Temple University Health System

Consolidated Financial Statements as of and for the Years Ended June 30, 2012 and 2011, Supplemental Schedules for the Temple University Health System Obligated Group as of and for the Year Ended June 30, 2012, and Independent Auditors’ Report

TEMPLE UNIVERSITY HEALTH SYSTEM

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Temple University Health System, Inc.
Philadelphia, Pennsylvania

We have audited the accompanying consolidated balance sheets of Temple University Health System (the "Health System") (a wholly owned subsidiary of Temple University — Of the Commonwealth of Higher Education) as of June 30, 2012 and 2011, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Health System's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Health System's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Temple University Health System as of June 30, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplemental schedules listed in the table of contents are presented for the purpose of additional analysis and are not a required part of the consolidated financial statements. These schedules are the responsibility of the Health System's management and were derived from and relate directly to the underlying accounting and other records used to prepare the consolidated financial statements. Such schedules have been subjected to the auditing procedures applied in our audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such schedules 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, such schedules are fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Deloitte & Touche LLP

October 18, 2012

TEMPLE UNIVERSITY HEALTH SYSTEM

CONSOLIDATED BALANCE SHEETS
AS OF JUNE 30, 2012 AND 2011
(In thousands)

ASSETS	2012	2011
CURRENT ASSETS:		
Cash and cash equivalents	$ 103,590	$ 140,241
Patient accounts receivable — net of allowance for doubtful accounts of $23,784 in 2012 and $21,719 in 2011	118,707	123,682
Other receivables — net of allowance for doubtful accounts of $542 in 2012 and $549 in 2011	25,482	29,076
Inventories and other current assets	25,235	19,901
Current portion of assets limited as to use	21,610	27,285
Investments	159,804	138,986
Current portion of workers' compensation fund	6,423	5,720
Current portion of self-insurance program receivables	12,200	
Total current assets	473,051	484,891
PROPERTY, PLANT AND EQUIPMENT:		
Land and land improvements	9,008	9,052
Buildings	402,364	396,911
Fixed and movable equipment	366,396	342,082
Construction-in-progress	6,597	5,592
	784,365	753,637
Less accumulated depreciation	521,837	490,470
Net property, plant and equipment	262,528	263,167
ASSETS LIMITED AS TO USE	85,646	91,292
INVESTMENTS	46,414	38,410
WORKERS' COMPENSATION FUND	4,684	6,676
ESTIMATED SETTLEMENT WITH THIRD-PARTY PAYOR	119	
SELF-INSURANCE PROGRAM RECEIVABLES	21,206	
BENEFICIAL INTEREST IN PERPETUAL TRUSTS	20,673	21,483
BENEFICIAL INTEREST IN THE ASSETS HELD BY EPISCOPAL FOUNDATION	18,622	19,170
OTHER ASSETS	28,865	24,901
TOTAL ASSETS	$ 961,808	$ 949,990

(Continued)

TEMPLE UNIVERSITY HEALTH SYSTEM

CONSOLIDATED BALANCE SHEETS
AS OF JUNE 30, 2012 AND 2011
(In thousands)

LIABILITIES AND NET ASSETS	2012	2011
CURRENT LIABILITIES:		
Current portion of long-term debt	$ 11,029	$ 9,094
Accounts payable	57,982	47,135
Accrued expenses	49,988	52,689
Current portion of estimated settlements with third-party payors	2,744	4,055
Current portion of self-insurance program liabilities	58,669	34,586
Other current liabilities	29,055	23,166
Total current liabilities	209,467	170,725
LONG-TERM DEBT	315,668	323,879
ESTIMATED SETTLEMENTS WITH THIRD-PARTY PAYORS	502	1,230
SELF-INSURANCE PROGRAM LIABILITIES	121,341	122,563
ACCRUED POSTRETIREMENT BENEFITS	66,328	33,995
OTHER LONG-TERM LIABILITIES	26,535	26,824
Total liabilities	739,841	679,216
NET ASSETS:		
Unrestricted	178,828	223,490
Temporarily restricted	2,324	5,111
Permanently restricted	40,815	42,173
Total net assets	221,967	270,774
TOTAL LIABILITIES AND NET ASSETS	$ 961,808	$ 949,990

See notes to consolidated financial statements.

(Concluded)

TEMPLE UNIVERSITY HEALTH SYSTEM

CONSOLIDATED STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS FOR THE YEARS ENDED JUNE 30, 2012 AND 2011 (In thousands)

	2012	2011
UNRESTRICTED NET ASSETS:		
UNRESTRICTED REVENUES AND OTHER SUPPORT:		
Net patient service revenue	$ 971,283	$ 967,083
Other revenue	31,403	24,744
Investment income	785	539
Net assets released from restrictions used for operations	1,389	1,823
Unrestricted revenues and other support	1,004,860	994,189
EXPENSES:		
Salaries	403,590	390,028
Employee benefits	111,483	115,927
Professional fees	87,071	74,104
Supplies and pharmaceuticals	154,147	152,087
Purchased services and other	103,057	95,434
Maintenance	14,010	13,458
Utilities	16,675	16,976
Leases	13,791	13,345
Insurance	43,140	49,515
Depreciation and amortization	38,254	37,275
Interest	19,249	19,851
Provision for bad debts	14,979	15,968
Loss (gain) on disposal of fixed assets	314	(252)
Expenses	1,019,760	993,716
OPERATING (LOSS)/ GAIN	(14,900)	473
OTHER INCOME — Net:		
Investment income	22,791	11,862
Other — net	(967)	72
Other income — net	21,824	11,934
EXCESS OF REVENUES AND OTHER SUPPORT OVER EXPENSES FROM CONTINUING OPERATIONS	6,924	12,407
NET GAIN FROM DISCONTINUED OPERATIONS		4,684
EXCESS OF REVENUES AND OTHER SUPPORT OVER EXPENSES	6,924	17,091
OTHER CHANGES IN UNRESTRICTED NET ASSETS:		
Transfers to the University	(8,829)	(14,589)
Net assets released from restrictions used for purchase of property and equipment	4,879	2,069
Net change in fair value of investments	(12,612)	7,848
Adjustment to funded status of pension and postretirement liabilities	(35,024)	28,539
(Decrease) Increase in unrestricted net assets	(44,662)	40,958
TEMPORARILY RESTRICTED NET ASSETS:		
Contribution income	3,502	2,342
Net assets released from restrictions	(6,268)	(3,986)
Net unrealized (loss) gains on investments	(58)	284
Investment income	37	29
Decrease in temporarily restricted net assets	(2,787)	(1,331)
PERMANENTLY RESTRICTED NET ASSETS:		
Change in beneficial interest in assets held by Episcopal Foundation	(548)	2,861
Change in beneficial interest in perpetual trusts	(810)	2,895
(Decrease) Increase in permanently restricted net assets	(1,358)	5,756
(DECREASE) INCREASE IN NET ASSETS	(48,807)	45,383
NET ASSETS — Beginning of year	270,774	225,391
NET ASSETS — End of year	$ 221,967	$ 270,774

See notes to consolidated financial statements.

TEMPLE UNIVERSITY HEALTH SYSTEM

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2012 AND 2011
(In thousands)

	2012	2011
OPERATING ACTIVITIES:		
Change in net assets	$ (48,807)	$ 45,383
Gain from discontinued operations		(4,684)
(Decrease) increase in net assets from continuing operations	(48,807)	40,699
Adjustments to reconcile (decrease) increase in net assets to net cash provided by operating activities:		
Net realized and unrealized gains on investments	(3,924)	(8,064)
Net realized and unrealized gains on beneficial interests in perpetual trusts and assets held by Episcopal Foundation	1,358	(5,756)
Depreciation and amortization	38,254	37,275
Amortization of bond premium and discount	131	165
Provision for bad debts	14,979	15,968
Adjustment to funded status of pension and postretirement liabilities	35,024	(28,539)
Proceeds from contributions and investments restricted to property, plant and equipment and endowments	(3,481)	(2,561)
Loss (Gain) on disposal of fixed assets	314	(252)
Transfers to the University	8,829	14,589
Changes in operating assets and liabilities:		
Patient accounts receivable	(10,004)	(15,884)
Other receivables	3,594	42,030
Pledges receivable — net	2	200
Inventories and other current assets	(5,334)	5,458
Other assets	(3,966)	(7,839)
Accounts payable	12,782	1,932
Accrued expenses	(2,701)	(6,006)
Estimated settlements with third-party payors	(2,158)	4,779
Self-insurance program receivables and liabilities	(10,545)	15,441
Other liabilities	2,909	(30,822)
Net cash provided by operating activities	27,256	72,813
INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(40,283)	(38,008)
Purchases of investments	(270,306)	(407,617)
Proceeds from sales of investments	258,018	366,982
Proceeds from sale of fixed assets	419	4,899
Net cash used in investing activities	(52,152)	(73,744)
FINANCING ACTIVITIES:		
Proceeds from contributions and investments restricted to property, plant and equipment and endowments	3,481	2,561
Repayment of long-term debt	(9,253)	(22,797)
Proceeds from issuance of long-term debt	2,846	5,500
Transfers to the University	(8,829)	(14,589)
Net cash used in financing activities	(11,755)	(29,325)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(36,651)	(30,256)
CASH AND CASH EQUIVALENTS — Beginning of year	140,241	170,497
CASH AND CASH EQUIVALENTS — End of year	$ 103,590	$ 140,241
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION — Cash paid for interest	$ 18,886	$ 19,686

SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITY:
Amounts recorded for purchases of property and equipment in excess of amounts paid were $2,301,000 and $3,282,000 in 2012 and 2011, respectively.

The cost of assets acquired through capitalized leases in 2012 and 2011 was $364,000 and $0, respectively.

See notes to consolidated financial statements.

1. ORGANIZATION AND DESCRIPTION OF BUSINESS

Temple University Health System, Inc. (“TUHS”) is a Pennsylvania nonprofit corporation of which Temple University — Of The Commonwealth System of Higher Education (the “University” or “TU”) is the sole member. TUHS was incorporated in August 1995 and serves principally to coordinate the activities and plans of its health care subsidiaries in Philadelphia and the surrounding area. TUHS is the sole member of these subsidiaries. At June 30, 2012 and 2011, the subsidiaries and affiliates (herein referred to as “corporate members”) of TUHS (collectively, with TUHS, referred to as the “Health System”), all of which operate in Philadelphia and the surrounding area, include the following:

- Temple University Hospital, Inc. (“TUH”), a nonprofit corporation, operating a 714-bed acute care teaching hospital with additional outpatient locations in Philadelphia and Montgomery Counties;

- Temple University Health System Foundation (“TUHSF”), a nonprofit corporation, is a wholly owned subsidiary of TUH formed to support the health-care-related activities of TUHS;

- Temple East, Inc. (“TE”), a nonprofit corporation, operated a 189-bed acute care hospital doing business as Northeastern Hospital (“NEH”) and ceased operations on June 29, 2009.

- Temple East Real Estate Inc. (“TERE”), a nonprofit corporation, was a title holding, supporting organization that facilitated the provision of health care services of TUH. On July 5, 2012, the Corporation was dissolved;

- Jeanes Hospital (“JH”), a nonprofit corporation, 176-bed acute care hospital located in the Fox Chase section of Philadelphia;

- Episcopal Hospital (“Episcopal”), a nonprofit corporation, providing clinical outpatient health care services;

- Temple Health System Transport Team, Inc. (“T3”), a nonprofit corporation, is a critical care ambulance company;

- Greater Philadelphia Health Services III Corporation (“GPHSC III”), a nonprofit corporation, which did business as Temple Continuing Care Center (“TCCC”), and ceased operations in February 2003 (see Note 13). On June 29, 2011, the Corporation was dissolved;

- Temple Physicians, Inc. (“TPI”), a nonprofit corporation formed to develop and acquire community-based primary care practices located in the service area of TUHS; and

- TUHS Insurance Company, Ltd. (“TUHIC”), a captive insurance company established to reinsure the professional liability claims of certain subsidiaries of TUHS. TUHS is the beneficial owner of TUHIC which is domiciled in Bermuda.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation — The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America and include the accounts of the Health System. All significant intercompany transactions and balances have been eliminated in consolidation.

Cash and Cash Equivalents — Cash equivalents consist primarily of highly liquid investments, such as money market funds and debt instruments with original maturities of three months or less at the time of purchase. At June 30, 2012 and 2011, the Health System had cash balances in financial institutions, which exceed federal depository insurance limits. Management believes that credit risks related to these deposits is minimal. Cash and cash equivalents are carried at cost, which approximates market value.

Investments — Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value. Investment income or loss (including realized gains and losses, interest, and dividends) is included in other income unless the income is restricted by donor or law, except for investment income on borrowed funds held by trustees as collateral on outstanding debt. This investment income is included in unrestricted revenue and other support. Unrealized gains and losses on equity securities with readily determinable fair values and all investments in debt securities are excluded from the excess of revenues over expenses unless the amount was recorded as part of the other-than-temporary impairment adjustment as disclosed in Note 5.

The Health System also invests in various limited partnerships which are private equity funds. Such investments are accounted for on the equity basis of accounting, which approximates fair value as determined by the fund managers and financial information provided by the limited partnership. This financial information includes assumptions and methods that were reviewed by the Health System. The Health System believes that the estimated fair value is reasonable as of June 30, 2012 and 2011. Because these investments are not readily marketable, the estimated fair values are subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market existed, and such differences could be material. These investments vary as to their level of liquidity, with differing requirements for notice prior to redemption or withdrawal. Investment gains and losses on these funds are included in other income.

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 Health System reviews its investments to identify those for which market value is below cost. The Health System then makes a determination as to whether investments are other-than-temporarily impaired based on guidelines established in Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 320.

Assets Limited as to Use — Assets limited as to use primarily include assets held by trustees under indenture and insurance agreements, designated assets set aside by the Board for future capital improvements, over which the Board retains control and may at its discretion subsequently use for other purposes and donor restricted assets. Amounts required to meet current liabilities of the Health System have been classified as current assets in the consolidated balance sheets.

Inventories — Inventories are stated at the lower of cost or market.

Property, Plant and Equipment — Property, plant and equipment are stated at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Depreciation expense was $38,133,000 and $37,275,000 for the years ended June 30, 2012 and 2011, respectively. Expenditures for maintenance and repairs necessary to maintain property, plant and equipment are charged to operations. Costs of renewals and betterments are capitalized. The amount of capitalized leases is $8,981,000 and $8,617,000, at June 30, 2012 and 2011, respectively, and is included in the property, plant and equipment balances. Amortization of these assets is included with depreciation expense. At June 30, 2012 and 2011, the accumulated depreciation balance included $5,809,000 and $4,326,000, respectively, of accumulated amortization of capital leased assets. Interest costs incurred on borrowed funds during the period of construction of capital assets, net of interest earned on the unexpended proceeds of tax-exempt borrowings specifically incurred for construction, are capitalized as a component of the cost of acquiring those assets. No interest costs were capitalized during fiscal years ended June 30, 2012 and 2011.

Long-Lived Assets Review — The Health System reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If the carrying value of a long-lived asset is considered impaired, a loss is recognized by which the carrying value exceeds the fair value (less any costs related to disposal or abandonment, if applicable). There was no impairment of long-lived assets recorded during the fiscal years ended June 30, 2012 and 2011.

Asset Retirement Obligations — The Health System recognizes the fair value of a liability for legal obligations associated with asset retirements in the period in which it is incurred, in accordance with FASB ASC Topic 410, if a reasonable estimate of the fair value of the obligation can be made. When the liability is initially recorded, the Health System capitalizes the cost of the asset retirement obligation by increasing the carrying amount of the related long-lived asset. The value of the asset, when established in 2006, was $324,000. Over time, the liability is accreted to its present value each period using a discount rate of 6.75%, and the capitalized cost associated with the retirement obligation is depreciated over the useful life of the related asset. Upon settlement of the obligation, any difference between the cost to settle the asset retirement obligation and the liability recorded is recognized as a gain or loss in the consolidated statement of operations and changes in net assets. At June 30, 2012 and 2011, the recorded asset retirement obligation liability is $3,080,000 and $3,021,000, respectively. Accretion costs for 2012 and 2011 were $203,000 and $258,000, respectively.

Deferred Financing Costs — Deferred financing costs are amortized over the term of the related debt. Gross deferred financing costs as of June 30, 2012 and 2011, were $2,281,000 and $2,281,000, respectively. Accumulated amortization of deferred financing costs was $1,073,000 and $973,000 as of June 30, 2012 and 2011, respectively. Deferred financing costs are reported as other assets.

Net Assets — Net assets are categorized according to externally (donor) imposed restrictions. A description of the three net asset categories follows:

Unrestricted Net Assets — are those assets that are available for the support of operations and whose use is not externally restricted, although their use may be limited by other factors such as by contract or board designation.

Temporarily Restricted Net Assets — are those assets whose use by the Health System has been limited by donors to a specific time period or purpose.

Permanently Restricted Net Assets — include gifts, trusts and pledges that require by donor restrictions that the corpus be invested in perpetuity, with only the income available for operations or in accordance with donor restrictions.

Beneficial Interest in Perpetual Trusts — The Health System is the irrevocable beneficiary of the income from certain perpetual trusts administered by third parties. The Health System's beneficial interest is reported at the fair value of the underlying trust assets. Because the trusts are perpetual and the original corpus cannot be used, these funds are reported as permanently restricted net assets.

Contributions — The Health System records unconditional promises to give (pledges) as receivables and revenues, and distinguishes between contributions received for each net asset category in accordance with donor-imposed restrictions. Upon expiration of donor restrictions, amounts are reclassified as unrestricted and reported as net assets released from restriction.

Performance Indicator — In the accompanying consolidated statements of operations and changes in net assets, the primary indicator of the Health System's results is "Excess of revenues and other support over expenses". Changes in unrestricted net assets which are excluded from the excess of revenues and other support over expenses, consistent with industry practice, include unrealized gains and losses on investments, permanent transfers of assets to and from affiliates for other than goods or services, contributions of long lived assets, certain adjustments to pension and postretirement liabilities, and gains and losses related to discontinued operations.

Net Patient Service Revenue and Estimated Settlements with Third-Party Payors — The Health System has agreements with third-party payors that provide for payments at amounts different from its established rates. Payment arrangements include primarily prospectively determined rates per discharge, per visit and per-diem payments and, to a lesser extent, reimbursed costs and discounted charges. In addition, the Health System receives medical assistance payments for the reimbursement of services for charity and uncompensated care services. The federal funding of such costs is subject to an upper payment limit and retrospective settlement.

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered, including retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered or when known by the Health System and adjusted in future periods as final settlements or changes in estimates are determined. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates could change by a material amount in the near term. For the fiscal years ended June 30, 2012 and 2011, net patient service revenue increased by $11,599,000 and $6,465,000, respectively, as a result of settlements related to prior years or changes in estimates related thereto.

Other Revenue — Other revenue includes amounts earned from cafeteria operations, parking garage operations, transport services provided by T3, and other non-patient care services.

Other revenue also includes "meaningful use" payments received from The Centers for Medicare and Medicaid Services ("CMS") relating to certain provisions of the American Recovery and Reinvestment Act of 2009 ("ARRA"). The ARRA defines "meaningful use" of electronic health records ("EHR") technology and makes federal incentive payments to healthcare entities that qualify by demonstrating improved quality, safety and effectiveness of care. Under the Medicare EHR incentive program, providers can earn up to four annual payments that are earned by achieving and maintaining objectives established by CMS. Medicaid providers that are acute care that have at least 10% of patient volume to Medicaid patients may also be eligible for Medicaid EHR payments. Medicaid payment amounts are determined in the first year of participation and "meaningful use" status must be achieved and maintained in subsequent years in order to qualify for additional payments.

The Health System recognizes EHR incentive payments in accordance with the Internal Accounting Standard 20 ("IAS20") Grant Accounting Model. Under the IAS20 Grant Accounting Model, EHR incentive payments are recognized ratably over a compliance period once management is reasonably assured of program compliance for the entire 90-day period (in the first payment year) or 365-day period (in the second through fourth payment years). During fiscal year 2012, the Health System recognized $2,205,000 and $1,963,000 from Medicare and Medicaid EHR incentive payments, respectively.

Charity Care — The Health System provides care without charge or at a standard rate discounted for uninsured patients that is not related to published charges to patients who meet certain criteria under the Health System's charity care policy. Some patients qualify for charity care based on federal poverty guidelines or their financial condition being such that requiring payment would impose a hardship on the patient. Because the Health System does not pursue collection of amounts determined to qualify as charity care, they are not reported as net patient service revenue.

Other Income — For the year ended June 30, 2011, other income included a gain on the sale of a swap agreement to a third party of $6,072,000.

At June 30, 2010, a receivable of $6,000,000 was reported as an estimated settlement with a third-party payor. This settlement related to depreciation expense recapture which was claimed on a terminating cost report filed with Medicare as a result of the statutory merger of JH into the Health System in 1996. On October 18, 2011, the Health System received the opinion of the Third Circuit, affirming the district court's decision denying Jeanes Hospital's claim for reimbursement. As a result of this decision, management reduced the receivable to $-0- and reported a $6,000,000 non-operating loss for fiscal year June 30, 2011.

Income Taxes — Substantially all of the individual members of the Health System are nonprofit corporations and have been recognized as tax-exempt pursuant to Section 501(c)(3) of the Internal Revenue Code. A wholly owned subsidiary, which is currently inactive, in which the Health System exercises control is a for-profit corporation that is subject to federal and state income tax. Such taxes are immaterial and have been reported with other expenses in the accompanying consolidated financial statements.

The Health System's federal Exempt Organization Business Income Tax Returns for 2012, 2011, 2010, and 2009 remain subject to examination by the Internal Revenue Service ("IRS").

Use of Estimates — The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities 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. Significant estimates comprise the allowances for doubtful accounts, contractual allowances, estimated settlements with third-party payors, self insurance program assets and liabilities, accrued postretirement benefits, estimated asset retirement obligations and the value of alternative investments.

Recovery of FICA Taxes Paid in Prior Years — During 2010, the Health System recognized a $10,800,000 recovery of the employer portion of Federal Insurance Contributions Act (FICA) taxes paid by the Health System during the years 1995 through 2005 on the compensation of its medical residents. The recovery was credited to employee benefits expense. Subsequent to the fiscal year ended June 30, 2012, the Health System received approximately $499,000 from the IRS related to that recovery for Episcopal. The Health System is waiting for final settlement of the balance which relates to TUH.

Recently Issued Accounting Pronouncements — In January 2010, FASB issued Accounting Standards Update ("ASU") No. 2010-06 which is guidance regarding improved disclosures about fair value measures and amends FASB ASC Topic 820 and FASB ASC Topic. The portion of the ASU that became effective for fiscal years beginning after December 15, 2009 was adopted by the Health System in 2011. The amendments to ASC 820 with respect to disclosing purchases, sales, issuances, and settlements separately in the roll forward of activity in Level 3 fair value measurements are effective for fiscal years beginning after December 15, 2010. The Health System adopted this portion of ASU 2010-06 in 2012 and has presented the purchases, sales, issuances and settlements of Level 3 fair value measurements separately within Note 10 and Note 16.

In August 2010, the FASB issued ASU No. 2010-23 which is guidance regarding measuring charity care for disclosure and is incorporated into FASB ASC Topic 954-605. The ASU requires that management's policy for providing charity care, as well as the level of charity care provided, is disclosed in the financial statements. Such disclosures shall be measured based on the provider's direct and indirect costs of providing charity care services. The ASU is effective for fiscal years beginning after December 15, 2010. The Health System adopted ASU 2010-23 in 2012 and it did not have any impact on the Health System's financial condition, overall results of operations or cash flows. The additional required disclosures regarding charity care measurements are found in Note 4.

In August 2010, the FASB issued ASU No. 2010-24 which clarifies that a health care entity should not net insurance recoveries against a related claim liability. The ASU requires that the ultimate costs of malpractice claims or similar contingent liabilities shall be accrued when the incidents that give rise to the claims occur. In addition, a health care entity shall evaluate its exposure to losses arising from claims and recognize a liability, if appropriate. Also, a health care entity with a retrospectively rated insurance policy whose ultimate premium is based primarily on the health care entity's loss experience shall account for the minimum premium as an expense over the period of coverage under the policy. Insurance recoveries shall not be recognized until the estimated losses exceed the stipulated maximum premium. The ASU is effective for fiscal years beginning after December 15, 2010. The Health System adopted ASU 2010-24 in 2012 prospectively and as a result, the insurance recoveries and related claims for medical professional liability and workers' compensation are reported on the Health System's consolidated balance sheet. Refer to Note 9 for additional information.

In May 2011, the FASB issued ASU No. 2011-04 which is guidance that results in common fair value measurement and disclosure requirements in U.S. GAAP and IFRS. The ASU is effective for fiscal years beginning after December 15, 2011. The Health System is currently assessing the impact the adoption of the ASU will have on its consolidated financial statements.

In July 2011, the FASB issued ASU 2011-07 which requires health care entities to present the provision for bad debts related to patient service revenue as a deduction from patient service revenue in the statement of operations and changes in net assets rather than as an operating expense. The guidance provided in this ASU will be effective for fiscal years ending after December 15, 2012. Additional disclosures relating to the Health System's sources of patient revenue and its allowance for doubtful accounts related to patient accounts receivable will also be required. The adoption of the ASU is not expected to have any impact on the Health System's financial condition, overall results of operations or cash flows. Upon adoption of this ASU, the Health System will reclassify the provision for bad debts related to prior period patient service revenue as a deduction from patient service revenue as required by this ASU.

In September 2011, the FASB issued ASU 2011-09 which amends ASC 715-80 by increasing the quantitative and qualitative disclosures an employer is required to provide about its participation in significant multiemployer plans that offer pension or other postretirement benefits. The ASU's objective is to enhance the transparency of disclosures about (1) the significant multiemployer plans in which it participates, (2) the level of the employer's participation in those plans, (3) the financial health of the plans, and (4) the nature of the employer's commitments to the plans. The guidance provided in this ASU will be effective for fiscal years ending after December 15, 2012. The Health System adopted ASU 2011-09 in 2012 and it did not have any impact on the Health System's financial condition, overall results of operations or cash flows. The additional required disclosures regarding multiemployer plans are found in Note 10.

Reclassifications — The Health System has reclassified certain amounts in Note 10 and Note 16 for 2011 to conform to the 2012 presentation as a result of the adoption of ASU 2011-09 and ASU 2010-06. Within Note 10, as required by ASU 2011-09, the Health System disclosed the 2011 contributions made to each of its multiemployer pension plans. Also, within Note 10 and Note 16, as required by ASU 2010-06, the Health System individually reported 2011 purchases and sales of Level 3 investments.

Additionally, the Health System assesses the valuation hierarchy for each asset or liability measured on an annual basis. From time to time, assets or liabilities will be transferred within hierarchy levels as a result of changes in the valuation methodologies. During 2012, the Health System determined that its beneficial interest in perpetual trusts and beneficial interest in the assets held by Episcopal Foundation were more appropriately classified as Level 3 in the fair value hierarchy. This assessment was based on clarifying guidance within AICPA Financial Reporting Whitepaper: Measurement of Fair Value for Certain Transactions of Not-for-Profit Entities, which clarified that such balances should be classified as Level 3 in the fair value hierarchy as opposed to the prior presentation by underlying asset. As a result, within Note 16, the Health System transferred these assets to Level 3 for 2012 and 2011 as it is the Health System's policy to recognize such transfers at the beginning of each reporting period. In addition, the Health System also removed all balances pertaining to beneficial interest in perpetual trusts and beneficial interest in the assets held by Episcopal Foundation from the 2012 and 2011 table for fair value of assets which are calculated based upon a net asset value equivalent.

3. BUSINESS AND CREDIT CONCENTRATION

The Health System provides diversified health care services primarily to area residents through its inpatient and outpatient care facilities in the Greater Philadelphia Metropolitan Area. As a function of its mission and location, the Health System serves a disproportionately high number of poor or indigent patients; consequently, the Health System derives a substantial portion of its revenue from the Medicare (federal government) and the Medical Assistance (Commonwealth of Pennsylvania, Department of Public Welfare [DPW]) programs.

The distribution of inpatient services provided from continuing operations (TUH and JH) based upon patient discharges (excluding newborns) by class of payor for the years ended June 30, 2012 and 2011, is as follows (unaudited):

	2012		2011	
	Discharges	**%**	**Discharges**	**%**
Continuing operations:				
Medical assistance:				
Fee for service	4,001	10.8 %	3,564	9.8 %
Managed care	11,611	31.3	11,617	32.0
Total medical assistance	15,612	42.1	15,181	41.8
Medicare:				
Fee for service	7,477	20.2	7,243	19.9
Managed care	7,093	19.1	6,718	18.5
Total Medicare	14,570	39.3	13,961	38.4
Independence Blue Cross*	3,978	10.7	4,162	11.4
All other	2,921	7.9	3,056	8.4
	37,081	100.0 %	36,360	100.0 %

*Includes Traditional, Personal Choice and Keystone Health Plan East insurance plans.

Health Choices is a DPW program that requires all Medical Assistance recipients in the Philadelphia five-county area to join a Medicaid HMO. Under Health Choices, DPW has entered into capitation arrangements with five Medicaid HMOs, four of which the Health Systems contracts within, which in turn negotiate separate payment rates with health care providers. The Medical Assistance-managed care category above includes the four Medicaid HMOs under the Health Choices program with which the Health System contracts.

The Health System grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of net receivables from third-party payors and patients at June 30, 2012 and 2011, is as follows:

	2012	**2011**
Medical assistance:		
Fee for service (FFS)	12.5 %	13.7 %
Managed care	19.7	20.9
Medicare (FFS only)	12.2	12.7
Independence Blue Cross*	22.0	23.0
Aetna U.S. Healthcare	7.5	6.8
Commercial	6.9	5.3
Managed care/HMOs (including Medicare)	17.0	15.6
Other	2.2	2.0
	100.0 %	100.0 %

*Includes Traditional, Personal Choice and Keystone Health Plan East insurance plans.

4. CHARITY CARE

The Health System maintains detailed records to identify and monitor the level of charity care it provides to its patients. Charity care costs are estimated by applying an overall cost to charge ratio to charity care charges. The cost to charge ratio is calculated by dividing total expenses less bad debt by total gross patient service revenue. The estimated costs and expenses incurred to provide charity care, including the estimated unreimbursed cost of services in excess of payments from Medical Assistance programs, were $148,861,000 and $142,329,000 for the fiscal years ended June 30, 2012 and 2011, respectively (see Note 15).

5. INVESTMENTS

Assets Limited as to Use — The composition of assets limited as to use at June 30, 2012 and 2011, is set forth in the following table (in thousands):

	2012	2011
Under indenture agreements-held by trustee:		
Debt service funds	$ 14,433	$ 15,626
Debt service reserve funds	35,333	35,097
	49,766	50,723
Under debt agreements	163	163
Under insurance arrangements (primarily TUHIC)	44,017	46,290
Board designated	8,985	14,913
Donor restricted	3,986	6,149
Workers' compensation	339	339
	107,256	118,577
Less amounts required for current liabilities	21,610	27,285
	$ 85,646	$ 91,292

By security classification (in thousands):

	2012	2011
U.S. government securities	$ 54,306	$ 75,074
Corporate bonds, notes, and other debt securities	10,950	4,841
Cash and money market funds	40,313	36,956
Equity securities and mutual funds	1,687	1,706
	$ 107,256	$ 118,577

Workers' Compensation Fund — Workers' compensation fund at June 30, 2012 and 2011, consisted of (in thousands):

	2012	2011
U.S. government securities	$ 5,793	$ 6,941
Corporate bonds, notes, and other debt securities	5,025	4,989
Cash and money market funds	289	466
	$ 11,107	$ 12,396

Investments — Investments at June 30, 2012 and 2011, consisted of (in thousands):

	2012	2011
Fixed income mutual funds	$ 159,555	$ 97,989
Cash and money market funds	1,625	2,907
Equity mutual funds	7,081	46,838
Alternative funds	15,486	7,931
Limited liability partnerships	22,005	21,531
Other	466	200
	$ 206,218	$ 177,396

Investment Income — Investment income and gains (losses) from investments, including assets limited as to use and cash and cash equivalents, are comprised of the following for the years ended June 30, 2012 and 2011 (in thousands):

	2012	2011
Interest and dividend income	$ 9,582	$ 13,367
Net realized gains on sales of investments	15,436	2,636
Recognition of other-than-temporary impairment	(1,405)	(3,573)
Net unrealized (losses) gains	(12,670)	7,900
	$ 10,943	$ 20,330

Interest, dividends, realized and unrealized gains are reported as follows (in thousands):

	2012	2011
Consolidated statements of operations and changes in net assets:		
Unrestricted revenues — investment income	$ 785	$ 539
Unrestricted other income — investment income	22,791	11,862
Other changes in unrestricted net assets — net change in fair value	(12,612)	7,848
Temporarily restricted net assets — net unrealized gains	(58)	52
Temporarily restricted net assets — investment income	37	29
	$ 10,943	$ 20,330

Unrealized gains (losses) are reported as a component of other changes in unrestricted net assets in the consolidated statements of operations and changes in net assets unless their use is restricted by donor.

The following tables provide information on the gross unrealized losses and fair market value of the Health System's investments with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at June 30, 2012 and 2011 (in thousands):

	At June 30, 2012					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Fixed income mutual funds	$ 15,365	$ (1,153)	$ 17,914	$ (3)	$ 33,279	$ (1,156)
Total temporarily impaired securities	$ 15,365	$ (1,153)	$ 17,914	$ (3)	$ 33,279	$ (1,156)

	At June 30, 2011					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Fixed income mutual funds	$ 28,859	$ (747)	$ -	$ -	$ 28,859	$ (747)
Total temporarily impaired securities	$ 28,859	$ (747)	$ -	$ -	$ 28,859	$ (747)

With respect to the debt and equity securities in an unrealized loss position as of June 30, 2012 and 2011, the Health System has determined it is not more likely than not that the Health System may be required to sell its available-for-sale securities before their anticipated recoveries. In assessing whether it is more likely than not that the Health System will be required to sell a security before its anticipated recovery, the Health System considers various factors including its future cash flow requirements, legal and regulatory requirements, the level of its cash, cash equivalents, short term investments and fixed maturity investments available-for-sale in an unrealized gain position, and other relevant factors.

In evaluating credit losses, the Health System considers a variety of factors in the assessment of a security including: (1) the time period during which there has been a significant decline below cost; (2) the extent of the decline below cost and par; (3) the potential for the security to recover in value; (4) an analysis of the financial condition of the issuer; (5) the rating of the issuer; and (6) failure of the issuer of the security to make scheduled interest or principal payments.

During fiscal years 2012 and 2011, the Health System recorded other-than-temporarily impairment charges of $1,405,000 and $3,573,000, respectively, on certain investments in debt and equity securities.

TUHIC Debt Securities — At June 30, 2012 and 2011, TUHIC held investments in debt securities. These securities are included as assets limited as to use in the Health System's consolidated balance sheets. The amortized cost and estimated fair value of debt securities at June 30, 2012 and 2011, by contractual maturity, are shown below (in thousands). Expected maturities may differ from contractual maturities because borrowers may have the right to call or repay obligations with or without call or prepayment penalties. Gross unrealized holding gains on these securities aggregated $1,103,000 and

$794,000 at June 30, 2012 and 2011, respectively. Gross unrealized holding losses on these securities aggregated $13,000 and $66,000 at June 30, 2012 and 2011, respectively.

	2012		2011	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due within one year	$ 553	$ 559	$ 805	$ 818
Due after one year through five years	18,572	18,752	18,435	18,704
Due after five years through ten years	18,900	19,570	18,345	18,655
	38,025	38,881	37,585	38,177
Mortgage and asset-backed securities	4,606	4,840	6,773	6,909
	$ 42,631	$ 43,721	$ 44,358	$ 45,086

6. LONG-TERM DEBT

Long-term debt at June 30, 2012 and 2011, was as follows (in thousands):

	2012	2011
2007 TUHS Series A and B Hospital Revenue Bonds issued by the Hospitals and Higher Education Facilities Authority of Philadelphia (the "Authority") at fixed interest rates of 5.0% and 5.5%, due in installments through 2035, (net of unamortized bond premium of $703 and $745 and bond discount of $1,445 and $1,533 at June 30, 2012 and 2011, respectively)	$213,293	$214,932
1993 TUH Hospital Revenue Bonds, issued by the Authority at a fixed interest rate of 6.625%, due in installments through 2023 (net of unamortized bond discount of $530 and $615 at June 30, 2012 and 2011, respectively)	102,715	108,120
Loan payable to Episcopal Healthcare Foundation due in December 2020 at a fixed interest rate of 4.0%	4,809	5,273
Various capital lease obligations due in installments through 2015 at a fixed interest rate of 6.0%	3,499	4,648
Equipment Financing Arrangement due in installments through 2017 at a fixed interest rate of 1.24%	2,381	
	326,697	332,973
Less current portion of long-term debt	11,029	9,094
	$315,668	$323,879

The bond issues and notes payable are generally collateralized by the assets and gross revenues of the TUHS Obligated Group and are subject to various financial covenants. The TUHS Obligated Group includes TUHS, TUH, JH, TPI and T3. The Health System is not aware of any instances of non-compliance with its debt covenants for fiscal years 2012 and 2011.

At June 30, 2012, total aggregate principal payments under long-term debt and capital lease obligations for the next five years and thereafter are (in thousands):

	Long-Term Debt	Capital Leases
2013	$ 9,426	$ 1,603
2014	9,816	1,426
2015	10,223	378
2016	10,651	81
2017	10,999	11
Thereafter	273,355	

7. LEASE COMMITMENTS

The Health System leases certain property and equipment under operating lease agreements with remaining terms expiring at various dates through 2044. There are various financial covenants as part of these leases that are calculated based on the individual results of each member.

At June 30, 2012, future minimum payments by year and in the aggregate under non-cancelable operating leases with initial or remaining terms of more than one year are as follows (in thousands):

2013	$ 7,728
2014	7,279
2015	7,237
2016	7,072
2017	6,491
Thereafter	24,992
	$ 60,798

8. RELATED PARTY TRANSACTIONS

Temple University — The Health System has made various transfers of unrestricted net assets to the University to be used for health-related programs and initiatives. In fiscal years 2012 and 2011, $8,829,000 and $14,589,000, respectively, in net asset transfers were recognized. All of the 2012 and 2011 transfers were disbursed by June 30, 2012 and 2011, respectively.

The Health System and University allocate certain costs for services provided to each other. Costs billed to the Health System by the University in 2012 and 2011 include (in thousands):

	Health System Expense	
	2012	2011
Medical school clinical physicians	$ 52,765	$ 45,142
Maintenance	6,862	7,541
Telecommunications	5,224	5,520
Institutional support	4,228	2,879
Security	1,739	1,950
Employee tuition	946	1,009
Other administrative support	10,238	11,171
Total expenses billed	$ 82,002	$ 75,212

The University also billed the Health System for capital projects in the amount of $1,080,000 and $1,115,000 for the years ended June 30, 2012 and 2011, respectively.

TUH is the teaching hospital for Temple University's Medical School and its clinical practice plan physicians (collectively, "TUP"). TUH purchases administrative, supervisory and teaching physician services from TUP. TUH also provides other support to TUP to further the missions of TUH and the medical school. These charges are recorded on the consolidated statements of operations and changes in net assets as a professional fee expense.

The Health System charges the University for the cost of services provided to the University. Amounts billed to the University in 2012 and 2011 include (in thousands):

	2012	2011
Salaries and fringe benefits, primarily for residents	$ 6,512	$ 6,229
Rent	2,838	2,959
Other	3,242	3,097
Total expenses billed to the University	$ 12,592	$ 12,285

Such amounts are included as other revenue or a reduction of expenses reported in the consolidated financial statements.

At June 30, 2012 and 2011, $25,065,000 and $14,841,000, respectively, are due to the University for transactions during those years and are included in accounts payable.

Health Partners — TUH and Episcopal are participants and governing members in a Medicaid HMO known as Health Partners (HP). Under certain of its contracts with HP, the Health System is the beneficiary of, or is responsible for, allocated HP gains and losses, respectively, based primarily on the number of HP members enrolled in the Health System's primary care physicians' network and other factors as approved by the HP board. The Health System's percentage allocation was 33% for the fiscal years ended June 30, 2012 and 2011.

For fiscal years 2012 and 2011, HP's annual premium revenues were approximately $1,043,942,000 and $973,263,000, respectively. For fiscal years 2012 and 2011, the Health System's estimated share of HP's net distribution was approximately $9,856,000 and $7,055,000, respectively. The Health System's estimated gains are included in the accompanying consolidated statements of operations and changes in net assets as a component of net patient service revenue.

9. MEDICAL PROFESSIONAL LIABILITY AND WORKERS' COMPENSATION INSURANCE

The Health System members participate in the Health System's insurance programs for medical professional liability claims. Primary coverage is provided by an insurance company and reinsured to TUHIC.

Because primary losses are reinsured through TUHIC, primary losses are essentially self-insured up to certain limits, which are coordinated with statutory excess coverage provided through the Pennsylvania Medical Care Availability and Reduction of Error Fund ("MCare Fund"). Also, additional excess liability coverage has been obtained through a commercial insurance carrier.

The Health System accrues liabilities for the estimated losses on asserted and unasserted claims. The discount rate used in determining the liability at June 30, 2012 and 2011, was 1.00% and 1.50%, respectively. The liabilities are comprised of asserted claims for self-insured components of the program and accruals for unasserted claims. Asserted claims are specifically identified, with actuarial determination of the ultimate liability on asserted and unasserted claims based on claims settlement history. The estimated discounted liability accrued for asserted and unasserted claims for the Health System was $157,334,000 and $138,626,000 at June 30, 2012 and 2011, respectively. The estimated liability accrued for asserted and unasserted claims for TUHIC was $27,311,000 and $25,498,000 at June 30, 2012 and 2011, respectively. The Health System incurred net medical professional liability insurance expense of $41,244,000 and $48,056,000 in 2012 and 2011, respectively. These costs are recorded in the consolidated statement of operations and changes in net assets as insurance expense.

The activity in the liability for claims reported and claims incurred but not reported for TUHIC for the years ended June 30, 2012 and 2011, is summarized as follows (in thousands):

	2012	2011
Outstanding	$ 12,220	$ 12,805
Incurred but not reported	15,091	12,693
	$ 27,311	$ 25,498
Balance — July 1	$ 25,498	$ 24,194
Incurred related to current year	11,760	10,171
Incurred related to prior year	4,336	2,898
	16,096	13,069
Paid related to current year	486	260
Paid related to prior year	13,797	11,505
	14,283	11,765
Net balance — June 30	$ 27,311	$ 25,498

TUHIC is registered under the Bermuda Insurance Act of 1978, amendments thereto and the Related Regulations (the “Insurance Act”) and is obliged to comply with various provisions of the Insurance Act regarding solvency and liquidity. The minimum statutory capital and surplus at June 30, 2012 and 2011, was $2,731,000 and $2,550,000, respectively, and the actual statutory capital and surplus was $16,979,000 and $20,752,000, respectively. The minimum required level of liquid assets was $27,522,000 and $21,055,000 and actual liquid assets were $53,675,000 and $48,825,000 at June 30, 2012 and 2011, respectively.

The Health System is primarily self-insured for workers’ compensation. Program assets at June 30, 2012 and 2011, were $11,107,000 and $12,396,000, respectively. Program liabilities were determined using a discount rate of 1.50% for fiscal years 2012 and 2011. The estimated discounted liability accrued at June 30, 2012 and 2011, was $22,676,000 and $18,523,000, respectively. Workers’ compensation expense was $7,901,000 and $5,985,000 for fiscal years 2012 and 2011, respectively. These costs are recorded in the consolidated statements of operations and changes in net assets as employee benefit expense.

As discussed in Note 2, the Health System adopted ASU No. 2010-24 during 2012 on a prospective basis, which requires recognition of additional offsetting assets and liabilities on the balance sheet relating to workers' compensation and medical professional liability. The current and long-term asset balances recorded due to this guidance are reflected on the balance sheet in 'Current portion of self-insurance program receivables' and 'Self-insurance program receivables,' while the offsetting liabilities are reflected in 'Current portion of self-insurance liabilities' and 'Self-insurance liabilities.' The balances recorded for the year-ended June 30, 2012 are summarized as follows (in thousands):

	Current	Long-term	Total
Workers' Compensation:			
Open Reserves in excess of retention	$ -	$ 844	$ 844
Incurred but not recorded reserves in excess of retention	-	2,052	2,052
Professional Liability:			
Claims settled within the Mcare Layer	12,200		12,200
Open Reserves within the Mcare Layer	-	5,200	5,200
Incurred but not recorded reserves in excess of the Buffer layer	-	13,110	13,110
	$ 12,200	$ 21,206	$ 33,406

10. PENSION AND OTHER POSTRETIREMENT BENEFITS

The Health System sponsors various defined benefit plans at the individual affiliate level based on prescribed eligibility requirements and certain Health System employees participate in the University's defined benefit plan. In addition, certain Health System members participate in the defined contribution retirement plans and defined benefit retirement plans for eligible employees that provide benefits through contributions made by the Health System and its employees. Beginning January 1, 2007, the Health System established new defined contribution plans for its employees and no longer actively participated in the University's defined contribution plans. Also, on November 1, 2007, the last of the TUHS defined benefit retirement plans was closed to new participants; only certain grandfathered employees are eligible to participate in the defined benefit pension plans. These employees are not eligible to participate in the Health System's defined contribution plans.

The Health System makes contributions to participants' accounts under the Health System's defined contribution plans based on a defined percentage of the employee's base wages and length of service. The Health System contributions to the plans for fiscal years 2012 and 2011 were $11,531,000 and $14,703,000, respectively. Contributions to the plans for fiscal year 2013 are expected to be $17,590,000.

Multiemployer Plans — Also, certain Health System employees participate in multiemployer pension plans based on collective-bargaining agreements. The Health System contributes to two multiemployer pension plans under the terms of collective-bargaining agreements that cover these union-represented employees. The risks of participating in these multiemployer plans are different from a single-employer plan in the following aspects:

a. Assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers.
b. If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.

c. If the Health System chooses to stop participating in one or both of its multiemployer plans, the Company may be required to pay that plan(s) an amount based on the underfunded status of the plan(s), referred to as a withdrawal liability.

The Health System's participation in these plans for the annual period ended June 30, 2012, is outlined in the table below. The "EIN/Pension Plan Number" column provides the Employer Identification Number ("EIN") and the three-digit plan number, if applicable. The most recent Pension Protection Act ("PPA") zone status available in 2012 and 2011 is also noted below. The zone status is based on information that the Health System received from the plan and is certified by the plan's actuary. Among other factors, plans in the red zone are generally less than 65% funded, plans in the yellow zone are less than 80% funded, and plans in the green zone are at least 80% funded. The "FIP/RP Status Pending/Implemented" column indicates plans for which a financial improvement plan ("FIP") or a rehabilitation plan ("RP") is either pending or has been implemented. The last column lists the expiration date(s) of the collective-bargaining agreement(s) to which the plans are subject.

		Pension Protection Act Zone Status			Contributions of TUHS			
Pension Fund	EIN/Pension Plan Number	2012	2011	FIP/RP Status Pending/Implemented	2012	2011	Surcharge Imposed	Expiration Date of Collective Bargaining Agreement
The Pension Fund for Hospital and Health Care Employees - Philadelphia and Vicinity (1)	23-2627428/001	Red	Red	Yes	$ 3,361,000	$ 3,101,000	Yes	Various up to 2018
Central Pension Fund of the International Union of Operating Engineers and Paricipating Employers (2)	36-6052390/001	Green	Green	No	$ 98,000	$ 92,000	No	November 1, 2013
				Total Contributions	$ 3,459,000	$ 3,193,000		

(1) Plan years began 1/1/11 and 1/1/10
(2) Plan years began 2/1/11 and 2/1/10

The Health System was listed in its plans' 5500 as providing more than 5% of the total contributions for the following plan and plan year:

Pension Fund	Year Contributions to the Plan Exceeded More Than 5% of Total Contributions (as of December 31 of the Plan's Year End)
The Pension Fund for Hospital and Health Care Employees - Philadelphia and Vicinity	2011

At the date these financial statements were issued, Forms 5500 were not available for the plan year ending in 2012.

Certain Health System employees participate in the University's postretirement health and life insurance plan. Benefits begin for eligible employees at age 62, and upon the accumulation of 10 years service.

Postretirement Health Care Plan Trends — For measurement purposes, a 9.2% annual rate of increase in the per-capita cost of postretirement benefits was assumed for 2012 compared to a rate of 9.8% for 2011. For 2012, this rate is assumed to decrease gradually to 5.0% in 2018 and to remain at that level thereafter. Assumed health care cost trend rates have a significant effect on the amounts reported for the postretirement benefit plan. A one-percentage-point change in assumed health care cost trend rates would have the following effects on the year ended June 30, 2012 (in thousands) for all Health System and University participants:

	1% Increase	1% (Decrease)
Incremental effect on total of service and interest cost components	$ 3,553	$ (3,127)
Incremental effect on postretirement benefit obligation	45,191	(41,517)

Defined Benefit Pension, Defined Contribution and Postretirement Benefit Plans — Total defined benefit pension, defined contribution, and other postretirement benefit plans expense under all Health System programs amounted to $20,171,000 and $23,657,000 for the fiscal years ended June 30, 2012 and 2011, respectively.

The following table sets forth the activity of the pension and other postretirement benefit plans (which includes the joint Health System and University plans) as of and for the years ended June 30, 2012 and 2011 (dollars in thousands). A measurement date of June 30 is used for the plans.

	Pensions		Other Postretirement Benefit Plan	
	2012	2011	2012	2011
Change in benefit obligation:				
Benefit obligation — beginning of year	$ 146,806	$ 146,309	$ 313,303	$ 345,570
Service cost	1,834	1,614	13,801	14,697
Interest cost	8,010	7,742	15,955	14,789
Plan participant contributions	171	244	2,596	2,722
Actuarial (gain) loss	24,305	(1,283)	64,837	(46,069)
Benefits paid	(5,996)	(5,200)	(15,996)	(18,406)
Administrative expenses paid	(813)	(1,290)		
Changes in plan provisions			(26,831)	
Settlement	(581)	(1,330)		
Benefit obligation — end of year	173,736	146,806	367,665	313,303
Change in plan assets:				
Fair value of plan assets — beginning of year	136,187	116,657	228,658	191,996
Actual return on plan assets	2,829	19,987	13,563	26,773
Employer contributions	3,504	7,119	11,863	25,573
Plan participant contributions	171	244	2,596	2,722
Plan expenses	(813)	(1,290)		
Benefits paid	(5,996)	(5,200)	(15,996)	(18,406)
Settlement	(581)	(1,330)		
Fair value of plan assets — end of year	135,301	136,187	240,684	228,658
Funded status	(38,435)	(10,619)	(126,981)	(84,645)
Less University prepaid (accrued) cost	352	3,466	(102,235)	(68,703)
Net amount recognized — TUHS Only	$ (38,787)	$ (14,085)	$ (24,746)	$ (15,942)
Amount recognized in the balance sheets, include:				
Other noncurrent assets	$ 2,816	$ 3,990	$ -	$ -
Other current liabilities			(21)	(21)
Accrued postretirement benefits — noncurrent	(41,603)	(18,075)	(24,725)	(15,921)
Net amount recognized — TUHS Only	$ (38,787)	$ (14,085)	$ (24,746)	$ (15,942)

	Pensions 2012	Pensions 2011	Other Postretirement Benefit Plan 2012	Other Postretirement Benefit Plan 2011
Amounts recognized in unrestricted net assets:				
Prior service costs	$ 4	$ 6	$ -	$ -
Net actuarial loss	90,447	65,396	16,071	5,998
Net amount recognized in unrestricted net assets	$ 90,451	$ 65,402	$ 16,071	$ 5,998
Weighted-average assumptions to determine benefit obligation:				
Discount rate	4.30%-4.55%	5.45%–5.70%	2.85%–4.30%	3.70%–5.35%
Rate of compensation increase	4.00%-4.50%	3.25%–4.50%	N/A	N/A
Weighted-average assumptions to determine net periodic cost:				
Discount rate	5.45%-5.70%	5.35%–5.55%	3.70%–5.35%	3.90%–5.20%
Rate of compensation increase	4.00-4.50%	3.25%–4.50%	N/A	N/A
Expected return on plan assets	7.00-7.50%	7.50%	7.50 %	7.50 %
Components of net periodic cost (benefit):				
Service cost	$ 1,834	$ 1,614	$ 13,801	$ 14,697
Interest cost	8,010	7,742	15,955	14,789
Expected return on plan assets	(10,080)	(10,059)	(16,981)	(14,472)
Amortization	2	2	(5,601)	1,152
Recognized net actuarial loss	2,816	2,803	3,498	
Net periodic cost (benefit)	2,582	2,102	10,672	16,166
Less University net periodic benefit (cost)	(130)	293	(8,203)	(12,213)
TUHS net periodic cost (benefit)	$ 2,712	$ 1,809	$ 2,469	$ 3,953

The estimated net actuarial loss and net prior service costs for the defined benefit plans that will be amortized from unrestricted net assets into net periodic benefit cost in fiscal year 2013 is $4,804,000 and $2,000, respectively. The estimated net actuarial loss and net prior service credit for the postretirement health and life insurance plan that will be amortized from unrestricted net assets into net periodic benefit cost in fiscal year 2013 is $11,450,000 and $(5,601,000).

After the closure of NEH on June 29, 2009, some participants requested lump-sum cash payments. For the years-ended June 30, 2012 and 2011, the amount of the settlements paid totaled $581,000 and $1,330,000, respectively, which resulted in an actuarial (gain)/loss of $(71,000) and $27,000, respectively.

Assets Allocations — The following details the Health System's defined benefit plans asset allocations:

Pension Plans Assets	Target Allocation Fiscal Year Ending June 30, 2013	Percentage of Plan Assets at June 30, 2012	Percentage of Plan Assets at June 30, 2011
Equity funds and alternative funds	55%–95%	72 %	72 %
Cash and fixed income	5%–45%	28	28
Total		100 %	100 %

The following details the University-sponsored pension and other postretirement defined benefit plan asset allocations:

Pension and Other Postretirment Benefit Plan Assets	Target Allocation Fiscal Year Ending June 30, 2013	Percentage of Plan Assets at June 30, 2012	Percentage of Plan Assets at June 30, 2011
Equity funds and securities	40%–60%	51 %	54 %
Cash and fixed income	40%–60%	49	46
Total		100 %	100 %

Investment Strategy — The long-term investment strategy for pension and other postretirement benefit plans assets is to: meet present and future benefit obligations to all participants and beneficiaries; cover reasonable expenses incurred to provide such benefits; and provide a total return that maximizes the ratio of assets to liabilities by maximizing investment return at the appropriate level of risk.

The pension plans assets of the joint Health System and Temple University plans were $135,301,000 and $136,187,000 at June 30, 2012 and 2011, respectively. The fair values of the pension plan assets at June 30, 2012, by asset category are as follows (in thousands):

Assets	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 2,289	$ -	$ -	$ 2,289
Equity funds and securities	70,415	21,305		91,720
Alternative funds			6,094	6,094
Fixed income mutual funds	15,334			15,334
US government securities		19,864		19,864
Total market value	$ 88,038	$ 41,169	$ 6,094	$ 135,301

The fair values of the pension plan assets at June 30, 2011, by asset category are as follows (in thousands):

Assets	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 2,944	$ -	$ -	$ 2,944
Equity funds and securities	71,626	24,337		95,963
Alternative funds			1,770	1,770
Fixed income mutual funds	16,276			16,276
US government securities		19,234		19,234
Total market value	$ 90,846	$ 43,571	$ 1,770	$ 136,187

Transfers between Levels 1 and 2 — During the year ended June 30, 2012, there were no transfers between Levels 1 and 2.

Transfers into or out of Level 3 — Transfers into or out of Levels are reflected as of the beginning of the period when significant inputs, including market inputs or performance attributes, used for the fair value measurement become observable / unobservable, or when the Health System determines it has the ability, or no longer has the ability, to redeem in the near term certain investments that the Health System values using a NAV (or a capital account).

The following is a reconciliation of investments in securities for which significant unobservable inputs (Level 3) were used in determining fair value (in thousands) for the year ended June 30, 2012:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)							
		Total Realized/Unrealized Gains(Losses) Included in:						
	Balance, July 1	Net Income	Net Assets	Purchases	Sales	Transfers Into Level 3	Transfers Out of Level 3	Balance, June 30
Year Ended June 30, 2012:								
Alternative funds	$ 1,770	$ 22	$ (173)	$ -	$ (143)	$ 5,774	$ (1,156)	$ 6,094
Total investments	$ 1,770	$ 22	$ (173)	$ -	$ (143)	$ 5,774	$ (1,156)	$ 6,094

The following is a reconciliation of investments in securities for which significant unobservable inputs (Level 3) were used in determining fair value (in thousands) for the year ended June 30, 2011:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)							
		Total Realized/Unrealized Gains(Losses) Included in:						
	Balance, July 1	Net Income	Net Assets	Purchases	Sales	Transfers Into Level 3	Transfers Out of Level 3	Balance, June 30
Year Ended June 30, 2011:								
Alternative funds	$	$37	$192	$ -	$(339)	$1,880	$	$1,770
Total investments	$	$37	$192	$ -	$(339)	$1,880	$	$1,770

Detailed information for Level 2 and Level 3 investments as of June 30, 2012 and 2011, follows. The fair values of these investments have been estimated using a net asset value equivalent (e.g. ownership interest in partners' capital to which a proportionate share of net assets is attributable).

	Fair Value (In Thousands)	Unfunded Commitments (In Thousands)	Redemption Frequency (If Currently Eligible)	Redemption Notice Period (If Applicable)
Year Ended June 30, 2012:				
Multi-Strategy Hedge Funds (a)	$ 24,327	$ -	Daily, Quarterly	0 - 95 days
Real Estate Funds (b)	3,072		Quarterly	45 - 95 days
	$ 27,399	$ -		
Year Ended June 30, 2011:				
Multi-Strategy Hedge Funds (a)	$ 24,951	$ -	Daily, Quarterly	0 - 95 days
Real Estate Funds (b)	1,156		Quarterly	45 - 95 days
	$ 26,107	$ -		

(a) This category includes investments that seek to earn above-average, risk adjusted, long-term returns that have a low correlation to traditional equity and fixed income markets. The investments include futures contracts, call options, warrants and structured products all of which are referenced as derivative instruments.

(b) This category includes investments that maintain exposure to real estate and natural resources through public and private investments whose value is strongly controlled by commodities and real estate and may act as a hedge against unanticipated inflation.

The postretirement plan assets of the joint Health System and Temple University were $240,684,000 and $228,658,000 at June 30, 2012 and 2011, respectively, of which only a portion of this pool of assets belongs to the Health System. The fair values of the postretirement plan assets at June 30, 2012, by asset category are as follows (in thousands):

Assets	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 4,141	$ -	$ -	$ 4,141
Equity funds and securities	98,969	27,114		126,083
US government securities	12,483			12,483
Fixed income index funds		97,977		97,977
Total market value	$ 115,593	$ 125,091	$ -	$ 240,684

The fair values of the postretirement plan assets at June 30, 2011, by asset category are as follows (in thousands):

Assets	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 6,861	$ -	$ -	$ 6,861
Equity funds and securities	97,246	25,646		122,892
US government securities	4,314			98,711
Fixed income index funds		94,397		
Contributions receivable	194			194
Total market value	$ 108,615	$ 120,043	$ -	$ 228,658

Expected Return on Plan Assets — The expected long-term rate of return for the plans' total assets is based on the expected return of each of the above investment categories, weighted based on the median of the target allocation for each class. Equity securities are expected to return 7% to 10% over the long-term, while fixed income is expected to return between 4% and 5%.

Expected Cash Flows — The following table shows expected cash flows related to the defined benefit pension and other postretirement benefit plans (in thousands):

	Pension Plans TU/ Health System	Other Postretirement Benefit Plan TU/ Health System
Expected Health System contributions for fiscal year ending June 30, 2013:		
Expected employer contributions	$ 4,365	$ 21,021
Expected employee contributions	178	2,616
Estimated future benefit payments from plan assets reflecting expected future service for the fiscal year ending:		
June 30, 2013	7,297	17,894
June 30, 2014	7,797	18,597
June 30, 2015	8,275	19,694
June 30, 2016	8,744	20,549
June 30, 2017	9,234	21,402
June 30, 2018 to June 30, 2022	52,203	116,443

11. ENDOWMENT

The Health System's endowment consists of several funds established for a variety of purposes. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law — The Health System classifies as permanently restricted net assets (a) the original value of the gifts donated to the permanent endowment when explicit donor stipulations requiring permanent maintenance of the historical fair value are present, and (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. The remaining portion of the donor-restricted endowment fund 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 Health System in a manner consistent with the donor's stipulations. The Health System 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 funds, 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 Health System, and the investment policies of the Health System.

Endowment net asset composition by type of fund as of June 30, 2012 (in thousands):

	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ 900	$ 1,520	$ 2,420

Endowment net asset composition by type of fund as of June 30, 2011 (in thousands):

	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	$ 1,475	$ 1,520	$ 2,995

Changes in endowment net assets for the fiscal years ended June 30, 2011 and 2012 (in thousands):

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets — June 30, 2010	$ 1,207	$ 1,520	$ 2,727
Contributions			
Investment return — investment income	311		311
Appropriations of endowment assets for expenditure	(43)		(43)
Endowment net assets — June 30, 2011	1,475	1,520	2,995
Contributions			
Investment return — investment loss	(20)		(20)
Appropriations of endowment assets for expenditure	(555)		(555)
Endowment net assets — June 30, 2012	$ 900	$ 1,520	$ 2,420

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor requires the Health System to retain as a fund of perpetual duration. There were no such deficiencies at June 30, 2012 and 2011.

Investment Return Objectives and Spending Policy — The Health System has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to the programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner to generate returns at least equal to and preferably greater than the consumer price index plus 4.5%. To satisfy its long-term rate-of-return objectives, the Health System targets a diversified asset allocation that places a greater emphasis on equity based investments within prudent risk constraints.

The Health System has a policy of appropriating for distribution each year 2% to 7% of its endowment fund's average fair value over the prior three years. The Board of Directors approved an appropriation of 4.5% and 3% for each of the years ended June 30, 2012 and 2011, respectively.

12. TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets were held for the following purposes at June 30, 2012 and 2011 (in thousands):

	2012	2011
Property and equipment additions	$ 1,099	$ 2,686
Specific health care programs	1,225	2,425
	$ 2,324	$ 5,111

Permanently restricted net assets consist of the following at June 30, 2012 and 2011 (in thousands):

	2012	2011
Endowment funds, income from which is expendable for specific health care programs (income is temporarily restricted)	$ 1,520	$ 1,520
Beneficial interest in perpetual trusts, income from which is expendable to support health care services (income reported as unrestricted)	20,673	21,483
Beneficial interest in assets held by Episcopal Foundation	18,622	19,170
	$40,815	$42,173

The Episcopal Healthcare Foundation (the "Foundation") controls certain investments that, according to its organizational structure, are held for the benefit of TUH's Episcopal campus operations. TUH has recognized the present value of future cash flows from the Foundation as an asset (beneficial interest in the assets held by Episcopal Foundation) and permanently restricted net assets of $18,622,000 and $19,170,000 at June 30, 2012 and 2011, respectively.

As reported by the respective trustees, the composition of the above funds in which the Health System has a beneficial interest is approximately 63% and 68% marketable equity securities and 37% and 32% fixed income securities at June 30, 2012 and 2011, respectively.

13. DISCONTINUED OPERATIONS

Temple Continuing Care Center (GPHSCIII) — On February 4, 2003, GPHSCIII ceased operations.

The liabilities of GPHSCIII were included in the consolidated balance sheet at June 30, 2010, at their estimated settlement amounts. During 2011, it was determined that such liabilities had been settled with no additional payments required. Accordingly, during 2011 the liability recorded at June 30, 2010, in the amount of $4,684,000 was reversed and reported as a gain from discontinued operations. On June 29, 2011, GPHSCIII was dissolved. GPHSCIII had no assets or liabilities at June 30, 2012 or 2011.

14. COMMITMENTS AND CONTINGENCIES

The Commonwealth of Pennsylvania owns the land on which certain TUH facilities are located. The land is leased to the University for a term ending December 31, 2043, for a nominal rent. The University subleases these facilities to TUH.

The Friends Fiduciary Corporation owns the land that JH facilities are located. The land is leased to JH for a term ending June 30, 2044, for a nominal rent.

JH has committed to making $314,000 in additional investments at June 30, 2012, into partnerships (a private equity fund and a real estate fund), which may be requested through capital calls from the partnerships. Detail regarding the unfunded commitments is disclosed in Note 16.

TUHIC holds cash and investments in debt securities in the amount of $44,018,000 and $46,290,000 as of June 30, 2012 and 2011, respectively, which are being held in trust in order to secure the Company's liabilities under certain reinsurance contracts.

In addition, the Health System is involved in litigation and regulatory investigations arising in the course of business. After consultation with legal counsel, management estimates that these matters will be resolved without material adverse effect on the Health System's financial position or results of operations.

15. COMMONWEALTH OF PENNSYLVANIA, DEPARTMENT OF PUBLIC WELFARE GRANTS AND OTHER SUPPORT

The following grants and support relate mainly to providing access to health care services including care for the uninsured and indigent population (See Note 4 — "Charity Care"). For the fiscal years ended June 30, 2012 and 2011, the Health System received grants from the Commonwealth of Pennsylvania's Department of Public Welfare in the amounts of $19,539,000 and $3,946,000, respectively. Also, the Health System received Commonwealth funding for inpatient and outpatient disproportionate share and other funding, primarily from the proceeds from the tobacco settlement. In fiscal years 2012 and 2011, the disproportionate share payments received by the Health System amounted to $28,232,000 and $25,733,000, respectively, funding for the Academic Health Center amounted to $6,515,000 and $12,886,000, respectively, funding for medical education amounted to $12,450,000 and $10,033,000, respectively, and other funding received amounted to $19,653,000 and $46,400,000, respectively. These amounts are included in net patient service revenue in the accompanying consolidated statements of operations and changes in net assets. There is no guarantee that this funding will continue in future years. Under certain circumstances, the Health System could be required to repay certain of the grants received from the Commonwealth. Management believes that the likelihood of such repayment is remote.

16. FAIR VALUE MEASUREMENTS

FASB ASC Topic 820, which defines fair value, provides a framework for measuring fair value, and expands disclosures required for fair value measurements.

FASB ASC Topic 820 emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, FASB ASC Topic 820 establishes a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity's own assumption about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

FASB ASC Topic 820 classifies the inputs used to measure fair value into the following hierarchy:

Level 1 — Level 1 inputs are quoted prices in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 — Level 2 inputs include the following:

- Quoted prices in active markets for similar assets or liabilities.
- Quoted prices in markets that are not active for identical or similar assets or liabilities.
- Inputs other than quoted prices, that are observable for the asset or liability.
- Inputs that are derived primarily from or corroborated by observable market data by correlation or other means.

Level 3 — Level 3 inputs are unobservable inputs for the asset or liability.

The following table sets forth, by level within the fair value hierarchy, the financial assets recorded at fair value on a recurring basis and its equity method alternative investments as of June 30, 2012 (in thousands):

Assets	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets limited as to use:				
U.S. government securities	$ 30,710	$ 23,596	$ -	$ 54,306
Corporate bonds, notes, and other debt securities		10,950		10,950
Cash and money market funds	40,313			40,313
Equity securities and mutual funds	1,687			1,687
	72,710	34,546		107,256
Workers' Compensation Fund:				
U.S. government securities	3,578	2,215		5,793
Corporate bonds, notes, and other debt securities		5,025		5,025
Cash and money market funds	289			289
	3,867	7,240		11,107
Investments:				
Fixed income mutual funds	159,555			159,555
Cash and money market funds	1,625			1,625
Equity mutual funds	7,081			7,081
Alternative funds			15,486	15,486
Limited liability partnerships		11,205	9,788	20,993
	168,261	11,205	25,274	204,740
Beneficial interest in perpetual trusts:			20,673	20,673
Beneficial interest in the assets held by Episcopal Foundation:			18,622	18,622
Total	$244,838	$ 52,991	$ 64,569	$362,398

The following table sets forth, by level within the fair value hierarchy, the financial assets recorded at fair value on a recurring basis and its equity method alternative investments as of June 30, 2011 (in thousands):

Assets	Level 1	Level 2	Level 3	Total
Assets limited as to use:				
U.S. government securities	$ 33,335	$ 41,739	$ -	$ 75,074
Corporate bonds, notes, and other debt securities		4,841		4,841
Cash and money market funds	36,956			36,956
Equity securities and mutual funds	1,706			1,706
	71,997	46,580		118,577
Workers' Compensation Fund:				
U.S. government securities	4,219	2,722		6,941
Corporate bonds, notes, and other debt securities		4,989		4,989
Cash and money market funds	466			466
	4,685	7,711		12,396
Investments:				
Fixed income mutual funds	97,989			97,989
Cash and money market funds	2,907			2,907
Equity mutual funds	46,838			46,838
Alternative funds			7,931	7,931
Limited liability partnerships		7,620	12,974	20,594
	147,734	7,620	20,905	176,259
Beneficial interest in perpetual trusts:			21,483	21,483
Beneficial interest in the assets held by Episcopal Foundation:			19,170	19,170
Total	$224,416	$ 61,911	$ 61,558	$347,885

Transfers between Levels 1 and 2 — During the year ended June 30, 2012 and 2011, there were no transfers between Levels 1 and 2.

Transfers into or out of Level 3 — Transfers in and/or out of Levels are reflected as of the beginning of the period when significant inputs, including market inputs or performance attributes, used for the fair value measurement become observable / unobservable, or when the Health System determines it has the ability, or no longer has the ability, to redeem in the near term certain investments that the Health System values using a NAV (or a capital account).

The following is a reconciliation of financial instruments for which significant unobservable inputs (Level 3) were used in determining fair value (in thousands) for the year ended June 30, 2012:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)						
		Total Realized/Unrealized Gains(Losses) Included in:					
	July 1, 2011	Net Income (Loss)	Net Asset	Purchases	Sales	Transfer Out of Level 3	June 30, 2012
Year ended June 30, 2012:							
Assets — investments:							
Alternative funds	$ 9,857	$ (34)	$ -	$ 6,750	$ (1,087)	$ -	$ 15,486
Limited liability partnerships	11,048	393	-	422	(2,075)	-	9,788
Total investments	$ 20,905	$ 359	$ -	$ 7,172	$ (3,162)	$ -	$ 25,274
Beneficial interest in perpetual trusts	$ 21,483	$ -	$ (810)	$ -	$ -	$ -	$ 20,673
Beneficial interest in the assets held by Episcopal Foundation	$ 19,170	$ -	$ (548)	$ -	$ -	$ -	$ 18,622

The following is a reconciliation of financial instruments for which significant unobservable inputs (Level 3) were used in determining fair value (in thousands) for the year ended June 30, 2011:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)						
		Total Realized/Unrealized Gains(Losses) Included in:					
	July 1, 2010	Net Income (Loss)	Net Asset	Purchases	Sales	Transfer Out of Level 3	June 30, 2011
Year ended June 30, 2011:							
Assets — investments:							
Alternative funds	$ 7,164	$ 767	$ -	$ -	$ -	$ -	$ 7,931
Limited liability partnerships	18,658	1,969	-	2,366	(3,554)	(6,465)	12,974
Total investments	$ 25,822	$ 2,736	$ -	$ 2,366	$ (3,554)	$ (6,465)	$ 20,905
Beneficial interest in perpetual trusts	$ 18,587	$ -	$ 2,896	$ -	$ -	$ -	$ 21,483
Beneficial interest in the assets held by Episcopal Foundation	$ 16,310	$ -	$ 2,860	$ -	$ -	$ -	$ 19,170

U.S. government securities, money market funds, equity securities and mutual funds classified as Level 1 are measured using quoted market prices.

Marketable debt securities classified as Level 1 were classified as such due to the usage of observable market prices for identical securities that are traded in active markets. These debt securities primarily include US Treasury Bonds.

The marketable debt securities classified as Level 2 were classified as such due to the usage of observable market prices for similar securities that are traded in less active markets or when observable market prices for identical securities are not available, marketable debt instruments are priced using: non-binding market consensus prices that are corroborated with observable market data; quoted market prices for similar instruments; or pricing models, such as a discounted cash flow model, with all significant inputs derived from or corroborated with observable market data. These debt securities primarily include government bonds, corporate bonds, notes and other debt securities.

The alternative investments classified as Level 3 were classified as such due to the lack of observable market data. These investments include equity funds, mutual funds and limited liability partnerships that are valued by the fund manager based on the pro-rata interest in the net assets of the underlying investments which approximates fair value and by financial information provided by the limited partnerships. In accordance with ASU 2009-12, however, those investments that are measured at net asset value per share and are redeemable at the measurement date are classified as Level 2.

The estimated fair values of the Health System's beneficial interest in perpetual trusts and in the assets held by Episcopal Foundation are classified as Level 3 due to lack of observable market data. Currently there is no market in which beneficial interest in trusts are traded and as such, no observable exit price exists for these assets. The fair values are determined based on information provided by the trustees.

Detailed information for Level 2 and Level 3 investments as of June 30, 2012 and 2011, follows. The fair values of these investments have been estimated using a net asset value equivalent (e.g. ownership interest in partners' capital to which a proportionate share of net assets is attributable).

	Fair Value (In thousands)	Unfunded Commitments (In thousands)	Frequency (if Currently Eligible)	Notice Period (if Applicable)
Year ended June 30, 2012:				
Multi-Strategy Hedge Funds (a)	$ 15,991	$ -	Tri-annual, Quarterly	45–95 days
Distressed Debt Hedge Funds (b)	489			
Long/Short Hedge Funds (c)	3,674		Annual	95 days
Private Equity Funds (d)	1,631	119		
Stock Funds (e)	3,284		Annual, Monthly	6 - 90 days
Global/Macro Hedge Funds (f)	3,760		Monthly	10 days
Real Estate Funds (g)	7,650	195	Monthly	45 days
	$ 36,479	$ 314		
Year ended June 30, 2011:				
Multi-Strategy Hedge Funds (a)	$ 11,504	$ -	Tri-annual	45–100 days
Distressed Debt Hedge Funds (b)	658			
Long/Short Hedge Funds (c)	3,643		Annual	95 days
Private Equity Funds (d)	1,944	155		
Stock Funds (e)	3,371		Annual, Monthly	6 - 90 days
Global/Macro Hedge Funds (f)	6,176		Monthly	10 days
Real Estate Funds (g)	1,229	626		
	$ 28,525	$ 781		

(a) This category includes investments in hedge funds that use a variety of strategies. These strategies may include long/short equity, long/short credit, event-driven, capital structure arbitrage, fixed income arbitrage, credit of distressed companies, and restructuring and underpriced companies. In 2012 and 2011, investments representing approximately 42% and 69%, respectively, of the value of the investments in this category cannot be redeemed because the investments include restrictions that do not allow for redemption in the first three years. The remaining restriction period for these investments ranged from three to twelve months.

(b) This category includes investments in hedge funds that invest in debt obligations of distressed companies at a discount and sell the obligations following reorganization or restructuring of the companies. In September 2010, Private Advisors Distressed Opportunities Fund notified the Health System that the fund has begun liquidation. Investors are no longer eligible for voluntary redemptions.

(c) This category includes investments in hedge funds that invest with managers or private investment funds that take short positions and long positions in equity securities and use leverage to augment the effects of stock selection. Investments in this category can be redeemed annually.

(d) This category includes investments in private equity partnerships whose strategy is to add 5% in value comparable public investments and that will be in the top 25% of comparable private equity managers. Investments in this category cannot be redeemed until November 2020 subject to two one year extensions.

(e) This category includes investments (typically through traditional, long-only stock managers) that maintain (beta) exposure to stocks and achieve (alpha) value added of at least 2% per year over a passive portfolio. Investments in this category are not currently eligible for redemption.

(f) This category includes investment in a broad diversity of asset classes and geographic markets. They may invest in equity, global fixed income, currency and commodity sectors.

(g) This category includes investments that maintain exposure to real estate and natural resources through public and private investments whose value is strongly controlled by commodities and real estate and may act as a hedge against unanticipated inflation. In 2012 and 2011, investments representing approximately 19% and 100%, respectively, in this category cannot be redeemed until the termination of the funds. These termination dates range from January 2013 to December 2015.

The fair value of the Health System's Pension assets is disclosed in Note 10.

The following methods and assumptions were used by the Health System in estimating fair value for disclosures in the consolidated financial statements:

Long-Term Debt — The fair value of long-term debt is based on quoted market prices or is estimated using discounted cash flow analyses for similar types of borrowing arrangements based on incremental borrowing rates. The carrying and fair values of long-term debt, excluding capital lease obligations, the Episcopal Healthcare Foundation debt and equipment financing arrangements, at June 30, 2012, are $316,008,000 and $314,456,000, respectively. The carrying and fair values of long-term debt, excluding capital lease obligations, the Episcopal Healthcare Foundation debt and equipment financing arrangements, at June 30, 2011, are $323,052,000 and $272,730,000, respectively.

Other — Cash and cash equivalents, patient and other accounts receivable, and all other current assets and liabilities are reported at amounts that approximate fair value due to the relatively short period to maturity.

17. FUNCTIONAL EXPENSES

The Health System provides general health care services to residents within its geographic location. Expenses related to providing these services are as follows (in thousands):

	2012	2011
Health care services	$ 840,556	$ 837,032
General and administrative	179,204	156,684
	$ 1,019,760	$ 993,716

18. SUBSEQUENT EVENTS

Effective July 2, 2012, TUHS became the sole member of The Hospital of The Fox Chase Cancer Center and affiliates (“FCCC”), a National Cancer Institute designated Comprehensive Cancer Center located in the Fox Chase section of Philadelphia, Pennsylvania. FCCC combines a cancer specific research organization with a cancer specialty hospital. FCCC will significantly expand its outpatient and surgical-care services within its existing facilities and through the use of leased space at neighboring Jeanes Hospital, a member of the Health System since 1996 that offers a full range of medical, surgical and emergency services. Our contribution to this transaction was an $83,880,000 cash payment made to FCCC on July 2, 2012.

In connection with the terms of the affiliation agreement with FCCC, on July 2, 2012, the Health System issued $311,105,000 aggregate principal Revenue Bonds consisting of $219,210,000 Series A Bonds and $91,895,000 Series B Bonds. The proceeds of the Series A Bonds will be used to provide financing for the affiliation of FCCC and for various capital projects throughout the Health System. The proceeds of the Series B Bonds will be used to refund the outstanding Revenue Bond Series of 1993.

Also in connection with the FCCC transaction, we have incurred $1,825,000 incremental expenses related to legal, accounting and valuation services which are reflected in professional fees expenses within our consolidated statements of operations for the year ended June 30, 2012.

Since TUHS is now the sole member of FCCC, TUHS will apply acquisition accounting to FCCC and their results of operations will be included in our consolidated results of operations following the affiliation date.

Due to the limited time since the affiliation date, the initial accounting for the business combination is incomplete at this time. As a result, we are unable to provide amounts recognized as of the affiliation date for major classes of assets and liabilities attained and resulting from the transaction. Also, because the initial accounting for the transaction is incomplete, we are unable to provide supplemental pro forma revenue and earnings of the combined entity.

The Health System has evaluated subsequent events through October 18, 2012, the date the financial statements were issued. There were no additional subsequent events requiring recording or disclosure in the consolidated financial statements.

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SUPPLEMENTAL SCHEDULES

TEMPLE UNIVERSITY HEALTH SYSTEM

SUPPLEMENTAL SCHEDULE OF CONSOLIDATING BALANCE SHEET INFORMATION - OBLIGATED GROUP
AS OF JUNE 30, 2012
(In thousands)

ASSETS	Temple University Hospital, Inc.	Jeanes Hospital and Affiliate	TUHS Parent Company (1)	Temple Physicians Inc.	Temple Health System Transport Team, Inc.	Eliminations	Temple University Health System Obligated Group
CURRENT ASSETS:							
Cash and cash equivalents	$ 22,440	$ 799	$ 56,931	$ 506	$ 492	$	$ 81,168
Patient accounts receivable — net of allowance for doubtful accounts	97,383	17,343		3,981			118,707
Other receivables — net of allowance for doubtful accounts	16,920	2,660	1,223	25	604	(238)	21,194
Inventories and other current assets	14,481	4,976	1,175	313	33		20,978
Current portion of assets limited as to use	3,041	163	17,491				20,695
Investments	130,021	4,473					134,494
Current portion of workers' compensation fund	5,709	234	144	23	37		6,147
Current portion of self-insurance program receivables			12,200				12,200
Due from affiliates — current portion	18,637	3,752	14,120	2,674	93	(38,386)	890
Total current assets	308,632	34,400	103,284	7,522	1,259	(38,624)	416,473
PROPERTY, PLANT AND EQUIPMENT:							
Land and land improvements	5,574	3,182	9				8,765
Buildings	272,678	91,809	23,162	2,339			389,988
Fixed and movable equipment	251,089	55,019	54,063	5,730	491		366,392
Construction-in-progress	5,643	266	579	109			6,597
	534,984	150,276	77,813	8,178	491		771,742
Less accumulated depreciation	351,085	119,658	38,545	3,463	436		513,187
Net property, plant and equipment	183,899	30,618	39,268	4,715	55		258,555
ASSETS LIMITED AS TO USE	17,419	346	24,495				42,260
INVESTMENTS	13,295	33,077	42				46,414
WORKERS' COMPENSATION FUND	1,867	1,526		235	146		3,774
ESTIMATED SETTLEMENT WITH THIRD PARTY PAYOR		119					119
SELF-INSURANCE PROGRAM RECEIVABLES	16,267	2,076	21,206	5,602			45,151
INVESTMENT IN TUHIC			16,987				16,987
BENEFICIAL INTEREST IN PERPETUAL TRUSTS	4,897	15,181					20,078
DUE FROM AFFILIATES			122,984			(122,984)	
BENEFICIAL INTEREST IN ASSETS HELD BY EPISCOPAL FOUNDATION	18,622						18,622
OTHER ASSETS	21,719	494	1,439	963			24,615
TOTAL ASSETS	$586,617	$117,837	$329,705	$ 19,037	$ 1,460	$(161,608)	$ 893,048

(1) TUHS Parent Company accounts for its investment in TUHIC under the equity method. The remaining entities are accounted for at cost.

(Continued)

TEMPLE UNIVERSITY HEALTH SYSTEM

SUPPLEMENTAL SCHEDULE OF CONSOLIDATING BALANCE SHEET INFORMATION - OBLIGATED GROUP
AS OF JUNE 30, 2012
(In thousands)

LIABILITIES AND NET ASSETS	Temple University Hospital, Inc.	Jeanes Hospital and Affiliate	TUHS Parent Company (1)	Temple Physicians Inc.	Temple Health System Transport Team, Inc.	Eliminations	Temple University Health System Obligated Group
CURRENT LIABILITIES:							
Current portion of long-term debt	$ 7,646	$ 285	$ 2,613	$	$	$	$ 10,544
Accounts payable	49,664	5,557	1,606	103	14		56,944
Accrued expenses	25,979	6,012	31,073	3,683	210	(238)	66,719
Current portion of estimated settlements with third-party payors	1,525	650					2,175
Current portion of self-insurance program liabilities	31,267	2,715	12,344	644	37		47,007
Due to affiliates — current portion	9,064	7,883	16,926	4,330	366	(38,386)	183
Other current liabilities	11,278	1,020	11,582	5			23,885
Total current liabilities	136,423	24,122	76,144	8,765	627	(38,624)	207,457
LONG-TERM DEBT	100,403	185	210,756				311,344
ESTIMATED SETTLEMENTS WITH THIRD-PARTY PAYORS		502					502
SELF-INSURANCE PROGRAM LIABILITIES	58,544	18,843	21,451	10,483	225		109,546
ACCRUED POSTRETIREMENT BENEFITS	30,143	14,958					45,101
DUE TO AFFILIATES	83,614	39,370				(122,984)	
OTHER LONG-TERM LIABILITIES	14,419	1,204	2,688				18,311
Total liabilities	423,546	99,184	311,039	19,248	852	(161,608)	692,261
NET ASSETS (DEFICIT):							
Unrestricted	136,178	3,199	18,665	(211)	608		158,439
Temporarily restricted	2,064	199	1				2,264
Permanently restricted	24,829	15,255					40,084
Total net assets (deficit)	163,071	18,653	18,666	(211)	608		200,787
TOTAL LIABILITIES AND NET ASSETS	$ 586,617	$ 117,837	$ 329,705	$ 19,037	$ 1,460	$ (161,608)	$ 893,048

(1) TUHS Parent Company accounts for its investment in TUHIC under the equity method. The remaining entities are accounted for at cost.

(Concluded)

TEMPLE UNIVERSITY HEALTH SYSTEM

SUPPLEMENTAL SCHEDULE OF CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS INFORMATION - OBLIGATED GROUP
FOR THE YEAR ENDED JUNE 30, 2012
(In thousands)

	Temple University Hospital, Inc.	Jeanes Hospital and Affiliate	TUHS Parent Company (1)	Temple Physicians Inc.	Temple Health System Transport Team, Inc.	Eliminations	Temple University Health System Obligated Group
UNRESTRICTED NET ASSETS:							
Unrestricted revenues and other support:							
Net patient service revenue	$ 784,092	$ 151,262	$	$ 34,016	$	$	$ 969,370
Other revenue	15,661	8,022	71,433	9,908	4,054	(78,433)	30,645
Investment income	435		350				785
Net assets released from restrictions used for operations	1,210	179					1,389
Unrestricted revenues and other support	801,398	159,463	71,783	43,924	4,054	(78,433)	1,002,189
Expenses:							
Salaries	287,970	62,486	17,786	31,411	3,196		402,849
Employee benefits	82,178	15,804	4,386	6,058	782		109,208
Professional fees	69,862	11,880	9,796	1,139	(2)	(5,724)	86,951
Supplies and pharmaceuticals	122,275	25,925	3,345	1,966	475		153,986
Purchased services and other	124,581	24,156	10,023	4,464	606	(60,865)	102,965
Maintenance	11,529	1,358	704	101	34		13,726
Utilities	12,869	1,260	1,045	939	51		16,164
Leases	10,911	1,091	4,156	2,460	1,262	(3,719)	16,161
Insurance	28,490	11,272	4	3,283	53		43,102
Depreciation and amortization	22,690	6,684	6,999	1,037	50		37,460
Interest	12,189	2,550	12,417			(8,125)	19,031
Provision for bad debts	10,889	3,281		526	283		14,979
Loss (gain) on disposal of fixed assets	475	(21)	22				476
Expenses	796,908	167,726	70,683	53,384	6,790	(78,433)	1,017,058
Operating gain (loss)	4,490	(8,263)	1,100	(9,460)	(2,736)		(14,869)
Other income — net:							
Investment income	18,535	2,790	(236)	700	9		21,798
Other income							
Other income — net	18,535	2,790	(236)	700	9		21,798
Excess (deficiency) of revenues and other support over expenses from continuing operations	23,025	(5,473)	864	(8,760)	(2,727)		6,929

(1) TUHS Parent Company accounts for its investment in TUHIC under the equity method. The remaining entities are accounted for at cost.

(Continued)

TEMPLE UNIVERSITY HEALTH SYSTEM

SUPPLEMENTAL SCHEDULE OF CONSOLIDATING STATEMENT OF OPERATIONS AND CHANGES IN NET ASSETS INFORMATION - OBLIGATED GROUP
FOR THE YEAR ENDED JUNE 30, 2012
(In thousands)

	Temple University Hospital, Inc.	Jeanes Hospital and Affiliate	TUHS Parent Company (1)	Temple Physicians Inc.	Temple Health System Transport Team, Inc.	Eliminations	Temple University Health System Obligated Group
Excess (deficiency) of revenues and other support over expenses from continuing operations	$ 23,025	$ (5,473)	$ 864	$ (8,760)	$ (2,727)	$	$ 6,929
Other changes in unrestricted net assets:							
Transfers (to) from affiliates/the University	(14,415)	(3,800)	(8,553)	15,439	2,500		(8,829)
Net assets released from restrictions used for purchase of property and equipment	4,756	123					4,879
Net change in fair value of investments	(11,815)	(1,750)	152	(2)			(13,415)
Adjustment to funded status of pension and postretirement liabilities	(13,985)	(8,295)					(22,280)
(Decrease) increase in unrestricted net assets	(12,434)	(19,195)	(7,537)	6,677	(227)		(32,716)
TEMPORARILY RESTRICTED NET ASSETS:							
Contribution income	3,386	116					3,502
Net assets released from restrictions	(5,966)	(302)					(6,268)
Net unrealized gains on investments	(58)						(58)
Investment income	37						37
Decrease in temporarily restricted net assets	(2,601)	(186)					(2,787)
PERMANENTLY RESTRICTED NET ASSETS:							
Change in beneficial interest in assets held by Episcopal Foundation	(548)						(548)
Change in beneficial interest in perpetual trusts	(251)	(527)					(778)
Decrease in permanently restricted net assets	(799)	(527)					(1,326)
(DECREASE) INCREASE IN NET ASSETS	(15,834)	(19,908)	(7,537)	6,677	(227)		(36,829)
NET ASSETS (DEFICIT) — Beginning of year	178,905	38,561	26,203	(6,888)	835		237,616
NET ASSETS (DEFICIT) — End of year	$ 163,071	$ 18,653	$ 18,666	$ (211)	$ 608	$	$ 200,787

(1) TUHS Parent Company accounts for its investment in TUHIC under the equity method. The remaining entities are accounted for at cost.

(Concluded)

TEMPLE UNIVERSITY HEALTH SYSTEM OBLIGATED GROUP

For the year ended June 30, 2012, the Obligated Group included Temple University Hospital, Inc., Jeanes Hospital and affiliate, Temple University Health System (Parent), Temple Physicians, Inc., and Temple Health System Transport Team, Inc. These supplemental schedules have been prepared for the purpose of additional analysis of the basic consolidated financial statements of the Health System for the purpose of complying with certain requirements related to the Series 2007 A/B Revenue Bonds and are not intended to present the separate financial statements of the Obligated Group.