

Lehigh Valley Health Network and Component Entities

Combined Statements of Financial Position		<i>(In Thousands)</i>		<i>For the period ended June 30, 2006 and 2005</i>	
ASSETS	2006	2005	LIABILITIES AND NET ASSETS	2006	2005
Current assets			Current liabilities		
Cash/short-term investments	\$ 47,811	\$ 42,663	Accounts payable	\$ 43,067	\$ 28,201
Patient accounts receivable, net	118,095	105,693	Accrual for estimated third-party settlements	57,932	50,291
Prepays, inventories and other current assets	45,757	26,829	Accrued compensation	35,125	31,803
Assets limited under bond debt service fund	10,925	14,205	Other accrued expenses	21,710	20,617
Assets limited under primary professional liability and workers' compensation	<u>2,969</u>	<u>2,932</u>	Pension plan	25,640	27,900
Total current assets	<u>225,557</u>	<u>192,322</u>	Professional liability	2,048	1,882
Other assets			Workers' compensation	971	1,150
Assets limited by board for capital improvements	424,553	358,685	Long-term debt	<u>8,736</u>	<u>7,399</u>
Assets limited by board for retained excess liability arrangements	15,498	13,884	Total current liabilities	<u>195,229</u>	<u>169,243</u>
Assets limited by management	21,123	18,614	Other liabilities		
Assets limited under bond construction funds, debt service and debt service reserve fund	49,758	8,128	Long-term debt, net of current portion	458,635	365,952
Assets limited under workers' compensation arrangements	3,143	2,895	Liabilities with matching assets, chiefly deferred compensation arrangements	28,364	24,273
Assets limited under primary professional liability arrangements	13,526	12,190	Pension plan	33,854	33,831
Assets limited or restricted by donors or grantors	89,755	81,305	Professional liability	36,489	32,813
Property and equipment, net	496,238	434,464	Workers' compensation	3,143	2,895
Partnership investments and investments in subsidiaries	15,389	11,614	Other liabilities	<u>23,308</u>	<u>9,906</u>
Deferred charges, net and other assets	27,661	24,781	Total other liabilities	<u>583,793</u>	<u>469,670</u>
Assets with matching liabilities, chiefly deferred compensation arrangements	<u>28,364</u>	<u>24,273</u>	Total liabilities	<u>779,022</u>	<u>638,913</u>
Total other assets	<u>1,185,008</u>	<u>990,833</u>	Net assets		
			Unrestricted	541,788	462,937
			Temporarily restricted by donors/grantors	28,829	25,394
			Permanently restricted by donors	<u>60,926</u>	<u>55,911</u>
			Total net assets	<u>631,543</u>	<u>544,242</u>
Total assets	<u>\$1,410,565</u>	<u>\$1,183,155</u>	Total liabilities and net assets	<u>\$1,410,565</u>	<u>\$1,183,155</u>

Combined Statements of Operations *(In Thousands) For the period ended June 30, 2006 and 2005*

	2006	2005
Patient services and supporting operations		
Net patient service revenue	\$ 974,166	\$ 864,809
Other supporting operations revenue	35,607	30,890
Net assets released from restrictions-operations	<u>2,897</u>	<u>3,115</u>
Total revenue	<u>1,012,670</u>	<u>898,814</u>
Wages	407,501	357,747
Benefits	92,401	74,427
Supplies	175,180	152,354
Purchased services	107,284	97,900
Other	53,570	49,015
Depreciation and amortization	54,202	48,115
Bad debts	<u>47,977</u>	<u>43,381</u>
Total expenses	<u>938,115</u>	<u>822,939</u>
Patient services net margin	<u>74,555</u>	<u>75,875</u>
Other operating revenue and expense		
Realized investment earnings	21,947	20,152
Interest expense	19,243	16,012
Provision for income taxes	2,977	1,547
Non-cash loss on refinancing of debt	<u>(3,033)</u>	<u>0</u>
Other operating, net	<u>(3,306)</u>	<u>2,593</u>
Net from operations	<u>71,249</u>	<u>78,468</u>
Nonoperating gains and losses		
Other nonoperating gains (losses), net	<u>173</u>	<u>(286)</u>
Net available for community needs and debt repayment	<u>71,422</u>	<u>78,182</u>

Understanding This Report

The above columns (**Combined Statements of Financial Position**) report our assets, liabilities and net assets.

The columns to the right (**Combined Statements of Operations**) report our revenue and expenses.

The amount of revenue minus the amount of expenses creates our **patient services net margin**.

Listed underneath the patient services net margin is our other operating revenue and expense. This chiefly includes investment earnings and interest expense. The **net available for community needs and debt repayment** is reinvested in our community.

Prepared from LVHN financial reports



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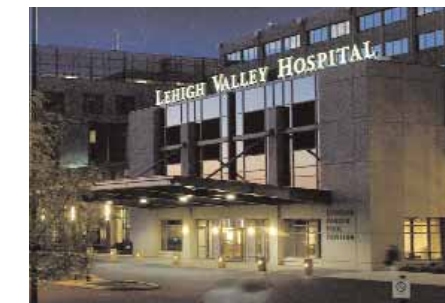
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Lehigh Valley Hospital—Cedar Crest
Cedar Crest and I-78, Allentown



Lehigh Valley Hospital—Muhlenberg
Route 22 and Schoenersville Road, Bethlehem



Lehigh Valley Hospital—17th and Chew
17th and Chew Streets, Allentown



Cedar Crest | Muhlenberg | 17th & Chew
610-402-CARE • www.lvh.org

Direct Patient Care (\$72,392,990)

Medicare Shortfall*	\$33,669,367
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- The difference between Medicare payments and the cost of providing patient care.

Medical Assistance Shortfall*	\$15,056,357
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- The difference between Medical Assistance and Medical Assistance Managed Care payments and the cost of providing patient care.

Bad Debt	\$11,671,946
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- The cost of providing care to patients who LVHN believes were able to pay for their care but did not.
- When people do not pay, regardless of whether they are able to pay and choose not to, or if they are unable to pay, it is uncompensated care. Act 55 defines this as appropriate community benefit.

Uncompensated Charity Care	\$6,672,761
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- Free care for people who were unable to pay.

**About shortfalls and Act 55:* As per Act 55, community benefit provided by charitable organizations includes shortfalls between payments received from Medicare, Medical Assistance and patients, and the cost of providing care.

Community Education and Prevention (\$3,092,137)

Health Promotion and Disease Prevention	\$985,483
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- Healthy You programs focused on exercise and fitness, health prevention and awareness, nutrition and wellness. A total of 14,291 community members attended free programs this year.
- Free dental screenings and procedures at our dental medicine clinic.
- Heart Help for Women programs that educate community members and physicians about a woman's special heart-health needs.
- *Healthy You* magazine, distributed to 256,000 community members.
- Publications and brochures to promote wellness, disease awareness (such as stroke prevention and cancer-risk prevention) and community activities, such as quit-smoking and trauma prevention programs.

School Health	\$243,547
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- Health awareness, education, prevention and immunizations for children at the School Health Center at Central Elementary School.
- Education, counseling and job training for at-risk students at Communities in Schools.
- The Preferred Employee Assistance Program for the Allentown School District.

Pastoral Care	\$634,203
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- Provides ministry to patients, family and staff inside the hospital.
- Provides education and training of ministers in pastoral work.
- Includes more than 5,400 hours spent with more than 15,000 patients and families.
- Includes a portion of salaries and benefits for pastoral care staff, and includes the cost of our pastoral care residency program after Medicare reimbursement.

Care for People Who Are Uninsured or Underinsured	\$4,378,700
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- The difference between clinic payments and clinic costs.
- Includes a portion of wages and benefits for residents who care for people in our clinics.
- Includes 40 primary and specialty care clinics and programs related to those clinics, such as our Casa Guadalupe outreach.
- Many services we provide to uninsured or underinsured patients are not listed here as community benefit. For the complete list, including in-kind services, visit www.lvh.org/community-benefit.

Interpreting Service and Patient Representatives	\$411,183
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- Purchased sign-language interpreting and online interpreting services. These interpreting services are provided free of charge to patients.
- Fees associated with patient satisfaction surveys. Survey results help our patient representatives to better advocate for patients. This enables us to provide the best care for our patients.

Department of Community Health	\$610,292
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- Develops new community-based initiatives through grant acquisition and management.
- In-kind community health programs and partnerships include:
 - The ALERT Partnership to raise awareness of teen issues such as drug and alcohol abuse prevention.
 - Emergency department screenings to prevent domestic violence and promote smoking cessation.
 - The Tobacco Treatment Program, offering 12-month counseling.
 - The Coalition for a Smoke-Free Valley, promoting advocacy and providing education, training and support services.

Lehigh Valley Hospital Cancer Center	\$193,262
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- Provides free support groups for men, women, teens and families who are living with cancer.
- Provides free classes and lectures, and education at health fairs on topics such as lymphoma, lung cancer, breast cancer and colon cancer.
- Maintains a patient education library.
- Provides nutritional counseling and an annual nutritional fair.
- Presents an annual Cancer Survivor Celebration.

This amount reflects the cost of providing the services listed, free of charge, to patients who cannot afford to pay.

Direct Patient Care Community Activities	\$310,676
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- Distribution of about 10,000 free flu shots to community members.
- Distribution of free hand-sanitizer samples to patients to promote hand-washing safety in the hospital.
- Medications appropriate to patient treatment that were provided free upon discharge to people unable to pay for them.
- Portion of wages and benefits for coordinator who obtains medications from pharmaceutical companies and distributes them to patients who can't afford them.
- The difference between payments for mental health services from Lehigh County and the cost of providing services at two residential aftercare programs (called Transitional Living Centers).

Blue Cross Special Care Shortfall*	\$222,000
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- The difference between Blue Cross Special Care payments and the cost of providing patient care.
- Blue Cross Special Care is a limited-benefit, low-cost health insurance plan for people who otherwise would be uninsured.

Community Help Line	\$157,130
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- Provides free phone-based health care services to the community through 610-402-CARE.
- Enables community members to learn more about health care services, health information and free flu shots.
- Enables community members to schedule physician appointments, register for health and wellness classes, support groups, lectures and more.

Helwig Health and Diabetes Center Programs	\$146,984
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- Provides inpatient management and schedules counseling or follow-up visits for people and families living with diabetes.
- Provides support groups for adults, children and for people who use insulin pumps.
- Hosts Camp Red Jacket, an educational day camp for school-age children with diabetes.
- Conducts community programs and presentations, reaching more than 1,000 community members.
- Offers a free diabetes e-newsletter to raise diabetes awareness and prevention.

This amount reflects the cost of providing the services listed, free of charge, to patients who cannot afford to pay.

AIDS Activities Office	\$121,236
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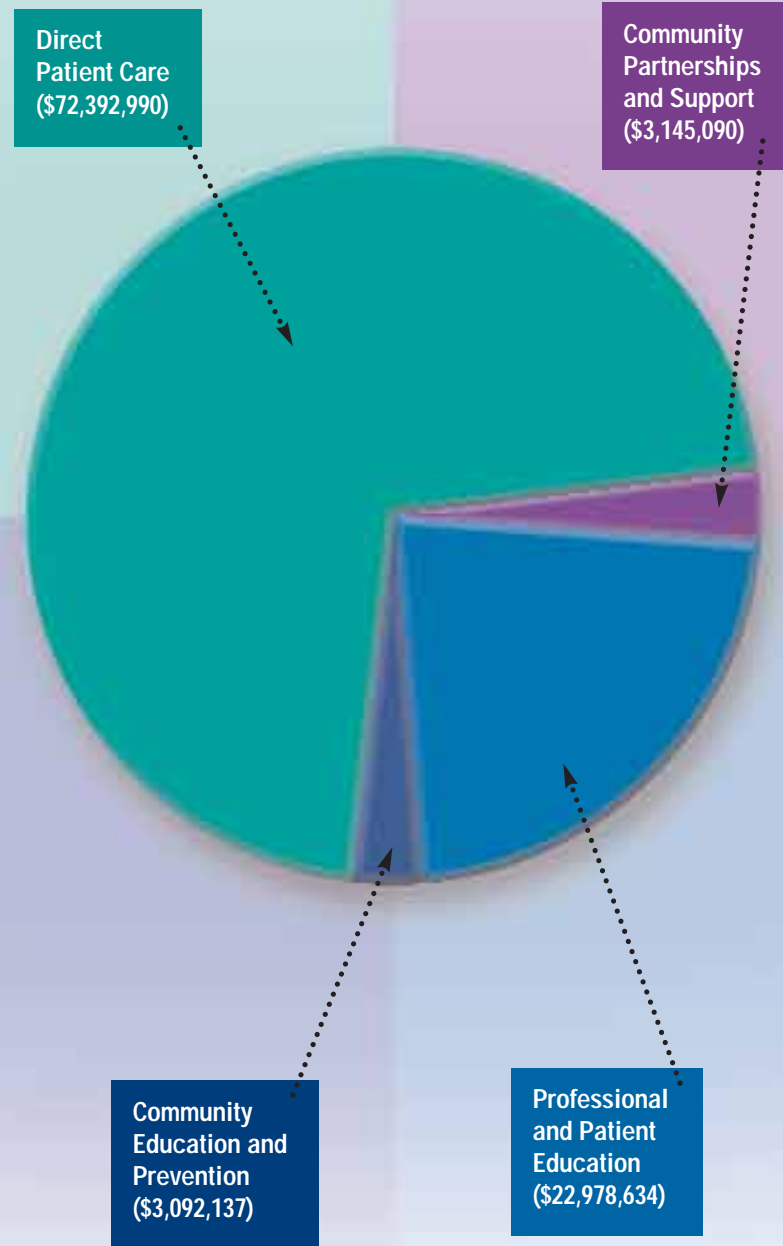
- Provides clinical and social services to children, adolescents and adults affected by HIV/AIDS.
- Offers free HIV testing and counseling.
- Offers initial and ongoing medical care, monitoring and coordination of treatments, nutritional assessments, counseling and case management.

This amount reflects the cost of providing the services listed, free of charge, to patients who cannot afford to pay.

How We Serve Our Community

Grand Total \$101,608,851

Total of our community benefit



Community Partnerships and Support (\$3,145,090)

Equivalent Value of Volunteer Assistance*	\$2,422,233
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- Total of 1,104 volunteers donated 132,634 hours.
- Not included in the above amount are 40,724 hours of care donated by physicians on LVHVN's medical staff. This includes providing free care in LVHVN clinics to patients who are unable to pay and providing education to medical students and residents.

Equivalent Value of Support for Agencies and Municipalities	\$441,595
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- Support of the City of Allentown's chronic disease prevention, outreach and education services, including free Pap tests, mammograms, ultrasounds and lab testing for high-risk people who are uninsured or underinsured.
- Free transportation for patients unable to obtain rides home.
- Free physical exams and related lab tests for municipal firefighters.
- Support of Salisbury Township, Salisbury Township School District and the Western Salisbury Volunteer Fire Co.

**About volunteers and Act 55:* As per Act 55, it is appropriate for charitable organizations to report volunteer service. This shows how valuable volunteers are to the institution and the community. Act 55 provides a formula for calculating this based on the Pennsylvania Workers Compensation Act. We follow that formula.

Professional and Patient Education (\$22,978,634)

Medical Education*	\$13,906,400
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- Salaries and benefits for medical residents.
- A portion of salaries and benefits for department chairs and others who support medical education.
- Education support activities, such as hospital libraries.

Nursing Education*	\$8,299,386
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- Salaries and benefits for nurses during the extended period of time in which they are learning the professional skills for our acute environment. During this time, nurse orientees participate in classroom and clinical activities and are not directly responsible for patient care.
- Salaries and benefits for personnel providing continuing professional education.
- Salaries paid to professionals attending mandatory education programs.

**About education and Act 55:* As per Act 55, community benefit provided by charitable organizations includes the difference between the full cost of education and research programs and payments received to support these programs.

Sponsorships for Community Service Organizations	\$281,262
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- Support for more than 100 not-for-profit organizations that provide valuable services to our community.
- Support to assist in the Burn Prevention Foundation's education and outreach efforts.

Patient Education and Publications	\$390,977
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- Expenses for patient education, including publications like the patient-visitor guide and patient safety handbook.

Emergency Education	\$381,871
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- Training and continuing education for 14,377 physicians, nurses, paramedics and other health care providers throughout the region.
- We provide bioterrorism and disaster preparedness education in our community. These services are provided free of charge.

How a Not-for-Profit Organization Determines Community Benefit

The Commonwealth of Pennsylvania defines what constitutes a purely public charity with a regulation called Act 55, the Institutions of Purely Public Charity Act. It sets specific criteria for what constitutes a charitable organization, defines the uncompensated goods and services that qualify as community benefit, and prescribes how these goods and services are measured.

The not-for-profit entities of Lehigh Valley Hospital and Health Network qualify as charitable organizations. They fulfill the criteria of Act 55 and have done so consistently since the act went into effect in 1997.