LEHIGH VALLEY HEALTH NETWORK
AND SUBSIDIARIES

Consolidated Financial Statements
As of and for the Years Ended June 30, 2019 and 2018,
Consolidated Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2019,
With Independent Auditors' Reports Thereon

LEHIGH VALLEY HEALTH NETWORK AND SUBSIDIARIES
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KPMG LLP
1601 Market Street
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Independent Auditors' Report

The Board of Trustees
Lehigh Valley Health Network:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Lehigh Valley Health Network and Subsidiaries, which comprise the consolidated statements of financial position as of June 30, 2019 and 2018, and the related consolidated statements of operations, changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Lehigh Valley Health Network and Subsidiaries as of June 30, 2019 and 2018, and the results of their operations and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in note 15 to the consolidated financial statements, Lehigh Valley Health Network and Subsidiaries adopted Accounting Standards Update (ASU) No. 2016-14, N*ot-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, and ASU No. 2014-09, *Revenue from Contracts with Customers* during the year ended June 30, 2019 on a full retrospective basis. Our opinion is not modified with respect to these matters.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2019 on our consideration of Lehigh Valley Health Network and Subsidiaries' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Lehigh Valley Health Network and Subsidiaries' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Lehigh Valley Health Network and Subsidiaries' internal control over financial reporting and compliance.

KPMG LLP

Philadelphia, Pennsylvania
October 21, 2019

Lehigh Valley Health Network and Subsidiaries
Consolidated Statements of Financial Position
As of June 30, 2019 and 2018
(In Thousands)

	2019	2018
Assets		
Current assets:		
Cash and cash equivalents	$148,941	$109,202
Patient accounts receivable	326,931	321,558
Other accounts receivable	31,426	21,783
Other current assets	113,716	105,918
Total current assets	621,014	558,461
Assets whose use is limited or restricted	1,594,326	1,434,929
Property and equipment, net	1,310,155	1,307,850
Partnership investments	6,678	7,009
Goodwill and intangible assets, net	110,512	104,320
Other noncurrent assets	15,732	10,000
Total assets	$3,658,417	$3,422,569
Liabilities and net assets		
Current liabilities:		
Pension	$14,736	$15,456
Current portion of long-term debt	22,293	21,534
Capital lease and financing obligations	3,074	2,880
Other current liabilities	354,181	289,629
Total current liabilities	394,284	329,499
Long-term debt, net of current portion	809,546	832,091
Capital lease and financing obligations	128,956	131,834
Deferred compensation and other liabilities	128,858	114,421
Pension	169,758	115,990
Professional liability	95,222	93,742
Derivative instruments	11,238	9,414
Other liabilities	20,809	14,352
Total liabilities	1,758,671	1,641,343
Net assets:		
Without donor restrictions:		
Lehigh Valley Health Network and Subsidiaries	1,618,706	1,526,895
Noncontrolling interests in subsidiaries	39,905	37,401
Total net assets without donor restrictions	1,658,611	1,564,296
With donor restrictions	241,135	216,930
Total net assets	1,899,746	1,781,226
Total liabilities and net assets	$3,658,417	$3,422,569

See accompanying notes to consolidated financial statements

Lehigh Valley Health Network and Subsidiaries
Consolidated Statements of Operations
For the Years Ended June 30, 2019 and 2018
(In Thousands)

	2019	2018
Patient services and supporting operations		
Revenues		
Net patient service revenue	$2,919,754	$2,669,212
Other supporting operations revenue	49,778	50,037
Net assets released from restrictions used for operations	8,664	14,141
Total revenues	2,978,196	2,733,390
Expenses		
Salaries and wages	1,344,413	1,293,527
Benefits	209,730	207,988
Supplies	570,431	513,126
Purchased services	337,763	288,847
Other	196,493	179,872
Depreciation and amortization	153,476	155,564
Interest expense	40,711	39,337
Bad debt	6,887	5,619
Total expenses before integration and other non-recurring costs	2,859,904	2,683,880
Integration and other non-recurring costs	2,958	14,367
Operating income	115,334	35,143
Other nonoperating gains and losses		
Realized and unrealized investment earnings, net	44,568	46,590
Change in net unrealized (losses) gains on swaps	(1,824)	5,272
Other nonoperating gains	19,302	21,786
Other nonoperating gains and losses, net	62,046	73,648
Revenues and gains in excess of expenses and losses before income taxes	177,380	108,791
Provision for income taxes	(2,555)	(2,116)
Revenues and gains in excess of expenses and losses before noncontrolling interests	174,825	106,675
Noncontrolling interests	(19,445)	(16,726)
Revenues and gains in excess of expenses and losses attributed to Lehigh Valley Health Network and Subsidiaries	155,380	89,949
Other changes in net assets without donor restrictions		
Net assets released from restrictions - capital acquisitions	2,563	3,680
Other changes in net assets without donor restrictions	0	(84)
Contribution of long-lived assets	21	9
Adjustment to funded status of pension plans	(90,187)	68,688
Change in noncontrolling interests	2,504	2,466
Change in net unrealized (losses) gains on derivatives	(96)	72
Change in net unrealized gains on investments	24,130	12,481
Increase in net assets without donor restrictions	$94,315	$177,261

See accompanying notes to consolidated financial statements

Lehigh Valley Health Network and Subsidiaries
Consolidated Statements of Changes in Net Assets
For the Years Ended June 30, 2019 and 2018
(In Thousands)

	2019	2018
Net assets without donor restrictions		
Revenues and gains in excess of expenses and losses attributed to Lehigh Valley Health Network and Subsidiaries	$155,380	$89,949
Net assets released from restrictions - capital acquisitions	2,563	3,680
Other changes in net assets without donor restrictions	0	(84)
Contribution of long-lived assets	21	9
Adjustment to funded status of pension plans	(90,187)	68,688
Change in noncontrolling interests	2,504	2,466
Change in net unrealized (losses) gains on derivatives	(96)	72
Change in net unrealized gains on investments	24,130	12,481
Increase in net assets without donor restrictions	94,315	177,261
Net assets with donor restrictions		
Contributions	24,529	6,918
Reclassification (to) net assets without donor restrictions	(70)	(228)
Realized and unrealized investment earnings, net	11,204	13,899
(Decrease) increase in beneficial interest in perpetual trusts	(210)	84
Net assets released from restrictions	(11,248)	(17,830)
Increase in net assets with donor restrictions	24,205	2,843
Increase in net assets	118,520	180,104
Net assets, beginning of year	1,781,226	1,601,122
Net assets, end of year	$1,899,746	$1,781,226

See accompanying notes to consolidated financial statements

Lehigh Valley Health Network and Subsidiaries
Consolidated Statements of Cash Flows
For the Years Ended June 30, 2019 and 2018
(In Thousands)

	2019	2018
Cash flows from operating activities:		
Increase in net assets	$118,520	$180,104
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	153,476	155,564
Loss on disposal of property and equipment	545	597
Amortization of debt issuance costs and premiums and discounts	(253)	(370)
Net realized and unrealized (gains) on investments	(79,729)	(72,490)
Restricted contributions	(16,468)	1,233
Adjustment to funded status of pension plans	90,187	(68,688)
Financing obligation amortization	0	10
Change in net unrealized losses (gains) on swaps	1,920	(5,344)
Distributions to noncontrolling interests	16,729	14,455
Distributions received from investments in joint ventures	3,635	3,117
Changes in assets and liabilities:		
(Increase) in patient accounts receivable	(5,373)	(30,510)
(Increase) in prepaids, inventories and other current assets	(13,483)	(5,493)
(Increase) in other noncurrent assets	(12,122)	(1,368)
(Increase) in interest earned but not received on assets whose use is limited or restricted	(173)	(480)
Increase (decrease) in accounts payable	35,053	(1,497)
(Decrease) increase in other accrued expenses	(334)	1,699
(Decrease) in accrual for estimated third-party payer settlements	(513)	(1,976)
Increase (decrease) in accrued compensation	21,701	(1,246)
(Decrease) in pension liability	(37,139)	(50,014)
Increase in professional liability	9,710	17,612
Increase in deferred compensation and other liabilities	20,798	558
Net cash provided by operating activities	306,687	135,473
Cash flows from investing activities:		
Purchases of property and equipment	(157,616)	(156,120)
Investment in joint ventures	(841)	(923)
Purchases of investments	(571,366)	(770,453)
Proceeds from sales of investments	502,339	823,699
Net cash (used in) investing activities	(227,484)	(103,797)
Cash flows from financing activities:		
Proceeds of long-term debt	0	18,236
Repayment of debt	(21,534)	(20,297)
Payments of capital leases and financing obligations	(2,880)	(3,490)
Distributions to noncontrolling interests	(16,729)	(14,455)
Proceeds from restricted contributions	(1,085)	727
Net cash (used in) financing activities	(42,228)	(19,279)
Net increase in cash, cash equivalents and restricted cash	36,975	12,397
Cash, cash equivalents and restricted cash at beginning of year	150,253	137,856
Cash, cash equivalents and restricted cash at end of year	$187,228	$150,253
Supplemental cash flow information:		
Cash and cash equivalents	$148,941	$109,202
Restricted cash included in assets limited or restricted as to use	38,287	41,051
Total cash, cash equivalents and restricted cash	$187,228	$150,253
Cash paid for interest	$40,736	$38,654
Cash paid for income taxes	$1,454	$576
Non-cash restricted contributions	$16,468	($1,233)
Amounts accrued for purchase of property and equipment in excess of amounts paid	$419	($909)

See accompanying notes to consolidated financial statements

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Lehigh Valley Health Network, Inc. ("LVHN" or the "Organization") 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, Hazleton, Schuylkill, Pocono and surrounding communities in Pennsylvania. LVHN serves as the corporate parent and exercises control over all of LVHN's affiliated entities subject to corporate legal or regulatory limitations. Substantially all of the consolidated revenues are generated from entities which are tax exempt pursuant to section 501(c) (3) of the Internal Revenue Code.

All significant intercompany balances and transactions have been eliminated.

Basis of Accounting

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in conformity with U.S. generally accepted accounting principles (U.S. GAAP). The consolidated financial statements include all necessary adjustments for a fair presentation of the financial position and results of operations for the periods presented.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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, 2019 and 2018, 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.

Patient Accounts Receivable

Net patient accounts receivable for which the Organization receives payment under cost reimbursements, 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.

Net patient accounts receivable includes reserves for bad debts and implicit price concessions of $123,704 and $110,221 at June 30, 2019 and June 30, 2018, respectively. Reserves for implicit price concessions are estimated based on the Organization's belief that a patient has the ability to pay for services, but of which payment is not expected to be received. Bad debt reserves are estimated based that payment will not be expected due to a decline in the patient's ability to pay.

The reserves are 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 reserves when management determines that recovery is unlikely and the Organization ceases collection efforts.

The Organization has not changed its charity care policy during the fiscal year. The uninsured policy was changed to incorporate a 50% discount on charges. The Organization does not maintain a reserve for bad debts for third-party payers, nor did it have significant write offs from third-party payers.

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

Patient Accounts Receivable (continued)
The activity in the allowance for uncollectible accounts is summarized as follows for the years ended June 30:

	2019	2018
Beginning balance	($110,221)	($107,478)
Provision for uncollectible accounts, net of recoveries	(124,133)	(110,260)
Write offs/other reserve adjustments	110,650	107,517
Ending balance	($123,704)	($110,221)

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

Liquidity and Availability of Resources
Financial assets available within one year of the balance sheet date for general expenditures such as operating expenses and capital costs not financed with debt as of June 30:

	2019	2018
Cash and cash equivalents	$148,941	$109,202
Patient accounts receivable	326,931	321,558
Other accounts receivable	31,426	21,783
Assets whose use is limited (Footnote 4)	1,110,393	1,002,363
Total liquidity	$1,617,691	$1,454,906

Financial assets not available for general use because of contractual or donor-imposed restrictions were $523,254 and $467,929 at June 30, 2019 and 2018, respectively. Amounts not available for general use include amounts set aside for scheduled principal payments on debt, self-insurance funds, and perpetual, time, and purpose restricted assets.

As of June 30, 2019, the Organization has liquid assets on hand to cover 170 days of operating expenses. The Organization's practice is to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In the event of an unanticipated liquidity need, the Organization could draw upon a $110,000 available line of credit (see note 6 - Long term debt).

Assets Whose Use is Limited or Restricted
Assets whose use is limited or restricted includes (1) Assets limited 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 limited under worker's compensation arrangements, (5) Assets limited by management internally designated for various purposes, (6) Assets limited under bond indenture, bond construction, debt service, and debt service reserve agreements – held by trustee, (7) Assets restricted by donors and grantors, and (8) Assets limited to fund deferred compensation and other liabilities.

Assets whose use is limited or restricted 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 6). 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 current portion of assets whose use is limited is recorded in Other current assets on the Consolidated Statements of Financial Position.

The Organization is required to remit funds to the respective trustee up to 3 business days in advance of its scheduled monthly and semi-annual (January 1 and July 1) debt service payment dates. This funding is reflected in the Other current assets in the Consolidated Statements of Financial Position. 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.

Available-for-sale investments in equity securities with readily determinable fair values, and all investments in debt securities, are reported at fair value in the Consolidated Statements of Financial Position. The Organization also invests in a diversified program of alternative investment funds. These investments include limited partnerships, some utilizing a "fund of funds" approach resulting in diversified multistrategy, multimanager investments. Certain investments

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

Assets Whose Use is Limited or Restricted (continued)
include liquidation restrictions of 30 to 90 day 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, unrealized gains and losses on alternative investments, and interest and dividends) is reported as Realized and unrealized investment earnings, net, in the Consolidated Statements of Operations, unless the income or loss is restricted by donor or law, in which case investment income or loss is recorded as a component of Net assets with donor restrictions in the Consolidated Statements of Financial Position. Unrealized gains and losses on investments with a readily determinable fair value are excluded from Revenues and gains in excess of expenses and losses, but are reported as increases or decreases in Net assets without donor restrictions, unless the income or loss is restricted by donor or law, in which case investment income or loss is recorded as a component of Net assets with donor restrictions in the Consolidated Statements of Financial Position.

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 consolidated financial statements.

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. These funds are recorded at the Organization's share of the estimated fair value of the related trust assets, and are included in Assets whose use is limited or restricted in the Consolidated Statements of Financial Position. The Organization's share of income earned on these trusts is reported as either Net assets with donor restrictions or Net assets without donor restrictions, according to donor stipulations.

Unconditional pledges, less an allowance for uncollectible amounts, are recorded in Assets whose use is limited or restricted in the Consolidated Statements of Financial Position in the year the pledge is received. Pledges are reported at their present value as additions to net assets with donor restrictions.

Property and Equipment, Net
Property and equipment is stated at cost or, in the case of donated items, at its 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, major movable equipment, and software	2 - 20 years

Assets under capital lease are amortized on the straight-line method over either the lease term or the estimated useful life of the assets. Leasehold improvements are amortized over the shorter of their useful lives or the term of the lease using the straight-line method. Amortization of assets under capital lease and leasehold improvements is included in Depreciation and amortization in the Consolidated Statements of Operations. Interest costs, net of related interest earnings, incurred on related funds acquired through the issuance of tax-exempt bonds are capitalized during the construction period of the capital assets, as a component of the cost of acquiring those assets. There was no capitalized interest for the years ended June 30, 2019 and 2018. 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 Other supporting operations revenue in the Consolidated Statements of Operations.

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. None of the Organization's long-lived assets were considered to be impaired as of June 30, 2019 and 2018.

Partnership Investments
Partnership investments that are not consolidated, primarily representing joint venture investments, are accounted for under the equity method of accounting.

Goodwill and Intangible Assets
Goodwill is an asset representing the future economic benefits arising from other assets acquired in a business combination. Indefinite-lived intangible assets are assets that are not amortized because there is no foreseeable limit to cash flows generated from them. Definite-lived intangible assets are amortized in accordance with the authoritative guidance for intangible assets using the straight-line method over their estimated useful lives.

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 and/or quantitative assessments 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, 2019 and 2018, there was no indication of impairment of goodwill. Changes in carrying value of goodwill were as follows:

Balance at June 30, 2017	$98,667
Goodwill additions	100
Balance at June 30, 2018	$98,767
Goodwill additions	4,112
Balance at June 30, 2019	$102,879

The Organization's indefinite-lived intangible assets primarily consist of trade names and totaled $7,633 and $5,553 as of June 30, 2019 and 2018, respectively.

Deferred Financing Costs
Deferred financing costs, principally legal fees and bond issuance costs, are amortized over the period of financing under the straight-line method, which approximates the effective interest rate method. Gross deferred financing costs as of June 30, 2019 and June 30, 2018, were $13,974 and $13,974, respectively. Accumulated amortization of deferred financing costs was $5,479 and $4,848 as of June 30, 2019 and 2018, respectively. Deferred financing cost, net of accumulated amortization is recorded as a reduction of Long-term debt in the Consolidated Statement of Financial Position.

Accrual for 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 billing rates. Payment arrangements primarily include prospectively determined rates per discharge, per visit, per diem payments and, to a lesser extent, reimbursed costs at discounted charges. Retroactive adjustments that are likely to result from future examinations by third-party payers are accrued on an estimated basis in the period the related services are rendered, and adjusted, as necessary, in future periods based upon new information or final settlements.

Professional Liability
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 Risk Retention Group ("RRG"), a consolidated self-insurance trust, 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, which is 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 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 consolidated financial statements.

Loss reserves are presented gross of any insurance recoveries and are undiscounted as of June 30, 2019 and 2018. The Professional liability as of June 30, 2019 and 2018, was $116,917 and $107,207, respectively, and is included in Other current liabilities and Professional liability on the Consolidated Statements of Financial Position. The insurance recoverable amount as of June 30, 2019 and 2018, was $11,260 and $8,175, respectively, which is included in Other accounts receivable and Other noncurrent assets on the Consolidated Statements of Financial Position.

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

Professional Liability (continued)
The June 30, 2019 and 2018, consolidated financial statements include actuarially determined self-insured medical malpractice expenses of $18,288 and $22,252, respectively, and are reported as Other expense in the Consolidated Statements of Operations. Corresponding reserves are reported in Other current liabilities and in noncurrent liabilities as Professional liability in the Consolidated Statements of Financial Position. Commercial excess insurance expense and MCARE assessments totaled $6,793 and $6,654 for the years ended June 30, 2019 and 2018, respectively, and were recorded in Other expense in the Consolidated 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 their 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. At June 30, 2019 and 2018, the Organization has recorded $4,914 and $4,841, respectively, related to ARO's in Other liabilities in the Consolidated Statements of Financial Position.

Net Assets
Net assets with donor restriction includes temporarily restricted net assets which are those whose use by the Organization has been limited, by donors and grantors, to a specific time period or purpose, and permanently restricted net assets which have been restricted, by donors, to be maintained by the Organization or outside trustees in perpetuity.

In August 2016, the Financial Standards Accounting Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. This ASU simplifies the classification of net assets and updates the disclosure of information a not-for-profit entity presents about its liquidity, financial performance, and cash flows. The Organization adopted this ASU as of July 1, 2018. The retrospective application of this ASU for the Organization resulted in reporting net assets in two classes, net assets without donor restrictions and net assets with donor restrictions, and added disclosures on liquidity, endowment funds, and functional expenses. Prior to the adoption of this ASU, as of June 30, 2018, the Organization presented unrestricted, temporarily restricted, and permanently restricted net assets of $1,564,296, $148,101, and $68,829, respectively, in the Consolidated Statements of Financial Position. Upon adoption, the Organization reclassified these amounts into two net asset classes, net assets without donor restrictions of $1,564,296 and net assets with donor restrictions of $216,930.

Noncontrolling Interests in Subsidiaries
The Consolidated Statements of Financial Position and the Consolidated Statements of Operations include noncontrolling interests that relate to the portion of subsidiaries that are not owned by the Organization.

Consolidated Statements of Operations
For financial reporting purposes, transactions deemed to be ongoing, major or central to the provision of health care services are reported within Operating income, and include those revenues and expenses directly related to the provision of patient care, community wellness and education. Peripheral or incidental transactions are reported as Other nonoperating gains and losses and Other changes in unrestricted net assets.

Net Patient Service Revenue
The Organization records gross patient service revenue in the period that the performance obligations are satisfied. Generally, the Organization bills the patients and third-party payers several days after the services are performed and/or the patient is discharged from the facility. Net patient service revenue, before implicit price concession, represents gross patient service revenue, less provisions for contractual adjustments and uninsured discounts. 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 expected cash receipts, based on each program's principles of payment or reimbursement. Performance obligations are determined based on the nature of the services provided by the Organization. For performance obligations satisfied over time, revenue is recognized based on actual charges incurred in relation to total expected (or actual) charges. The Organization believes this method provides a reasonable representation of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. For performance obligations satisfied at a

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

Net Patient Service Revenue (continued)
point in time, revenue is recognized when goods or services are provided and the Organization does not believe it is required to provide additional goods or services to the patient. 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 have uninsured discounts applied; the uninsured discount is based on the amounts generally billed (AGB) as subject to and defined in IRS section 501(r).

The Organization estimates an implicit price concession related to uninsured accounts, net of the AGB discount, to record the net self-pay accounts receivable at the estimated amounts the Organization expects to collect. Coinsurances and deductibles within the third-party payer agreements are the patient's responsibility so the Organization includes these amounts in the self-pay accounts receivable and considers these amounts in its determination of the provision for uncollectible debts based on historical collection experience. For the years ended June 30, 2019, and 2018, respectively, LVHN recorded a provision for implicit price concessions of $117,246, and $104,641 as a direct reduction to patient services revenues that would have been recorded as a provision for bad debts prior to the adoption of ASU 2014-09, *Revenue from Contracts with Customers,* which changes the requirements for recognizing revenue when entities enter into contracts with customers. Provision for implicit price concessions are primarily based on historical collection experience as a practical expedient to account for patient contracts as collective groups rather than individual contracts.

In instances where the Organization believes a patient has the ability to pay for services and, after appropriate collection efforts, payment is not made, the unpaid portion of the account balance is written-off to the reserves for bad debts. Amounts recorded as Provision for bad debts do not include charity care.

Patient service revenue, net of contractual allowances, discounts, and implicit price concession recognized was as follows for the years ended June 30:

	2019		2018	
Medicare	$752,943	26%	$693,995	26%
Medicare Managed Care	322,731	11%	266,921	10%
Medicaid	87,137	3%	80,076	3%
Medicaid Managed Care	254,276	9%	240,229	9%
Commercial Insurance	1,294,088	44%	1,227,838	46%
Other	170,585	6%	133,461	5%
Self Pay	37,994	1%	26,692	1%
Net patient service revenue	$2,919,754	100%	$2,669,212	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 $6,283 and $1,280 in the years ended June 30, 2019 and 2018, respectively.

Concentrations of Credit Risk
The Organization grants credit without collateral to its patients, most of whom 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:

	2019	2018
Medicare	19%	19%
Medicare Managed Care	14%	10%
Medicaid	4%	6%
Medicaid Managed Care	6%	9%
Commercial Insurance	41%	39%
Other	4%	6%
Self Pay	12%	11%
Total	100%	100%

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

Other Supporting Operations Revenue

Other supporting operations revenue primarily includes revenue from grant contracts, property rental, partnership revenue, and unrestricted contributions. Revenue from grant contracts are recognized in accordance with ASC 958, *Not-for-Profit Entities*. Partnership Revenue is recognized in accordance with ASC 323, *Investment Equity Methods and Joint Ventures*. All other supporting operations revenue is recognized when performance obligations identified within individual contracts are satisfied and collections are reasonably assured.

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 net assets with donor restrictions 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, Net assets with donor restrictions are reclassified as Net assets without donor restrictions and reported in the Consolidated 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 a component of Net assets without donor restrictions in Other nonoperating gains and losses as Realized and unrealized investment earnings, net and in Other changes in unrestricted net assets as Change in net unrealized gains on investments.

Income Taxes

The Organization and its subsidiaries are generally exempt from federal income taxes under Section 501(c) (3) of the Internal Revenue Code, except for tax imposed on unrelated business income. The most recent determination letter, received by the Organization, is dated May 1, 2014. The Organization and its subsidiaries account for uncertain tax positions in accordance with Financial Accounting Standards Board (the “FASB”) Accounting Standards Codification (“ASC”) Topic 740. The Organization did not have any significant uncertain tax positions as of June 30, 2019 and 2018, respectively. The Organization’s for-profit components recognize deferred tax assets and liabilities for the future tax impact of temporary differences between amounts recorded in the consolidated financial statements and their respective tax bases and the future benefit of utilizing net operating loss carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Income taxes of the Organization’s tax-exempt and for-profit components are not material to the accompanying consolidated financial statements.

On December 22, 2017, the President signed into law H.R. 1, originally known as the Tax Cuts and Jobs Act. The new law includes several provisions that result in substantial changes to the tax treatment of tax-exempt organizations and their donors. The Organization has reviewed these provisions and the potential impact and concluded the enactment of H.R. 1 will not have a material impact on the operations of the Organization.

Performance Indicator

In the Consolidated Statements of Operations, the primary indicator of the Organization’s results is Revenues and gains in excess of expenses and losses attributed to Lehigh Valley Health Network and Subsidiaries. Changes in unrestricted net assets that are excluded from the performance indicator, consistent with industry practice, include Net assets released from restrictions – capital acquisitions, Adjustment to funded status of pension plans, Change in noncontrolling interests, and Change in net unrealized gains on investments among others.

Reclassifications

Certain prior year amounts have been reclassified for consistency with the current year presentation. The Organization has adjusted the Consolidated Statement of Operations for the year ended June 30, 2018 to reflect the eliminations of $12,075 to Net patient service revenue and Benefits expense related to the Organization’s employee health insurance program.

2. PROPERTY AND EQUIPMENT, NET

Property and equipment, and related accumulated depreciation and amortization, consists of the following at June 30:

	2019	2018
Land and land improvements	$179,074	$166,841
Buildings and building equipment	1,396,061	1,389,081
Fixed, major movable equipment, and software	840,655	876,200
Assets under capital leases and financing obligations	137,541	137,033
Construction in progress	134,260	45,040
Gross property and equipment	2,687,591	2,614,195
Less: Accumulated depreciation and amortization	(1,377,436)	(1,306,345)
Property and equipment, net	$1,310,155	$1,307,850

Depreciation and amortization expense relating to property and equipment, and assets under capital leases and financing obligations, for the years ended June 30, 2019 and 2018, was $153,278 and $154,924, respectively. Amortization of assets under capital leases and financing obligations included in Depreciation and amortization expense was $6,080 and $6,158 for the years ended June 30, 2019 and 2018, respectively. Accumulated amortization relating to the assets under capital leases and financing obligations was $34,889 and $28,852 at June 30, 2019 and 2018, respectively, and is included in accumulated depreciation and amortization.

The Organization has commitments of approximately $109,211 as of June 30, 2019 related to projects under construction.

3. OTHER CURRENT ASSETS AND LIABILITIES

Other current assets consist of the following at June 30:

	2019	2018
Inventories	$44,443	$40,992
Prepaids	29,952	29,563
Assets whose use is limited under bond debt service fund	24,551	24,173
Assets whose use is limited under primary professional liability arrangements	14,770	11,190
Total other current assets	$113,716	$105,918

Other current liabilities consist of the following at June 30:

	2019	2018
Accounts payable	$128,207	$92,739
Accrual for estimated third-party settlements	14,208	14,721
Accrued compensation	141,034	119,333
Other accrued expenses	49,037	49,371
Professional liability	21,695	13,465
Total other current liabilties	$354,181	$289,629

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

Investments carried primarily at fair value and other investments carried at cost at June 30, 2019 and 2018 are summarized as follows:

	Cash and cash equivalents	Fixed income securities	Equity securities	Alternative investments	Other investments (A)	Accrued interest	Total
2019							
Assets whose use is limited or restricted:							
• under bond debt service fund - current portion	$24,551	$0	$0	$0	$0	$0	$24,551
• under primary professional liability arrangements - current portion	5	10,995	3,721	0	0	49	14,770
• by board for capital improvements	4,957	422,281	441,504	210,021	0	1,971	1,080,734
• by board for retained excess professional liability arrangements	610	10,458	10,708	5,493	0	50	27,319
• under primary professional liability arrangements	612	58,390	23,183	3,943	0	238	86,366
• under worker's compensation arrangements	130	0	0	0	0	0	130
• by management (B)	81	4,836	11,599	4,635	8,477	31	29,659
• under bond indenture, bond construction, debt service, and debt service reserve agreements - held by trustee	125	0	0	0	0	0	125
• by donors and grantors	2,248	43,442	112,012	41,326	41,834	273	241,135
• to fund deferred compensation and other liabilities	4,968	35,794	86,563	0	1,437	96	128,858
Partnership investments	0	0	0	0	6,678	0	6,678
Total investments	$38,287	$586,196	$689,290	$265,418	$58,426	$2,708	$1,640,325
2018							
Assets whose use is limited or restricted:							
• under bond debt service fund - current portion	$24,173	$0	$0	$0	$0	$0	$24,173
• under primary professional liability arrangements - current portion	21	8,134	2,995	0	0	40	11,190
• by board for capital improvements	1,776	374,863	395,607	202,949	0	1,862	977,057
• by board for retained excess professional liability arrangements	287	9,266	9,457	5,117	0	47	24,174
• under primary professional liability arrangements	1,159	45,642	18,842	3,802	0	194	69,639
• under worker's compensation arrangements	129	0	0	0	0	0	129
• by management (B)	507	3,661	8,975	3,659	8,477	27	25,306
• under bond indenture, bond construction, debt service, and debt service reserve agreements - held by trustee	7,273	0	0	0	0	0	7,273
• by donors and grantors	1,514	40,753	107,338	40,453	26,583	289	216,930
• to fund deferred compensation and other liabilities	4,212	31,545	77,210	0	1,378	76	114,421
Partnership investments	0	0	0	0	7,009	0	7,009
Total investments	$41,051	$513,864	$620,424	$255,980	$43,447	$2,535	$1,477,301

(A) Includes $12,671 and $12,881 representing the Organization's interest in certain perpetual trusts stated at net present value at June 30, 2019 and 2018, respectively (see Note 1). Includes $27,587 and $12,146 of pledges receivable at June 30, 2019 and 2018, respectively. Includes other investments, primarily cash surrender value of life insurance, of $3,240 and $3,161 at June 30, 2019 and 2018, respectively. Includes partnership investments of $6,678 and $7,009 at June 30, 2019 and 2018, respectively. Includes an unrestricted gift of land valued at $8,250 at June 30, 2019 and 2018, 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.

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

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

	2019	2018
Income:		
Interest and dividend income	$30,017	$31,385
Net realized gains on investments	22,041	22,453
Net unrealized gains on investments	27,844	19,132
Total	$79,902	$72,970
Reported as follows:		
Consolidated Statements of Operations:		
Other nonoperating gains and losses - Realized and unrealized investment earnings, net	$44,568	$46,590
Other changes in net assets without donor restrictions - Change in net unrealized gains on investments	24,130	12,481
Consolidated Statements of Changes in Net Assets:		
Net assets with donor restrictions - Realized and unrealized investment earnings, net	11,204	13,899
Total	$79,902	$72,970

Other Than Temporary Impairment

The Organization recognizes other than temporary impairment changes on debt and 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 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.

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

During the years ended June 30, 2019 and 2018, 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 position, 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, 2019 and 2018, were $6,694 and $5,387, respectively. These losses are reported in Realized and unrealized investment earnings, net in the Consolidated Statements of Operations.

In addition to the above, certain other investments had fair values below cost at June 30, 2019 and 2018, 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, at June 30:

	Less than 12 months		Greater than 12 months		Total	
	Fair value	Unrealized loss	Fair value	Unrealized loss	Fair value	Unrealized loss
2019						
Fixed income mutual funds	$0	$0	$192,747	($3,546)	$192,747	($3,546)
Equity mutual funds	0	0	104,923	(12,151)	104,923	(12,151)
Total	$0	$0	$297,670	($15,697)	$297,670	($15,697)
2018						
Fixed income mutual funds	$0	$0	$170,799	($10,591)	$170,799	($10,591)
Equity mutual funds	89,353	(6,113)	0	0	89,353	(6,113)
Total	$89,353	($6,113)	$170,799	($10,591)	$260,152	($16,704)

Other Than Temporary Impairment (continued)
The unrealized losses on investments in marketable equity and fixed income securities were caused by a combination of economic, industry, and company factors. The Organization's marketable equity and fixed income securities 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 Organization (a) does not intend to sell the securities and (b) believes that it is not more-likely-than-not that it will be required to sell the securities before recovery of their amortized cost basis, the securities are not considered to be other-than-temporarily impaired.

5. FAIR VALUE OF FINANCIAL INSTRUMENTS

Cash and cash equivalents, patient accounts receivables, other accounts receivable, other current assets, 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; U.S. Government, agencies, and authorities; corporate bonds; fixed income mutual funds; marketable equity securities; equity mutual funds; alternative investments; other investments; and accrued interest which are reported at amounts which approximate fair value based on quoted market prices and other relevant information. Alternative investments, which include hedge funds and private core real estate 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 Consolidated 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 active markets, 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, and certain equity securities.

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 of term loans and perpetual trusts include reliance on third party estimates.

5. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

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

2019	Total	Level 1	Level 2	Level 3
Assets				
Recurring fair value measurements investments:				
Cash and cash equivalents	$60,230	$8,845	$51,385	$0
Equity securities:				
Domestic equity	389,291	389,291	0	0
International equity - developed markets	225,092	225,092	0	0
International equity - emerging markets	69,852	69,852	0	0
Real estate equity	3,864	3,864	0	0
Fixed income:				
U.S. Treasury securities and obligations of U.S. Government agencies	89,600	35,162	54,438	0
Corporate bonds	373,258	214,438	158,820	0
Asset-backed securities	40,046	0	40,046	0
Collateralized mortgage obligations	2,405	0	2,405	0
Term notes	62,907	0	0	62,907
Perpetual trust	12,671	0	0	12,671
Other noncurrent assets - swap assets	35	0	35	0
Other	3,015	0	3,015	0
Total	$1,332,266	$946,544	$310,144	$75,578
Other investments measured at net asset value (1)	265,418			
Total recurring fair value measurements	$1,597,684			
Liabilities:				
Recurring fair value of liabilities:				
Other liabilities - swap liabilities	$11,238	$0	$11,238	$0

(1) Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been categorized in the fair value hierarchy.

2018	Total	Level 1	Level 2	Level 3
Assets				
Recurring fair value measurements investments				
Cash and cash equivalents	$60,480	$10,492	$49,988	$0
Equity securities:				
Domestic equity	342,673	341,803	870	0
International equity - developed markets	204,921	204,921	0	0
International equity - emerging markets	65,770	65,770	0	0
Real estate equity	2,803	2,803	0	0
Fixed income:				
U.S. Treasury securities and obligations of U.S. Government agencies	66,159	29,358	36,801	0
Corporate bonds	344,891	192,240	152,651	0
Asset-backed securities	30,435	0	30,435	0
Collateralized mortgage obligations	2,145	0	2,145	0
Term notes	56,851	0	0	56,851
Perpetual trust	12,881	0	0	12,881
Other noncurrent assets - swap assets	131	0	131	0
Other	3,702	0	3,702	0
Total	$1,193,842	$847,387	$276,723	$69,732
Other investments measured at net asset value (1)	255,980			
Total recurring fair value measurements	$1,449,822			
Liabilities				
Recurring fair value of liabilities				
Other liabilities - swap liabilities	$9,414	$0	$9,414	$0

(1) Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been categorized in the fair value hierarchy.

5. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The following tables present the investments measured at net asset value per share as a practical expedient along with a brief description of the investment at June 30:

2019	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Hedge funds [(1)]	$117,471	$0	Monthly/Quarterly	90 days notice
Private core real estate [(2)]	147,947	0	Quarterly	60-90 days notice
	$265,418	$0		

2018	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Hedge funds [(1)]	$117,091	$0	Monthly/Quarterly	90 days notice
Private core real estate [(2)]	138,889	0	Quarterly	60-90 days notice
	$255,980	$0		

(1) The principal objective is to seek consistent stable returns by allocation of the Fund's assets to a wide range of alternative investment strategies across the global financial markets. The Fund's assets are managed primarily through investments in other corporations and other investment vehicles, as well as, indirectly through segregated portfolio companies, collectively referred to as investment funds. The fair value of the investments in this class have been estimated using the net asset value per share of the investments.

(2) The principal objective is to invest either directly or through joint ventures in real estate investments, mortgages, and other loans. The fair values of the investments in this class have been estimated using the net asset values per share of the investments.

The fair value of the Organization's 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, 2019 and 2018, accounted for 4.7% and 4.8%, respectively, of the total recurring fair value measurements. The following tables summarize changes in Level 3 assets measured at fair value at June 30:

	Perpetual trusts	Term loans	Total
Beginning balance, July 1, 2017	$12,797	$46,802	$59,599
Realized investment loss	0	(3,097)	(3,097)
Realized and unrealized investment earnings	0	(80)	(80)
Increase in beneficial interest in perpetual trusts	84	0	84
Purchases	0	36,835	36,835
Sales	0	(23,609)	(23,609)
Ending balance, June 30, 2018	$12,881	$56,851	$69,732
Beginning balance July 1, 2018	$12,881	$56,851	$69,732
Realized investment gain	0	250	250
Realized and unrealized investment earnings	0	992	992
Increase in beneficial interest in perpetual trusts	(210)	0	(210)
Purchases	0	24,391	24,391
Sales	0	(19,577)	(19,577)
Ending balance, June 30, 2019	$12,671	$62,907	$75,578

For the years ended June 30, 2019 and 2018, there were no transfers among valuation levels.

5. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

The fair value of long-term debt, which was estimated at $854,152 and $858,665 at June 30, 2019 and 2018, respectively, was determined using the Organization's current borrowing rates for similar types of borrowing arrangements.

6. LONG-TERM DEBT

Long-term debt consists of the following at June 30:

	2019	2018
Hospital Revenue Bonds - fixed rate[1]	$467,575	$471,390
Hospital Revenue Bonds - variable rate[2]	297,750	312,050
Other debt[3]	56,979	60,398
Total long-term debt	$822,304	$843,838
Less: debt financing costs, net of accumulated amortization	(8,495)	(9,126)
Net premiums and discounts	18,030	18,913
Total debt, net of deferred financing costs and premiums and (discounts)	$831,839	$853,625
Less: current maturities	(22,293)	(21,534)
Total long-term debt, net of current portion	$809,546	$832,091

[1] Interest rates on the fixed rate revenue bonds range from 3.0% to 5.0% with maturity dates ranging from July 1, 2035 through July 1, 2045.

[2] Interest rates on the variable rate revenue bonds range from 2.8% to 3.6% at June 30, 2019, and from 2.4% to 3.1% at June 30, 2018. The maturity dates for these variable rate bonds range from July 1, 2025 through July 1, 2045.

[3] Includes mortgage liability to PNC Bank of $34,415, revenue note series 2012 of $18,480, and mortgage liability to BB&T Bank of $4,084 at June 30, 2019, and PNC Bank of $35,350, revenue note series 2012 of $20,410, and mortgage liability to BB&T Bank of $4,638 at June 30, 2018.

Maturities of Long-Term Debt

Bond premiums and discounts are amortized to interest expense as direct additions or reductions of the carrying values of the related debt instruments from which the premiums or discounts arose. Bond premiums and discounts are amortized to interest expense over the period during which the debt is outstanding, using the straight-line method, which approximates the effective-interest method.

The maturity of total debt, excluding debt issuance costs and other non-cash debt discounts and premiums for the next five fiscal years and thereafter are as follows for the year ending June 30:

2020	$22,293
2021	55,395
2022	22,661
2023	22,046
2024	24,360
Thereafter	675,549
Total principal for long-term debt	$822,304

Restrictive Covenants

Lehigh Valley Health Network, Inc., Lehigh Valley Hospital, Inc., Northeastern Pennsylvania Health Corporation d/b/a Lehigh Valley Hospital-Hazleton, Lehigh Valley Hospital-Schuylkill, Schuylkill Rehabilitation Center, Inc. d/b/a Lehigh Valley Health Network Rehabilitation Center-Schuylkill, and Pocono Medical Center d/b/a Lehigh Valley Hospital-Pocono, and Pocono Health System collectively, the "Obligated Group". The indentures for the Obligated Group's bonds incorporate certain restrictive covenants as provided in the 1987 Master Trust Bond Indenture ("MTI"), as amended, regarding issuance of additional indebtedness on behalf of the Obligated Group. Such covenants require the maintenance of financial and non-financial covenants as defined in the MTI. The financial covenants provide for permitted additional indebtedness, maintenance of specific levels of cash on hand, the maintenance of minimum debt service coverage ratios, as defined and minimum capitalization ratios, among other things.

6. LONG-TERM DEBT (Continued)

Swap Agreements

The Organization has hedged its long-term exposure to rising interest rates on portions of its variable rate debt through participation in interest rate swaps. As of June 30, 2019, interest rate swap agreements with external counter parties were in place on the 2002 Swaps, Series A of 2005 Bonds (the "2005 Swap"), the Series B of 2008 Bonds (the "2006 Swaps"), and Series A of 2012 (the "2012 Swaps") bonds. These interest rate swaps effectively convert these variable rate bonds to a fixed rate. These four swap agreements (the "Swaps") carry a fair value based on long-term interest rates and are further described in the table below for the years ended June 30:

		Fair Value	
Derivatives designated as hedging instruments	Consolidated Statements of Financial Position - location	2019	2018
Interest rate contracts - 2012 Swaps	Other noncurrent assets	$35	$131

	Liability Derivatives		
		Fair Value	
Derivatives not designated as hedging instruments	Consolidated Statements of Financial Position - location	2019	2018
Interest rate contracts - 2002 Swap	Derivative instruments	$2,449	$2,239
Interest rate contracts - 2005 Swap	Derivative instruments	2,870	2,351
Interest rate contracts - 2006 Swaps	Derivative instruments	5,919	4,824
Total derivatives not designated as hedging		$11,238	$9,414
Total derivatives, net		$11,203	$9,283

For the years ended June 30, 2019 and 2018, the 2002, 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 in the Consolidated Statements of Operations. 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 as Other changes in unrestricted net assets in the Consolidated Statements of Operations.

The below table presents the unrealized gains and losses on the Swaps within the Consolidated Statements of Operations for the years ended June 30:

		2019	2018
Derivatives not designated as hedging instruments	Location of losses on ineffective portion		
Interest rate contracts - 2002 Swap	Other nonoperating gains and losses - Change in net unrealized gains on swaps	($210)	$555
Interest rate contracts - 2005 Swap	Other nonoperating gains and losses - Change in net unrealized gains on swaps	(519)	1,739
Interest rate contracts - 2006 Swaps	Other nonoperating gains and losses - Change in net unrealized gains on swaps	(1,095)	2,978
Total derivatives not designated as hedging instruments		(1,824)	5,272
Derivatives designated as hedging instruments	Location of losses on effective portion		
Interest rate contracts - 2012 Swaps	Other changes in unrestricted net assets - Change in net unrealized gains on derivatives	($96)	$72
Total derivatives, net		($1,920)	$5,344

6. LONG-TERM DEBT (Continued)

Swap Agreements (continued)
For the 2005 and 2006 Swaps, where Merrill Lynch is the counterparty, a $15 million negative collateral threshold is in place as long as LVHN maintains its current credit rating of A2 (Moody's) and A+ (S & P). Should the market value of the 2005 Swaps drop below negative $15 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 would trigger increasing or decreasing alternate collateral thresholds. The Organization has current credit ratings of A2 and A+ from the Moody's and S&P ratings agencies, respectively.

For the 2006 Swap, where Goldman Sachs is the counterparty, a $7 million negative collateral threshold is in place as long as LVHN maintains its current credit rating of A2 (Moody's) and A+ (S & P). Should the market value of the 2006 Swap drop below negative $7 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 would trigger alternate collateral thresholds.

For the 2002 and 2012 Swaps, where JPMorgan is the counterparty, a consolidated $5 million negative collateral threshold is in place as long as LVHN maintains its current credit rating of A2 (Moody's) and A+ (S & P). Should the consolidated market value of the 2002 and 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, 2019 and 2018, the 2005 and 2006 Swaps, where Merrill Lynch is the counterparty, had a combined negative market values of $5,836 and $4,761 respectively, and the 2006 Swap where Goldman Sachs is the counterparty had negative market values of $2,954 and $2,414, respectively, and the 2002 and 2012 Swaps where JPMorgan is the counterparty had a combined negative market value of $2,413 and $2,108, respectively. Accordingly, collateralization for the 2005, 2006, 2002 and 2012 Swaps was not required as of June 30, 2019 and 2018.

Line of Credit
At June 30, 2019, the Organization has a consolidated line of credit in the amount of $110,000 expiring December 6, 2020. At June 30, 2018 the organization had two lines of credit totaling $24,000 in the amounts of $5,000 and $19,000 that expired August 31, 2018 and January 31, 2019, respectively. There were no amounts borrowed from the lines of credit at June 30, 2019 and 2018. At June 30, 2019 and 2018, a total of $5,730 and $5,865, respectively, in the form of letters of credit were committed. The remaining amount available under the lines of credit at June 30, 2019 and 2018, were $104,270 and $18,135, respectively.

7. RETIREMENT PLANS

The Organization provides employees with a variety of retirement plan options through a combination of defined benefit and defined contribution benefit plans based on an employee's hire date. Effective September 16, 2016 with the addition of Lehigh Valley Hospital Schuylkill (formerly Schuylkill Health Systems), and effective January 1, 2017 with the addition of Lehigh Valley Hospital Pocono (formerly Pocono Health Systems), these three plans were merged November 30, 2017. All benefits provided under the original plans are unchanged.

Lehigh Valley Health Network Defined Benefit Retirement Plan
Prior to July 1, 2006, the Organization's retirement plan ("the LVHN 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 LVHN Plan, or 3) a noncontributory defined contribution benefit with a matched savings plan benefit in accordance with the LVHN Plan. Employees hired on April 1, 2006, or later, had 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. In 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.

7. RETIREMENT PLANS (Continued)

Lehigh Valley Health Network Defined Benefit Retirement Plan (continued)
During fiscal year 2019 the Lehigh Valley Health Network offered a select group of employees a voluntary early retirement incentive program ("ERIP"). This ERIP offered eligible employees who attained the age of 63 ½ and five years of service by August 1, 2018 enhanced retirement benefits and a continuation of active medical coverage. This ERIP added an additional $1,960 in special termination benefit expense for the year ended June 30, 2019.

Information for the noncontributory defined benefit option regarding funded status, net periodic pension cost, benefit obligation, and assumptions, as of June 30, 2019 and 2018, is presented below and on the following pages. The Plan's assets described below and on the following pages are not included in the consolidated financial statements of the Organization.

Description of Investment Policies
The primary investment objective for the LVHN Plan's assets is to achieve long-term growth subject to prudent risk constraints.

Plan Assets
The Plan assets are overseen by the Finance Committee, a component of The Board of Trustees of the Organization. Based on an assessment of the Organization's long-term goals and desired risk levels, the Finance Committee has approved an investment allocation glide path that adjusts the target allocation to the return-seeking assets as the Plan's funded status changes. The dynamic policy as of June 30, 2019 is as follows:

Funded	**Return-Seeking Assets**			**Liability-Hedging Portfolio**		
Ratio	**Low**	**Target**	**High**	**Low**	**Target**	**High**
≤ 95%	52%	60%	68%	32%	40%	48%
96%	48%	56%	64%	36%	44%	52%
97%	45%	52%	59%	41%	48%	55%
98%	41%	48%	55%	45%	52%	59%
99%	38%	44%	50%	50%	56%	62%
100%	34%	40%	46%	54%	60%	66%
101%	29%	35%	41%	59%	65%	71%
102%	25%	30%	35%	65%	70%	75%
103%	20%	25%	30%	70%	75%	80%
104%	16%	20%	24%	76%	80%	84%
≥ 105%	11%	15%	19%	81%	85%	89%

The Organization has entered into an Outsourced Chief Investment Officer (OCIO) arrangement with its investment advisor who will monitor the Plan's position with respect to the glide path, making asset allocation and manager/strategy changes to the Plan's portfolio as appropriate. The Advisor will notify the Finance Committee when asset allocation or manager/strategy changes have taken place.

Prior to the above implementation of the investment glide path the asset allocation targets at June 30, 2018 which are permitted to be +/- 2 to 10%, approved by the Finance Committee, and the Plan's actual asset allocation, by investment category, are as follows:

LVHN Plan Assets

	2018	
Investment category	Actual	Target
Domestic equity	26.3%	25.0%
International equity - developed markets	18.6%	19.0%
International equity - emerging markets	5.8%	6.0%
Private equity	0.4%	0.0%
Hedge funds	7.5%	7.5%
Private core real estate	7.6%	7.5%
Bank loan funds	5.0%	5.0%
Fixed income	28.8%	30.0%
Total	100.0%	100.0%

7. RETIREMENT PLANS (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), and 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 2019 and 2018.

Fair Value of Plan Assets
The following tables present the categorization of the Plan's assets according to the levels of valuation risk described in Note 5 at June 30:

2019	Total	Level 1	Level 2	Level 3
Assets				
Recurring fair value measurement investments				
Cash and cash equivalents	$9,064	$0	$9,064	$0
Equity securities				
Domestic equity	249,155	249,155	0	0
International equity - developed markets	169,480	169,480	0	0
International equity - emerging markets	60,326	60,326	0	0
Total fair value measurements excluding net asset investments	$488,025	$478,961	$9,064	$0
Other investments measured at net asset value [(1)]	681,857			
Total recurring fair value measurements	$1,169,882			

(1) Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been categorized in the fair value hierarchy.

2018	Total	Level 1	Level 2	Level 3
Assets				
Recurring fair value measurement investments				
Cash and cash equivalents	$5,168	$0	$5,168	$0
Equity securities				
Domestic equity	290,020	290,020	0	0
International equity - developed markets	205,188	205,188	0	0
International equity - emerging markets	64,293	64,293	0	0
Fixed income				
U.S. Treasury securities and obligations of U.S. Government agencies	29,918	16,511	13,407	0
Corporate bonds	282,590	0	282,590	0
Asset-backed securities	1,459	0	1,459	0
Collateralized mortgage obligations	96	0	96	0
Total fair value measurements excluding net asset investments	$878,732	$576,012	$302,720	$0
Other investments measured at net asset value [(1)]	226,929			
Total recurring fair value measurements	$1,105,661			

(1) Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been categorized in the fair value hierarchy.

For the years ended June 30, 2019 and 2018, there were no transfers between valuation levels.

7. RETIREMENT PLANS (Continued)

Fair Value of Plan Assets (continued)
The following tables present the investments measured at net asset value per share as a practical expedient along with a brief description of the investment at June 30:

2019	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Hedge funds [1]	$83,559	$0	Monthly/Quarterly	90 days notice
Private core real estate [2]	90,003	0	Quarterly	60-90 days notice
US long fixed income [5]	459,438	0	Daily	15 days notice
High yield bond [6]	45,357	0	Daily	15 days notice
Private equity [4]	3,500	0	Upon distribution by fund	Not available
Total	$681,857	$0		

2018	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Hedge funds [1]	$83,653	$0	Monthly/Quarterly	90 days notice
Private core real estate [2]	85,076	0	Quarterly	60-90 days notice
Bank loans [3]	54,242	0	Monthly	30 days notice
Private equity [4]	3,958	0	Upon distribution by fund	Not available
Total	$226,929	$0		

(1) The principal objective is to seek consistent stable returns by allocation of the Fund's assets to a wide range of alternative investment strategies across the global financial markets. The Fund's assets are managed primarily through investments in other corporations and other investment vehicles, as well as, indirectly through segregated portfolio companies, collectively referred to as investment funds. The fair value of the investments in this class have been estimated using the net asset value per share of the investments.

(2) The principal objective is to invest either directly or through joint ventures in real estate investments, mortgages, and other loans. The fair value of the investments in this class have been estimated using the net asset values per share of the investments.

(3) The principal objective is to invest primarily in senior bank loans and other senior debt instruments of borrowers that are organized or have a substantial portion of their assets or business in the United States or Canada. The Funds are also permitted to invest in debt securities and other debt obligations, including bridge loans for high yield bond commitments, and U.S. dollar and non-U.S. dollar denominated bank loans, and other debt instruments. The fair value of the investments in this class have been estimated using the net asset value per share of the investments.

(4) These investments includes several private equity fund of fund investments. The primary purpose is to achieve long-term returns through investing in a diversified portfolio of equity limited partnerships. These investments are subject to lock-up provisions and cannot be redeemed without incurring significant investment penalties. (Secondary markets may be available but at substantial discounts to the investment value.) As the private equity funds unwind (consistent with the lock-up provisions) the LVHN Pension Plan will receive cash from the payout of the funds. The liquidation of these private equity funds will take place one year after the date by which all portfolio investments have been liquidated. The fair value of the investments in this class have been estimated using the net asset value per share of the investment.

(5) The Fund’s investment objective is to achieve a total return from current income and capital appreciation by investing in a diversified portfolio of fixed-income securities with maturities generally exceeding 10 years. The Fund will seek to achieve, over an extended period of time, total returns comparable or superior to broad measures of the long-term domestic investment grade credit bond market.

(6) The Fund’s investment objective is to seek a high level of current income by investing primarily in a diversified portfolio of domestic and foreign debt securities which are rated investment grade or below investment grade or are unrated. Capital appreciation is a secondary objective.

7. RETIREMENT PLANS (Continued)

Additional Pension Information

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

	2019	2018
Change in benefit obligation:		
Projected benefit obligation at beginning of year	$1,219,247	$1,316,729
Service cost	3,791	5,732
Interest cost	53,170	52,841
Actuarial loss (gain)	105,949	(84,661)
Special termination benefits	1,980	0
Benefits paid	(47,204)	(71,394)
Projected benefit obligation at end of year	$1,336,933	$1,219,247
Change in plan assets:		
Fair value of plan assets at beginning of year	$1,105,661	$1,082,602
Actual return on plan assets	90,575	58,669
Employer contributions	20,850	35,784
Benefits paid	(47,204)	(71,394)
Fair value of plan assets at end of year	$1,169,882	$1,105,661
Funded status at end of year	($167,051)	($113,586)
Amounts recognized in the Consolidated Statements of Financial Position consists of:		
Pension - noncurrent portion	($167,051)	($113,586)
Net amount recognized	($167,051)	($113,586)
Amounts recognized in unrestricted net assets but not yet recognized in net periodic benefit cost:		
Net loss	($264,227)	($174,278)
Total amount recognized in unrestricted net assets	($264,227)	($174,278)

7. RETIREMENT PLANS (Continued)

Additional Pension Information (continued)

	2019	2018
Components of net periodic benefit cost (NPBC)		
Service cost	$3,791	$5,732
Interest cost	53,170	52,841
Expected return on plan assets	(76,449)	(78,276)
Special termination benefits	1,980	0
Recognized actuarial loss	1,874	3,600
Net periodic benefit income	($15,634)	($16,103)
Other changes in plan assets and benefit obligation recognized in unrestricted net assets		
Net actuarial loss (gain)	$91,823	($65,054)
Amortization of loss	(1,874)	(3,600)
Total loss (gain) recognized in unrestricted net assets	$89,949	($68,654)
Balance at beginning of year	($113,586)	($234,127)
Annual pension expense	15,634	16,103
Adjustments to funded status (loss) gain of pension plan	(89,949)	68,654
Annual contributions	20,850	35,784
Balance at end of year	($167,051)	($113,586)
Accumulated benefit obligation at year end	$1,312,101	$1,176,249
Weighted - average assumptions used to determine projected benefit obligation		
Discount rate - LVHN	3.732%	4.452%
Rate of compensation increase	3.500%	3.500%
Weighted - average assumptions used for NPBC development		
Discount rate - LVHN	4.452%	4.154%
Expected return on plan assets	7.000%	7.000%
Rate of compensation increase	3.500%	3.500%

The actuarial net loss that will be amortized from unrestricted net assets into net periodic benefit cost over the next fiscal year is $4,835.

Estimated Future Benefit Payments

Future payments on an undiscounted basis to participants in the Plan are expected to occur as follows for the year ending June 30:

2020	$51,938
2021	56,175
2022	60,638
2023	64,878
2024	68,381
2025-2029	379,414
Total	$681,424

Expected contributions for the defined benefit plan are $30,390 for the fiscal year ended June 30, 2020.

7. RETIREMENT PLANS (Continued)

The following applies to the defined contribution and matched savings components of the retirement plan of LVHN including LVHH, LVHS, and LVHP:

During the years ended June 30, 2019 and 2018, the Organization made contributions of $45.2 million and $42.5 million, respectively, to the defined contribution plans and recorded $44.1 million and $44.1 million, respectively, in related pension expense. The liability recognized under the Current liabilities Pension in the Consolidated Statements of Financial Position at June 30, 2019 and 2018, for the defined contribution plan was $13.8 million and $14.9 million, respectively. Total expected contributions to the defined contribution plan in fiscal year 2020 are $47.4 million.

During the years ended June 30, 2019 and 2018, the Organization made contributions of $16.2 million and $16.6 million, respectively, to the matched savings benefit plan and recorded $16.4 million and $16.4 million, respectively, in related pension expense. The liability recognized under the Current liabilities Pension in the Consolidated Statements of Financial Position at June 30, 2019 and 2018, for the matched savings benefit plan was $0.6 million and $0.4 million, respectively. Total expected contributions to the matched savings plan in fiscal year 2020 are $16.5 million.

8. LEASES AND FINANCING OBLIGATIONS

The Organization leases certain facilities under capital leases, operating leases, and financing obligations. The minimum future payments, under such leases, for the next five years and thereafter are as follows for the year ending June 30:

	Capital leases and financing obligations	Operating leases
2019	$11,560	$20,232
2020	11,400	18,191
2021	11,435	14,768
2022	11,631	11,779
2023	11,796	9,617
Thereafter	179,066	46,713
Total future minimum lease payments	$236,888	$121,300
Less: amount representing interest	(104,858)	
Total capital lease and financing obligations	132,030	
Less: current maturities	(3,074)	
Total capital lease and financing obligations, net of current portion	$128,956	

The capital lease and financing obligations represent the present value of future minimum lease payments, bear imputed interest at rates ranging from 3.1% to 11.3%, and mature at dates ranging from 2020 through 2037, with subsequent renewal options on a portion of the leases.

Rental expense for operating leases reported in the Other expense in the Consolidated Statements of Operations for the years ended June 30, 2019 and 2018, was $47,546 and $43,306, respectively.

8. LEASES AND FINANCING OBLIGATIONS (Continued)

Capital Leases and Financing Obligations

Capital leases and financing obligations consist of the following at June 30:

	2019	2018
Financing obligation on the parking deck and the Center for Advanced Health Care MOB located on LVH campus at Cedar Crest & I78	$35,215	$35,273
Financing obligation on LVHN - One City Center located in downtown Allentown	47,710	48,206
Capital lease liability on the Center for Orthopedic Medicine and the LVHN Surgery Center located on Tilghman Street	19,158	19,499
Capital lease liability on the Health Center at Palmer Township	10,734	10,870
Capital lease liability on the Health Center at Easton	7,997	8,299
Other capital leases and financing obligations	11,216	12,567
Total capital leases and financing obligations	$132,030	$134,714
Less: current maturities	(3,074)	(2,880)
Total capital leases and financing obligations, net of current portion	$128,956	$131,834

9. COMMITMENTS AND CONTINGENCIES

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 consolidated financial position or results from operations.

10. NET ASSETS WITH DONOR RESTRICTIONS

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

	2019	2018
Purchase of capital assets	$2,721	$477
Specific health care services and education	169,001	147,624
Total temporarily restricted net assets	$171,722	$148,101

Permanently restricted net assets, which total $69,413 and $68,829 at June 30, 2019 and June 30 2018, respectively, are required to be held in perpetuity with the expendable income earned thereon to be used to support health care services and education.

11. 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 156 and 150 individual donor-restricted funds at June 30, 2019 and 2018, 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.

11. ENDOWMENT FUNDS (Continued)

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 Organization had no underwater endowments at June 30, 2019 and 2018, respectively.

The net asset composition of the LVHN Endowment Fund, which the Organization actively managed was as follows at June 30:

	Temporarily restricted	Permanently restricted	Total
2019			
Donor restricted endowment funds	$113,020	$56,742	$169,762
2018			
Donor restricted endowment funds	$109,603	$55,948	$165,551

Changes in the LVHN Endowment fund net assets were as follows at June 30:

2019	Temporarily restricted	Permanently restricted	Total
Endowment net assets, beginning of year	$109,603	$55,948	$165,551
Investment return:			
Investment income	3,503	0	3,503
Net appreciation (realized and unrealized)	5,524	0	5,524
Total investment return	$9,027	$0	$9,027
Contributions	17	674	691
Reclassification from temporarily restricted	0	120	120
Appropriation of endowment assets for expenditures (expense)	(5,627)	0	(5,627)
Endowment net assets, end of year	$113,020	$56,742	$169,762

11. ENDOWMENT FUNDS (Continued)

2018	Temporarily restricted	Permanently restricted	Total
Endowment net assets, beginning of year	$104,748	$56,011	$160,759
Investment return:			
Investment income	2,843	0	2,843
Net appreciation (realized and unrealized)	7,650	0	7,650
Total investment return	$10,493	$0	$10,493
Contributions	(433)	240	(193)
Reclassification to unrestricted and temporarily restricted	0	(303)	(303)
Appropriation of endowment assets for expenditures (expense)	(5,205)	0	(5,205)
Endowment net assets, end of year	$109,603	$55,948	$165,551

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 and current yield.

The actual and target investment allocations, by investment category, were as follows for the LVHN Endowment assets as of June 30:

	2019		2018	
LVHN Endowment assets	Actual	Target	Actual	Target
Domestic equity	29%	29%	29%	29%
International equity - developed markets	20%	22%	21%	22%
International equity - emerging markets	7%	6%	7%	6%
Private core real estate	12%	10%	11%	10%
Fixed income	8%	8%	8%	8%
Multi-asset	15%	15%	14%	15%
Hedge funds	9%	10%	10%	10%
Total	100%	100%	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.

12. 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, 2019 and June 30, 2018, was $81,017 and $84,265, respectively. The assets of the Pool Trust are not included in the accompanying consolidated 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 $3,565 and $4,090 for the years ended June 30, 2019 and 2018, respectively, and are reported as a component of Other supporting operations revenue.

13. 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, and integration and other non-recurring costs, were as follows for the year ended June 30:

		2019	
	Healthcare services	General and administrative	Total
Wages	$1,242,517	$101,896	$1,344,413
Benefits	187,399	22,331	209,730
Supplies	555,946	14,485	570,431
Purchased services	236,892	100,871	337,763
Other	175,370	21,123	196,493
Depreciation and amortization	146,329	7,147	153,476
Interest expense	37,610	3,101	40,711
Bad debt	6,887	0	6,887
Provision for income taxes	1,287	1,268	2,555
Integration and other non-recurring costs	2,958	0	2,958
Total	$2,593,195	$272,222	$2,865,417

		2018	
	Healthcare services	General and administrative	Total
Wages	$1,196,200	$97,327	$1,293,527
Benefits	198,711	21,352	220,063
Supplies	500,482	12,644	513,126
Purchased services	235,129	53,718	288,847
Other	163,780	16,092	179,872
Depreciation and amortization	147,955	7,609	155,564
Interest expense	36,247	3,090	39,337
Bad debt	5,619	0	5,619
Provision for income taxes	1,131	985	2,116
Integration and other non-recurring costs	14,367	0	14,367
Total	$2,499,621	$212,817	$2,712,438

General and administrative expenses include expenses for organizational administrative activities, primarily human resources, management, legal, and financial services.

14. 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 financial assistance 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 provided to patients for the years ended June 30, 2019 and 2018, at cost, was $20,883 and $21,583, 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.

15. RECENT ACCOUNTING PRONOUNCEMENTS

In May 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers,* which changes the requirements for recognizing revenue when entities enter into contracts with customers. Under ASU 2014-09, an entity will recognize revenue when it transfers promised goods or services to customers in an amount that reflects what it expects in exchange for the goods or services. It also requires more detailed disclosures to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. In December 2016, the FASB issued ASU No. 2016-20, *Technical Corrections and Improvements to Topic 606*, *Revenue from Contracts with Customers,* which serves to narrow aspects of the guidance issued in ASU 2014-09. The adoption of ASU 2014-09 is effective for annual and interim periods beginning after December 15, 2017. There are two allowed adoption methods, (1) the full retrospective method, or (2) the modified retrospective method. The full retrospective method requires recognition of the cumulative effect of applying the new standard at the earliest period presented. The modified retrospective method requires recognition of the cumulative effect of applying the new standard at the date of initial application. On July 1, 2018, the Organization adopted ASU 2014-09 and ASU 2016-20, using the full retrospective method which had no material impact on the Organization's consolidated financial position and results of operations. Periods prior to adoption have been displayed to conform to the net presentation of a single Net patient service revenue total in the Consolidated Statements of Operations. The adoption of ASU 2014-09 resulted in changes to the presentation of the Consolidated Statements of Operations with the provision for bad debts now being considered provision for unpaid services that are recognized as a direct reduction to patient services revenues. Previously, the period ending June 30, 2018, included separate lines for Patient service revenue prior to the provision for bad debts of $2,785,928, Provision for bad debts of $110,260, and Net patient service revenue net of provision for bad debts $2,675,668.

In January 2016, the FASB issued ASU No 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities* (ASU 2016-01), which changes the income statement impact of equity investments held by an entity, and the recognition of changes in fair value of financial liabilities when the fair value option is elected, and eliminates the fair value debt disclosure. The adoption of ASU 2016-01 is effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019. Early adoption is permitted for fiscal years beginning after December 15, 2017. The Organization is currently assessing the impact that the adoption of ASU 2016-01 will have on its consolidated financial position and results of operations.

In February 2016, the FASB issued ASU No. 2016-02, *Leases* (ASU 2016-02), which will require lessees to recognize most leases on-balance sheet, increasing their reported assets and liabilities – sometimes significantly. This update was developed to provide financial statement users with more information about an entity's leasing activities, and will require changes in processes and internal controls. The adoption of ASU 2016-02 is effective for annual and interim periods beginning after December 15, 2018, and will require application of the new guidance at the beginning of the earliest comparable period presented. Early adoption is permitted. The Organization is currently assessing the impact of the adoption of ASU No. 2016-02, which is expected to have a material impact on its Consolidated Statement of Financial Position.

In August 2016, the FASB issued ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities,* which will replace the current three classes of net assets (Unrestricted, Temporarily Restricted, and Permanently Restricted) with only two classes – With Donor Restrictions and Without Donor Restrictions – while retaining the requirement to provide information about the amounts and nature of difference types of donor-imposed restrictions, with a focus on both how and when the resources can be used. The adoption of ASU 2016-14 is effective for annual periods in fiscal years beginning after December 15, 2017, and for interim periods in fiscal years beginning after December 15, 2018. On July 1, 2018, the Organization adopted this guidance which had no material impact on its consolidated financial position and results of operations. Prior to the adoption of this ASU, as of June 30, 2018, the Organization

15. RECENT ACCOUNTING PRONOUNCEMENTS (Continued)

presented unrestricted, temporarily restricted and permanently restricted net assets of $1,564,296, $148,101, and $68,829, respectively, in the Consolidated Statement of Financial Position. Upon adoption, the Organization reclassified these amounts into two net asset classes, net assets without donor restrictions of $1,564,296 and net assets with donor restrictions of $216,930.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*, which addresses how certain cash receipts and cash payments should be presented and classified in the statement of cash flows. The new guidance is effective for annual and interim periods beginning after December 15, 2017, with early adoption permitted. On July 1, 2018, the Organization adopted this guidance which had no material impact on its consolidated financial position and results of operations.

In January 2017, the FASB issued ASU No. 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business*, which provides guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The adoption of ASU 2017-01 is effective for annual and interim periods beginning after December 15, 2017, with early adoption permitted in certain circumstances. On July 1, 2018, the Organization adopted this guidance which had no material impact on its consolidated financial position and results of operations.

In January 2017, the FASB issued ASU No. 2017-04, *Simplifying the Test for Goodwill Impairment*, which eliminates step 2 of the goodwill impairment test and replaces the qualitative assessment. Under ASU 2017-04, an entity will perform its annual or interim goodwill impairment test by comparing the fair value of the reporting unit with its carrying amount, and recognize an impairment loss for the amount by which the carrying amount exceeds the reporting unit’s fair value, with the loss not exceeding the total amount of goodwill allocated to that reporting unit. The adoption of ASU 2017-04 is effective for the annual period beginning after December 15, 2021. Early adoption is permitted for interim or annual goodwill impairment tests with measurement dates after January 1, 2017. The Organization elected to early adopt the standard effective July 1, 2017, which had no impact on the Organization’s consolidated financial position and results of operations, because the Organization did not have goodwill impairments during the reporting year.

In August 2017, the FASB issued ASU 2017-12, *Targeted Improvements to Accounting for Hedging Activities*, which will change the recognition and presentation requirements of hedge accounting. This ASU will eliminate the requirement to separately measure and report hedge effectiveness, and will require all items related to the hedged item to be presented in the same financial statement caption on the statement of operations. The adoption of ASU 2017-12 is effective for annual periods in fiscal years beginning after December 15, 2018, with early adoption permitted, and requires only prospective adoption for both presentation and disclosure. The Organization is currently assessing the impact that the adoption of ASU 2017-12 will have on its consolidated financial position and results of operations.

16. CERTAIN SIGNIFICANT RISKS AND UNCERTAINTIES

Healthcare Reform

The Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 (collectively, “Health Care Reform”), enacted in March 2010, has changed and will continue to make broad-based changes to the U.S. health care system which could significantly affect the U.S. economy and which the Organization expects will continue to impact the Organization’s business operations and financial results. Since its enactment in 2010, key components of Health Care Reform have been phased in, including health insurance exchanges (“Public Exchanges”), new Medicare products, and the individual coverage mandate. Although Health Care Reform is to be phased in through 2022, many significant changes occurred in 2014. The Organization is dedicating material resources to monitor the potential impacts of Health Care Reform, as well as, state level health care reform.

While the federal government has issued a number of regulations implementing Health Care Reform, certain significant parts of Health Care Reform, including aspects of Public Exchanges, Medicaid expansion, enforcement related reporting for the individual and employer mandates, and the implementation of Medicare Advantage, require further guidance and Clarification at the federal level and/or in the form of regulations and actions by state legislatures to implement the law. The federal government also has announced significant changes to and/or delays in effective dates of various aspects of Health Care Reform, and it is likely that further changes will be made at the federal and/or state level based on implementation experience. As a result, key aspects and impacts of Health Care Reform will not be known for several years, and given the inherent difficulty of foreseeing how individuals and businesses will respond to the choices afforded them by Health Care Reform, the Organization cannot predict the full effect Health Care Reform will have on the Organization. It is reasonably possible that Health Care Reform, in the aggregate, could have an adverse effect on the

16. CERTAIN SIGNIFICANT RISKS AND UNCERTAINTIES (Continued)

Organization's business operations and financial results. Federal budget negotiations, ongoing regulatory changes to Health Care Reform, pending efforts in the U.S. Congress to amend or restrict funding for various aspects of Health Care Reform and litigation challenging aspects of the law continue to create uncertainty about the ultimate impact of Health Care Reform.

In addition, the federal and state governments continue to enact or seriously consider many other broad-based legislative and regulatory proposals that have impacted or could materially impact various aspects of the health care system. The Organization cannot predict whether pending or future federal or state legislation will change various aspects of the health care system, or Health Care Reform, or the impact those changes will have on the Organization's business operations or financial results, but the effects could be adverse.

Union and Collective Bargaining
As of June 30, 2019, approximately 9.5% of the Organization's employees are subject to collective bargaining agreements with various unions. These collective bargaining agreements have expiration dates ranging between 2019 and 2021. During fiscal year 2020 three collective bargaining agreements will be renegotiated for a successor agreement: 1) SEIU Pocono which expires October 31, 2019 and represents 472 service and maintenance employees; 2) Office and Professional Employees International Union (OPEIU) Schuylkill which expires June 30, 2020 and represents 130 registered nurses; and 3) SEIU Schuylkill which expires June 30, 2020 and represents 185 service, maintenance and licensed practical nurse employees.

17. SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through October 21, 2019, the date at which the consolidated financial statements were available to be issued.

On September 13, 2019, the Organization signed a binding letter of intent to acquire the assets and certain liabilities of Coordinated Health Holding Company, LLC and Affiliates for approximately $75,000,000. In addition and in consideration of a payment of $20,000,000, the Organization will acquire certain real estate assets from the affiliated property company. The transaction is pending regulatory approval from the Federal Trade Commission and the Pennsylvania Attorney General's Office. Coordinated Health is a for-profit hospital system with locations throughout eastern Pennsylvania and western New Jersey. Coordinated Health has more than 1,200 employees across 22 locations, with facilities including two hospitals and two ambulatory surgery centers.

KPMG LLP
1601 Market Street
Philadelphia, PA 19103-2499

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

The Board of Trustees
Lehigh Valley Health Network:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the consolidated financial statement of Lehigh Valley Health Network and Subsidiaries, which compromise the consolidated statements of financial position as of June 30, 2019, and the related consolidated statements of operations, changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated October 21, 2019, which included an emphasis of matter paragraph for the adoption of recent accounting pronouncements.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's consolidated financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lehigh Valley Health Network and Subsidiaries' consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of the consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

KPMG LLP

Philadelphia, Pennsylvania
October 21, 2019

KPMG LLP
1601 Market Street
Philadelphia, PA 19103-2499

Independent Auditors' Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on the Consolidated Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

The Board of Trustees
Lehigh Valley Health Network:

Report on Compliance for Each Major Federal Program

We have audited Lehigh Valley Health Network and Subsidiaries' compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Lehigh Valley Health Network and Subsidiaries' major federal programs for the year ended June 30, 2019. Lehigh Valley Health Network and Subsidiaries' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Lehigh Valley Health Network and Subsidiaries' major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Lehigh Valley Health Network and Subsidiaries' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Lehigh Valley Health Network and Subsidiaries' compliance.

Opinion on Each Major Federal Program

In our opinion, Lehigh Valley Health Network and Subsidiaries complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2019.

Report on Internal Control Over Compliance

Management of Lehigh Valley Health Network and Subsidiaries is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Lehigh Valley Health Network and

Subsidiaries' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Lehigh Valley Health Network and Subsidiaries' internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

Report on Consolidated Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the consolidated financial statements of Lehigh Valley Health Network and Subsidiaries as of and for the year ended June 30, 2019, and have issued our report thereon dated October 21, 2019, which contained an unmodified opinion on those consolidated financial statements. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidated schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidated schedule of expenditures of federal awards is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

KPMG LLP

Philadelphia, Pennsylvania
October 21, 2019

LEHIGH VALLEY HEALTH NETWORK AND SUBSIDIARIES

CONSOLIDATED SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2019

Program Title / Grant Name	Federal CFDA Number	Direct Funding Award Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Federal Expenditures
U.S. Department of Agriculture:					
Child Nutrition Cluster:					
Food and Nutrition Service					
National School Lunch Program					
Pass-through from Commonwealth of Pennsylvania Department of Education					
Summer Meal Program	10.555		336-39-304-8		2,359
Total Child Nutrition Cluster					2,359
Total U.S. Department of Agriculture				$ -	$ 2,359
U.S. Department of Justice:					
Office of Justice Programs					
Crime Victim Assistance					
Pass-through from Commonwealth of Pennsylvania Commission on Crime and Delinquency					
SAFE4Education	16.575		2017-VF-05 28132		15,316
Total U.S. Department of Justice				$ -	$ 15,316
U.S. Department of Health and Human Services:					
Administration for Community Living					
Alzheimer's Disease Initiative: Specialized Supportive Services Project thru Prevention and Public Health Funds					
Fleming Memory Center	93.763	90ALGG0003-01			232,453
Centers for Disease Control and Prevention					
Blood Disorder Program: Prevention, Surveillance, and Research					
Pass-through from The Children's Hospital of Philadelphia					
Community Counts: Public Health Surveillance for Bleeding Disorders	93.080		8901210918		17,000
Domestic Ebola Supplement to the Epidemiology and Laboratory Capacity for Infectious Diseases					
Pass-through from Commonwealth of Pennsylvania Department of Health					
Ebola Preparedness - LVH-M - Supplement to the Epidemiology	93.815		4100070355		14,067
Health Resources and Services Administration					
Maternal and Child Health Federal Consolidated Programs					
Pass-through from The Children's Hospital of Philadelphia					
Hemophilia Treatment Centers (SPRANS)	93.110		27007-3209610519		5,000
Ryan White HIV/AIDS Dental Reimbursement and Community Based Dental Partnership Grants					
Dental Reimbursement Program	93.924	1 T22HA32294-01-00			24,577
PPHF Geriatric Education Centers					
Geriatrics Workforce Enhancement Program (GWEP)	93.969	6 U1QHP28704-03-05		84,600	836,870

LEHIGH VALLEY HEALTH NETWORK AND SUBSIDIARIES

CONSOLIDATED SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2019

Program Title / Grant Name	Federal CFDA Number	Direct Funding Award Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Federal Expenditures
U.S. Department of Health and Human Services (Continued):					
IMMED Office of the Secretary					
Hospital Preparedness Program (HPP) Ebola Preparedness and Response Activities					
Pass-through from Commonwealth of Pennsylvania Department of Health					
Ebola Preparedness - LVH-M	93.817		4100070355		118,586
Substance Abuse and Mental Health Services Administration					
Substance Abuse and Mental Health Services - Projects of Regional and National Significance					
SAMHSA	93.243	6H79SM062392-03-M001			108,848
SAMHSA	93.243	5H79SM062392-04			284,626
					$ 393,474
Maternal, Infant, and Early Childhood Home Visiting Cluster:					
Health Resources and Services Administration					
Maternal, Infant, and Early Childhood Home Visiting Grant					
Pass-through from Commonwealth of Pennsylvania Department of Human Services					
MIECHV-LVH-P	93.870		4100070329		126,360
Total Maternal, Infant, and Early Childhood Home Visiting Cluster					$ 126,360
Research and Development Cluster:					
Centers for Disease Control and Prevention					
Pass-through from Massachusetts General Hospital					
Global TravEpiNet (GTEN): The Heading Home Healthy Program and Global Travelers' Health National Research Research Center Consortium, Guidance and Outreach Programs Supplement	93.084		231295		628
National Institutes of Health					
Cancer Treatment Research					
Pass-through from Saint Joseph Mercy Health System - Ann Arbor (Michigan Cancer Research Consortium)					
National Cancer Institute Community Oncology Research Program - NCORP	93.395		72202		104,482
Pass-through from The Children's Hospital of Philadelphia					
Children's Oncology Group NCTN - PCR (Per Case Reimbursement)	93.395		FP00015221_SUB289_01		34,256
Children's Oncology Group NCTN - PCR (Per Case Reimbursement)	93.395		FP00026529_SUB372_01		500
Children's Oncology Group NCTN - Workload Intensity	93.395		FP00015221_SUB592_01		1,250
					$ 36,006
Extramural Research Programs in the Neurosciences and Neurological Disorders					
Pass-through from National Coordinating Center- University of Cincinnati					
AtRial Cardiopathy and Antithrombotic Drugs In prevention After cryptogenicstroke (ARCADIA) Study	93.853		010785-137843		6,422
Pass-through from Mayo Clinic Jacksonville					
Carotid Revascularization and Medical Management for Asymptomatic Carotid Stenosis Trial (CREST 2)	93.853		LEH-224063-01		14,310
Carotid Revascularization and Medical Management for Asymptomatic Carotid Stenosis Trial (CREST 2)	93.853		LEH-224063-02		3,975
					$ 18,285

LEHIGH VALLEY HEALTH NETWORK AND SUBSIDIARIES

CONSOLIDATED SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2019

Program Title / Grant Name	Federal CFDA Number	Direct Funding Award Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Federal Expenditures
U.S. Department of Health and Human Services (Continued):					
Research and Development Cluster (continued):					
National Institutes of Health (Continued)					
Aging Research					
Pass-through from University of Southern California					
Long-Term Nicotine Treatment of Mild Cognitive Impairment	93.866		103615036		14,880
Medical Library Assistance					
Pass-through from University of Pittsburgh					
National Network of Libraries of Medicine MidAtlantic (Region 1) and Web Services Office	93.879		CVNA00050256		223
Total Research and Development Cluster					$ 180,926
Total U.S. Department of Health and Human Services				$ 84,600	$ 1,830,727
TOTAL FEDERAL AWARDS				$ 84,600	$ 1,966,988

See accompanying notes to the consolidated schedule of expenditures of federal awards

LEHIGH VALLEY HEALTH NETWORK AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2019

1. BASIS OF PRESENTATION

The accompanying Consolidated Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal award activity of Lehigh Valley Health Network and Subsidiaries (the Organization) under programs of the federal government for the year ended June 30, 2019. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, the cost principles in 2 CFR, Part 230 *Cost Principles for Non-Profit Organizations*, the cost principles contained in 45 CFR Part 75 Appendix IX, *Principles for Determining Costs Applicable to Research and Development Under Grants and Contracts with Hospitals*; and the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited to reimbursement.

3. FEDERAL INDIRECT RATE

The Organization did not elect to use the 10% de minimis indirect cost rate under the Uniform Guidance.

4. SUBRECIPIENTS EXPENDITURES

Of the federal expenditures presented in the Schedule, the Organization provided federal awards of $84,600 to five subrecipients for the year ended June 30, 2019:

	CFDA Number	Passed Through to Subrecipients
U.S. Department of Health and Human Services:		
PPHF Geriatric Education Centers		
Geriatrics Workforce Enhancement Program (GWEP):	93.969	
Alzheimer's Association Delaware Valley Chapter		$13,379
Allentown Health Bureau		10,000
Cedar Crest College		16,929
Lehigh County		2,500
Neighborhood Health Centers of the Lehigh Valley		41,792
Total Passed Through to Subrecipients		$84,600

NOTES TO THE CONSOLIDATED SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2019

5. COMMONWEALTH OF PENNSYLVANIA – DEPARTMENT OF HEALTH

For the awards passed through from the Commonwealth of Pennsylvania Department of Health to the Organization the following supplemental information is provided for the year ended June 30, 2019:

	CFDA Number	Pass-Through Entity Identifying Number	Award Period	Award Amount	Accrued Revenue at Beginning of Year	Funding Received During the Year	Revenue Recognized During the Year	Accrued Revenue at End of Year
U.S. Department of Health and Human Services								
Domestic Ebola Supplement to the Epidemiology and Laboratory Capacity for Infectious Diseases								
Ebola Preparedness - LVH-M - Supplement to the Epidemiology	93.815	4100070355	7/1/18 to 6/30/19	$14,067	$0	$14,067	$14,067	$0
Hospital Preparedness Program (HHP) Ebola Preparedness and Response Activities								
Ebola Preparedness - LVH-M	93.817	4100070355	7/1/18 to 6/30/19	$198,877	$183,441	$280,969	$118,586	$21,058

6. COMMONWEALTH OF PENNSYLVANIA – DEPARTMENT OF HUMAN SERVICES

For the awards passed through from the Commonwealth of Pennsylvania Department of Human Services to the Organization the following supplemental information is provided for the year ended June 30, 2019:

	CFDA Number	Federal Expenditures per the SEFA	Federal Awards Received per the Audit Confirmation Reply from Pennsylvania	Difference	Detailed Explanation of the Differences
U.S. Department of Health and Human Services					
Maternal, Infant, and Early Childhood Home Visiting Grant					
MIECHV-LVH-P	93.870	$126,360	$126,360	$0	N/A

LEHIGH VALLEY HEALTH NETWORK AND SUBSIDIARIES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2019

Section I – Summary of Auditors' Results

Consolidated Financial Statements

(a) Type of report issued on whether the consolidated financial statements were prepared in accordance with generally accepted accounting principles: **Unmodified**

(b) Internal control deficiencies over financial reporting disclosed by the audit of the financial statements:

- Material weakness(es) identified? ____ **Yes** __X__ **No**
- Significant deficiency(ies) identified? ____ **Yes** __X__ **None Reported**

(c) Noncompliance material to consolidated financial statements: ____ **Yes** __X__ **No**

Federal Awards

(d) Internal control deficiencies over major programs disclosed by the audit:

- Material weakness(es) identified? ____ **Yes** __X__ **No**
- Significant deficiency(ies) identified? ____ **Yes** __X__ **None Reported**

(e) Type of report issued on compliance for major programs: **Unmodified**

(f) Audit findings that are required to be reported in accordance with 2 CFR 200.516(a): ___ **Yes** __X__ **No**

(g) Major programs:

CFDA	Name of Federal Program	Grant Name
93.763	Alzheimer's Disease Initiative	Fleming Memory Center
93.243	Substance Abuse and Mental Health Services	SAMHSA

(h) Dollar threshold used to distinguish between Type A and Type B programs: **$750,000**

(i) Auditee qualified as a low-risk auditee: __X__ **Yes** ____ **No**

Section II – Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards*

No matters were reported.

Section III – Findings and Questioned Costs Relating to Federal Awards

No matters were reported.