense	40,166	38,557	45,302
Bad debt	<u>7,862</u>	<u>9,143</u>	<u>7,225</u>
Total expenses before integration and other non-recurring costs	<u>3,036,679</u>	<u>3,281,070</u>	<u>3,750,915</u>
Integration and other non-recurring costs	<u>9,020</u>	<u>5,214</u>	<u>4,309</u>
Operating income	<u>83,974</u>	<u>150,732</u>	<u>78,472</u>
<u>Other nonoperating gains and losses</u>			
Realized and unrealized investment earnings, net	35,025	259,534	(109,647)
Change in net unrealized (losses) gains on swaps	11,239	0	0
Other nonoperating gains	11,277	15,803	24,998
Loss on refinancing of debt	<u>(3,949)</u>	<u>(48)</u>	<u>0</u>
Other nonoperating gains and losses, net	<u>53,592</u>	<u>275,289</u>	<u>(84,649)</u>
Revenues and gains in excess of expenses and losses before income taxes	<u>137,566</u>	<u>426,021</u>	<u>(6,177)</u>
Provision for income taxes	<u>(1,980)</u>	<u>(3,354)</u>	<u>(1,522)</u>
Revenues and gains in excess of expenses and losses before noncontrolling interests	<u>135,586</u>	<u>422,667</u>	<u>(7,699)</u>
Noncontrolling interests	<u>(11,799)</u>	<u>(20,620)</u>	<u>(15,930)</u>
Revenues and gains in excess of expenses and losses attributed to			
Lehigh Valley Health Network and Subsidiaries	<u>123,787</u>	<u>402,047</u>	<u>(23,629)</u>

SOURCES OF REVENUE

The Network and its affiliates maintain agreements with the federal Medicare program, the Pennsylvania Medicaid program, commercial insurance carriers, and certain managed care programs that govern payments for services rendered to patients covered by these programs. The following table sets forth the percentage distribution of the Network's net patient service revenue by payor source for each of the three most recent fiscal years.

	<u>2020</u>	<u>2021</u>	<u>2022</u>
Medicare	24%	25%	23%
Medicare Managed Care	11	13	14
Medicaid	5	3	2
Medicaid Managed Care	10	9	10
Commercial Insurance	42	41	45
Other	7	8	5
Self Pay	1	1	1
	100%	100%	100%

NETWORK UTILIZATION

The following table sets forth selected utilization statistics for the Network's hospitals and ancillary services for the three years ended June 30, 2020, 2021, and 2022.

	<u>Years Ended June 30,</u>		
	<u>2020</u>	<u>2021</u>	<u>2022</u>
<u>Inpatient Services</u>			
Beds in service ⁽¹⁾	1,487	1,465	1,580
Acute Admissions/discharges	71,467	72,877	73,274
Adjusted admissions ⁽²⁾	177,956	175,796	180,502
Acute Patient days	371,258	400,116	418,909
Observation days	19,185	17,154	17,182
Births	7,002	6,876	6,612
FTE	16,463	17,277	17,668
Occupancy ⁽³⁾	68%	75%	73%
Medicare Case Mix	1.691	1.808	1.750
<u>Outpatient and Ancillary Services</u>			
Emergency Room visits	257,068	235,527	285,115
Outpatient Registrations	1,206,920	1,486,954	1,533,719
ExpressCARE visits	225,954	276,836	408,047
Home Care visits	141,422	125,880	123,257
Diagnostic Radiology Exams	322,278	404,918	373,656
Ultrasounds	69,683	76,113	103,202
CT Scans	146,418	156,010	198,870
MRI	49,473	64,837	73,901
Radiation Oncology Procedures	74,874	72,366	69,089
Cardiac Catheterization and EP Lab Procedures	3,381	3,701	3,794
<u>Surgical Procedures</u>			
Inpatient	19,149	19,019	17,796
Outpatient	40,710	55,086	57,054
<u>Other Select Surgical Procedures</u>			
Open Heart Cases	766	845	862
Robotic Procedures	2,870	3,805	4,711
Transplant Procedures	120	100	85

⁽¹⁾ Excludes skilled nursing, rehabilitation and nursery

⁽²⁾ Inpat admits/(inpat revs/total revs)

⁽³⁾ Excludes skilled nursing, rehabilitation and nursery