

## Lehigh Valley Health Network and Component Entities

Combined Statements of Financial Position		<i>(In Thousands)</i>		<i>For the periods ended June 30, 2007 and 2006</i>	
ASSETS	2007	2006	LIABILITIES AND NET ASSETS	2007	2006
<b>Current assets</b>			<b>Current liabilities</b>		
Cash and cash equivalents	\$ 36,839	\$ 47,811	Accounts payable	\$ 42,804	\$ 43,067
Patient accounts receivable, net	144,203	118,095	Accrual for estimated third-party settlements	19,462	57,932
Prepays, inventories and other current assets	40,513	45,757	Accrued compensation	37,531	35,125
Assets limited under bond debt service fund	11,046	10,925	Other accrued expenses	22,987	21,710
Assets limited under primary professional liability and workers' compensation	<u>2,863</u>	<u>2,969</u>	Pension	15,875	25,640
<b>Total current assets</b>	<b><u>235,464</u></b>	<b><u>225,557</u></b>	Professional liability	2,182	2,048
			Workers' compensation	731	971
			Current portion of long-term debt	8,245	8,736
			<b>Total current liabilities</b>	<b><u>149,817</u></b>	<b><u>195,229</u></b>
<b>Noncurrent assets</b>			<b>Noncurrent liabilities</b>		
Assets limited by board for capital improvements	405,450	424,553	Long-term debt, net of current portion	471,163	458,635
Assets limited by board for retained excess professional liability arrangements	14,135	15,498	Deferred compensation and other liabilities funded with matching assets	35,260	28,364
Assets limited by management	22,566	21,123	Pension	33,813	33,854
Assets limited under bond indenture, bond construction, debt service and debt service reserve agreements	12,003	49,758	Professional liability	37,539	36,489
Assets limited under workers' compensation arrangements	1,994	3,143	Workers' compensation	1,994	3,143
Assets limited under primary professional liability arrangements	15,759	13,526	Other liabilities	11,004	23,308
Assets restricted by donors	125,240	89,755	<b>Total noncurrent liabilities</b>	<b><u>590,773</u></b>	<b><u>583,793</u></b>
Assets limited to fund deferred compensation and other liabilities	35,260	28,364	<b>Total liabilities</b>	<b><u>740,590</u></b>	<b><u>779,022</u></b>
Property and equipment, net	589,763	496,238	<b>Net assets</b>		
Partnership investments	16,346	15,389	Unrestricted	637,661	541,788
Deferred charges, net and other assets	29,511	27,661	Temporarily restricted by donors/grantors	62,639	28,829
<b>Total noncurrent assets</b>	<b><u>1,268,027</u></b>	<b><u>1,185,008</u></b>	Permanently restricted by donors/grantors	<u>62,601</u>	<u>60,926</u>
			<b>Total net assets</b>	<b><u>762,901</u></b>	<b><u>631,543</u></b>
<b>Total assets</b>	<b><u>\$ 1,503,491</u></b>	<b><u>\$ 1,410,565</u></b>	<b>Total liabilities and net assets</b>	<b><u>\$ 1,503,491</u></b>	<b><u>\$ 1,410,565</u></b>

### 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 revenues and expenses. The amount of revenues minus the amount of expenses creates our **patient services net margin**.

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

Prepared from Lehigh Valley Health Network internal financial reports.



Combined Statements of Operations		<i>(In Thousands)</i>		<i>For the periods ended June 30, 2007 and 2006</i>	
	2007	2006		2007	2006
<b>Patient services and supporting operations</b>			<b>Patient services and supporting operations</b>		
Net patient service revenue	\$ 1,063,356	\$ 974,166	Net patient service revenue	\$ 1,063,356	\$ 974,166
Other supporting operations revenue	31,781	35,607	Other supporting operations revenue	31,781	35,607
Net assets released from restrictions-operations	<u>2,872</u>	<u>2,897</u>	Net assets released from restrictions-operations	<u>2,872</u>	<u>2,897</u>
<b>Total revenue</b>	<b><u>1,098,009</u></b>	<b><u>1,012,670</u></b>	<b>Total revenue</b>	<b><u>1,098,009</u></b>	<b><u>1,012,670</u></b>
			Wages	465,707	407,501
			Benefits	95,296	92,401
			Supplies	193,727	175,180
			Purchased services	112,966	107,284
			Other	50,855	53,570
			Depreciation and amortization	60,216	54,202
			Bad debts	<u>53,720</u>	<u>47,977</u>
<b>Total expenses</b>	<b><u>1,032,487</u></b>	<b><u>938,115</u></b>	<b>Total expenses</b>	<b><u>1,032,487</u></b>	<b><u>938,115</u></b>
<b>Patient services net margin</b>	<b><u>65,522</u></b>	<b><u>74,555</u></b>	<b>Patient services net margin</b>	<b><u>65,522</u></b>	<b><u>74,555</u></b>
<b>Other operating revenue and expense</b>			<b>Other operating revenue and expense</b>		
Realized investment earnings	45,606	21,947	Realized investment earnings	45,606	21,947
Interest expense	19,840	19,243	Interest expense	19,840	19,243
Provision for income taxes	1,682	2,977	Provision for income taxes	1,682	2,977
Change in unrealized gains on swaps	2,167	0	Change in unrealized gains on swaps	2,167	0
Non-cash loss on refinancing of debt	0	<u>3,033</u>	Non-cash loss on refinancing of debt	0	<u>3,033</u>
Other operating, net	<u>26,251</u>	<u>(3,306)</u>	Other operating, net	<u>26,251</u>	<u>(3,306)</u>
<b>Net from operations</b>	<b><u>91,773</u></b>	<b><u>71,249</u></b>	<b>Net from operations</b>	<b><u>91,773</u></b>	<b><u>71,249</u></b>
<b>Nonoperating gains and losses</b>			<b>Nonoperating gains and losses</b>		
Nonoperating gains (losses), net	(301)	173	Nonoperating gains (losses), net	(301)	173
<b>Net available for community needs and debt repayment</b>	<b><u>\$ 91,472</u></b>	<b><u>\$ 71,422</u></b>	<b>Net available for community needs and debt repayment</b>	<b><u>\$ 91,472</u></b>	<b><u>\$ 71,422</u></b>

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# Fiscal Year 2007

## Financial and Operational Report

Inside:  
Financial and Operations Statements  
How We Serve Our Community  
Our Board of Trustees and Senior Management



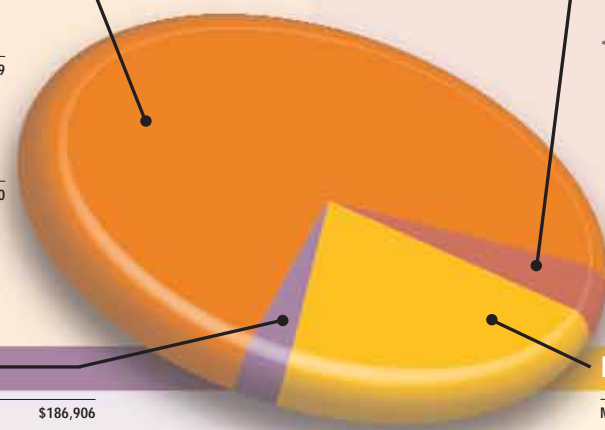
### Our investments for you

**Emergency care at Lehigh Valley Hospital—17th and Chew** (left) is the continuation of a 100-plus-year tradition; (center) paramedic Ray Pagenhardt, pilot Dave Givens and Daniel Leshko, R.N., are three of the people carrying on **MedEvac's 25-plus-year legacy of lifesaving care**; (right) hospital colleagues like administrative partner Lillian Watson of the **Behavioral Health Science Center at Lehigh Valley Hospital—Muhlenberg** further our 50-year commitment to this important service.



# How We Serve Our Community

**Grand Total • \$127,063,485**  
*Total of our community benefit*



## Direct Patient Care (\$90,843,583)

<b>Medicare Shortfall*</b>	<b>\$33,047,965</b>
<ul style="list-style-type: none"> <li>The difference between Medicare and Medicare Managed Care payments and the cost of providing patient care.</li> </ul>	
<b>Medical Assistance Shortfall*</b>	<b>\$23,403,260</b>
<ul style="list-style-type: none"> <li>The difference between Medical Assistance and Medical Assistance Managed Care payments and the cost of providing patient care.</li> </ul>	
<b>Bad Debt</b>	<b>\$17,237,772</b>
<ul style="list-style-type: none"> <li>The cost of providing care to patients who LVHNN believes were able to pay for their care but did not.</li> <li>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.</li> </ul>	
<b>Uncompensated Charity Care</b>	<b>\$9,344,538</b>
<ul style="list-style-type: none"> <li>Free care for people who were unable to pay.</li> </ul>	

\* **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 (\$3,504,714)

<b>Health Promotion and Disease Prevention</b>	<b>\$939,206</b>
<ul style="list-style-type: none"> <li>Healthy You programs focused on exercise and fitness, health prevention and awareness, nutrition and wellness. A total of 34,106 people attended free Healthy You programs, health fairs, educational programs and hospital tours this year.</li> <li>Free dental screenings and procedures at our dental medicine clinic.</li> <li>Heart Help for Women programs that educated more than 3,500 community members and physicians about a woman's special heart-health needs.</li> <li><i>Healthy You</i> magazine, distributed free to more than 272,000 community members.</li> <li>Publications and brochures to promote wellness, disease awareness (such as heart and cancer risk prevention) and community activities, such as quit-smoking and infant car seat safety programs.</li> </ul>	
<b>Department of Community Health, Health Studies and Education</b>	<b>\$761,476</b>
<ul style="list-style-type: none"> <li>Develops new community-based initiatives through grant acquisition and management.</li> <li>In-kind community health programs and partnerships include: <ul style="list-style-type: none"> <li>The ALERT Partnership to raise awareness of teen issues such as drug and alcohol abuse prevention.</li> <li>Emergency department screenings to prevent domestic violence and promote smoking cessation.</li> <li>The Coalition for a Smoke-Free Valley, promoting advocacy and providing education, training and support services.</li> </ul> </li> <li>School-based dental sealant program to prevent cavities in school-age children.</li> </ul>	

<b>Care for People Who Are Uninsured or Underinsured</b>	<b>\$6,192,842</b>
<ul style="list-style-type: none"> <li>The difference between clinic payments and clinic costs.</li> <li>Includes a portion of wages and benefits for residents who care for people in our clinics.</li> <li>Includes 40 primary and specialty care clinics and programs related to those clinics, such as our Casa Guadalupe outreach.</li> </ul>	
<b>Direct Patient Care Community Activities</b>	<b>\$549,210</b>
<p>Some examples of these activities include:</p> <ul style="list-style-type: none"> <li>Distribution of about 10,000 free flu shots to community members.</li> <li>Distribution of free hand-sanitizer samples to patients to promote hand-washing safety in the hospital.</li> <li>Medications appropriate to patient treatment that were provided free upon discharge to people unable to pay for them.</li> <li>Portion of wages and benefits for coordinator who obtains medications from pharmaceutical companies and distributes them to patients who can't afford them.</li> <li>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).</li> </ul>	

<b>Pastoral Care</b>	<b>\$727,148</b>
<ul style="list-style-type: none"> <li>Provides ministry to patients, family and staff inside the hospital.</li> <li>Provides education and training of ministers in pastoral work.</li> <li>Includes more than 17,500 hours spent with more than 47,000 patients and families.</li> <li>Includes a portion of salaries and benefits for pastoral care staff, and includes the cost of our pastoral care residency program after Medicare reimbursement.</li> </ul>	
<b>School Health</b>	<b>\$338,691</b>
<ul style="list-style-type: none"> <li>Health awareness, education, prevention and immunizations for children at our School Health Center at Central Elementary School.</li> <li>Free health exams for children in the Allentown School District.</li> <li>Education, counseling and job training for at-risk students at Communities in Schools.</li> </ul>	
<b>Lehigh Valley Hospital Cancer Center*</b>	<b>\$210,019</b>
<ul style="list-style-type: none"> <li>Provides free support services for men, women, teens and families who are living with cancer.</li> <li>Provides free classes and lectures, and education at health fairs on topics such as lymphoma, lung cancer, breast cancer and colon cancer.</li> <li>Maintains a patient education library.</li> <li>Provides nutritional counseling and an annual nutritional fair.</li> <li>Presents an annual Cancer Survivor Celebration.</li> </ul>	

\* **About community education and prevention:** These amounts reflect the cost of providing the services listed, free of charge, to patients who cannot afford to pay.

<b>Interpreting Service and Patient Representative</b>	<b>\$547,487</b>
<ul style="list-style-type: none"> <li>Language interpreting services from hospital-based interpreters and purchased foreign language, sign language and online interpreting services. These interpreting services are provided free of charge to patients.</li> <li>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.</li> </ul>	
<b>TRICARE Shortfall*</b>	<b>\$300,509</b>
<ul style="list-style-type: none"> <li>The difference between TRICARE (formerly CHAMPUS) payments and the cost of providing patient care.</li> <li>TRICARE is a federally funded health insurance plan for uniformed military personnel, retirees and their families.</li> </ul>	
<b>Blue Cross Special Care Shortfall*</b>	<b>\$220,000</b>
<ul style="list-style-type: none"> <li>The difference between Blue Cross Special Care payments and the cost of providing patient care.</li> <li>Blue Cross Special Care is a limited-benefit, low-cost health insurance plan for people who otherwise would be uninsured.</li> </ul>	

<b>Community Help Line</b>	<b>\$186,906</b>
<ul style="list-style-type: none"> <li>Provides free phone-based health care services to the community through 610-402-CARE.</li> <li>Enables community members to learn more about health care services, health information and free flu shots.</li> <li>Enables community members to schedule physician appointments, register for health and wellness classes, support groups, lectures and more.</li> </ul>	
<b>Helwig Health and Diabetes Center Programs*</b>	<b>\$184,148</b>
<ul style="list-style-type: none"> <li>Provides inpatient management and schedules counseling or follow-up visits for people and families living with diabetes.</li> <li>Provides support groups for adults, children, and for people who use insulin pumps.</li> <li>Hosts Camp Red Jacket, an educational day camp for school-age children with diabetes.</li> <li>Conducts community programs and presentations, reaching more than 1,500 community members.</li> <li>Offers a free diabetes e-newsletter to raise diabetes awareness and prevention.</li> </ul>	

<b>AIDS Activities Office*</b>	<b>\$157,120</b>
<ul style="list-style-type: none"> <li>Provides clinical and social services to children, adolescents and adults affected by HIV/AIDS.</li> <li>Offers free HIV testing and counseling.</li> <li>Offers initial and ongoing medical care, monitoring and coordination of treatments, nutritional assessments, counseling and case management.</li> </ul>	

## Community Partnerships and Support (\$4,937,985)

<b>Equivalent Value of Volunteer Assistance*</b>	<b>\$2,679,978</b>
<ul style="list-style-type: none"> <li>Total of 777 volunteers donated 140,681 hours.</li> <li>Not included in the above amount are 40,654 hours of care donated by physicians on LVHNN's medical staff. This includes providing free care in LVHNN clinics to patients who are unable to pay and providing education to medical students and residents.</li> </ul>	
<p>* <b>About volunteers and Act 55:</b> 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.</p>	

<b>Medical Education*</b>	<b>\$14,426,510</b>
<ul style="list-style-type: none"> <li>Salaries and benefits for medical residents.</li> <li>A portion of salaries and benefits for department chairs and others who support graduate medical education.</li> <li>Education support activities, such as hospital libraries.</li> </ul>	
<b>Nursing Education*</b>	<b>\$10,290,457</b>
<ul style="list-style-type: none"> <li>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.</li> <li>Salaries and benefits for personnel providing continuing professional education.</li> <li>Salaries paid to professionals attending mandatory education programs.</li> </ul>	

\* **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.

<b>Equivalent Value of Support for Agencies and Municipalities</b>	<b>\$1,937,212</b>
<ul style="list-style-type: none"> <li>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.</li> <li>Support of the City of Allentown's health care costs.</li> <li>Support of Salisbury Township's water system upgrade.</li> <li>Support of the Child Advocacy Center of Lehigh County.</li> <li>Free transportation for patients unable to obtain rides home.</li> <li>Free physical exams and related lab tests for municipal firefighters and workers.</li> <li>Support of Salisbury Township, Salisbury Township School District and the Western Salisbury Volunteer Fire Co.</li> <li>Real estate taxes paid by LVHNN on owned and leased property to municipalities, counties and school districts.</li> </ul>	
<b>Sponsorships for Community Service Organizations</b>	<b>\$320,795</b>
<ul style="list-style-type: none"> <li>Support for more than 100 not-for-profit organizations that reflect our hospital's mission and provide valuable services to our community.</li> <li>Support to assist in the Burn Prevention Foundation's education and outreach efforts.</li> </ul>	

## Professional and Patient Education and Research (\$27,777,203)

<b>Research Activities</b>	<b>\$1,448,737</b>
<ul style="list-style-type: none"> <li>Research activities in areas such as health studies, nursing, internal medicine and neurology not funded by grants.</li> </ul>	
<b>Nursing Scholarships</b>	<b>\$695,210</b>
<ul style="list-style-type: none"> <li>College scholarships to nursing students not funded by grants.</li> </ul>	
<b>Patient Education and Publications</b>	<b>\$536,379</b>
<ul style="list-style-type: none"> <li>Expenses for patient education, including publications like the patient-visitor guide and patient safety handbook.</li> </ul>	
<b>Emergency Education</b>	<b>\$379,910</b>
<ul style="list-style-type: none"> <li>Training and continuing education for 16,218 physicians, nurses, paramedics and other health care providers throughout the region.</li> <li>We provide bioterrorism and disaster preparedness education in our community. These services are provided free of charge.</li> </ul>	

**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.