Lutheran HealthCare

Combined Financial Statements as of and for the Years Ended December 31, 2012 and 2011, Supplemental Combining Information as of and for the Years Ended December 31, 2012 and 2011, and Independent Auditors' Report

LUTHERAN HEALTHCARE

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INDEPENDENT AUDITORS' REPORT

To the Boards of Trustees of
Lutheran Medical Center and
Sunset Park Health Council, Inc.
Brooklyn, New York

We have audited the accompanying combined financial statements of Lutheran Medical Center ("Medical Center") and its subsidiaries and Sunset Park Health Council, Inc. ("Sunset Park"), d/b/a Lutheran Family Health Centers (collectively, "Lutheran HealthCare"), which comprise the combined balance sheets as of December 31, 2012 and 2011, and the related combined statements of operations, changes in net assets, and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Combined Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these combined financial statements based on our audits. We did not audit the financial statements of Lutheran Augustana Center for Extended Care and Rehabilitation, Inc., Shore Hill Housing Company, Inc., Harbor Hill Housing Development Fund Corporation, Sunset Gardens Housing Development Fund Corporation, or Shore Hill Housing Associates, L.P. (collectively referred to as the "Other Combined Entities"), which statements reflect total assets constituting 15% and 14%, respectively, of combined total assets at December 31, 2012 and 2011, and total revenues constituting 4% and 3%, respectively, of combined total revenues for the years then ended. Those statements were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Other Combined Entities, is based solely on the reports of the other auditors. 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 combined financial statements are free from material misstatement.

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

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

Opinion

In our opinion, based on our audits and the reports of the other auditors, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of Lutheran HealthCare as of December 31, 2012 and 2011, and the combined results of its operations, changes in its net assets, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-Matters

As discussed in Notes 1 and 16 to the combined financial statements, during 2007, the Medical Center transferred certain assets, liabilities, and operations of the Lutheran Family Health Center ("Health Center") to Sunset Park. The Medical Center and Sunset Park have been established as "co-operators" of the Health Center. The Medical Center continues to provide support services to allow the Health Center to operate as it did before the transaction. Both the Medical Center and Sunset Park are included in the accompanying combined financial statements. Our opinion is not modified with respect to this matter.

As discussed in Note 1 to the combined financial statements, Lutheran HealthCare adopted the requirements of accounting guidance related to the presentation of the provision for bad debts in the 2012 and 2011 combined statements of operations. Our opinion is not modified with respect to this matter.

As discussed in Note 17 to the combined financial statements, OHP PHSP, Inc. (formerly known as Health Plus Prepaid Health Services Plan, Inc.) has entered into an agreement to sell all of its operating and non-financial assets. The sale closed on May 1, 2012. OHP PHSP, Inc. has ceased operations as of this date and is in process of settling liabilities that existed as of this date. Our opinion is not modified with respect to this matter.

Report on Supplemental Combining Information

Our audits were conducted for the purpose of forming an opinion on the combined financial statements as a whole. The supplemental combining information on pages 41 through 55 is presented for the purpose of additional analysis of the combined financial statements rather than to present the financial position, results of operations, and cash flows of the individual entities, and is not a required part of the combined financial statements. This supplemental combining information is the responsibility of Lutheran HealthCare's management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. Such information has been subjected to the auditing procedures applied in our audits of the combined financial statements and (as to the amounts included for the Other Combined Entities mentioned above) the reports of other auditors, and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, based on our audits and the reports of the other auditors, such supplemental combining information is fairly stated in all material respects in relation to the combined financial statements as a whole.

Deloitte & Touche LLP

May 30, 2013

LUTHERAN HEALTHCARE

COMBINED BALANCE SHEETS
AS OF DECEMBER 31, 2012 AND 2011
(In thousands)

	2012	2011
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 28,930	$ 131,846
Investments	63,028	100,868
Assets limited as to use	1,457	1,542
Patient accounts receivable — less allowance for uncollectible accounts of $18,288 and $16,214 in 2012 and 2011, respectively	80,081	70,254
Premiums receivable	3,950	30,446
Other receivables	15,686	18,380
Due from third-party payors	17,706	15,867
Other current assets	40,882	35,795
Total current assets	251,720	404,998
ASSETS LIMITED AS TO USE — Less current portion	88,055	70,360
INVESTMENTS	72,579	
PROPERTY AND EQUIPMENT — Net	178,179	183,164
OTHER ASSETS	79,504	73,384
TOTAL	$ 670,037	$ 731,906
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$ 51,127	$ 62,266
Accrued salaries and related liabilities	27,967	29,675
Accrued medical costs	5,852	105,588
Current portion of long-term debt	9,360	23,544
Current portion of professional liabilities	2,600	2,600
Other current liabilities	21,962	3,922
Current portion of due to third-party payors	17,319	4,179
Total current liabilities	136,187	231,774
LONG-TERM LIABILITIES:		
Due to third-party payors	33,262	29,367
Professional liabilities — less current portion	86,538	79,555
Long-term debt — less current portion	115,335	131,427
Accrued pension liability	91,536	83,338
Other long-term liabilities	20,717	21,666
Total long-term liabilities	347,388	345,353
Total liabilities	483,575	577,127
COMMITMENTS AND CONTINGENCIES (Note 17)		
NET ASSETS:		
Unrestricted (including contingent reserve of $33,025 and $79,538 in 2012 and 2011, respectively — Note 4)	182,093	150,866
Temporarily restricted	3,872	3,419
Permanently restricted	497	494
Total net assets	186,462	154,779
TOTAL	$ 670,037	$ 731,906

See notes to combined financial statements.

LUTHERAN HEALTHCARE

COMBINED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011
(In thousands)

	2012	2011
REVENUE:		
Net patient service revenue (after contractual allowances and discounts)	$ 528,565	$ 477,923
Provision for bad debts	(18,955)	(19,927)
Net patient service revenue, net of provision for bad debts	509,610	457,996
Premium revenue	433,376	1,040,017
Grant income	47,992	47,485
Investment income	5,466	3,831
Net assets released from restrictions	1,652	1,682
Other revenue	27,468	20,206
Total revenue	1,025,564	1,571,217
EXPENSES:		
Salaries and wages	333,214	348,165
Employee benefits	106,334	104,872
Supplies and expenses	228,301	260,239
Medical costs	358,064	823,962
Depreciation and amortization	20,601	20,371
Interest	4,976	5,802
Total expenses	1,051,490	1,563,411
OPERATING (LOSS) INCOME	(25,926)	7,806
NONOPERATING GAINS	73,976	
EXCESS OF REVENUE OVER EXPENSES	48,050	7,806
OTHER CHANGES IN UNRESTRICTED NET ASSETS:		
Defined benefit plan adjustments	(23,525)	(40,937)
Changes in unrealized gains and losses on investments	3,744	(155)
Contributions	1,606	1,205
Net assets released for capital acquisitions	1,352	7,739
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	$ 31,227	$ (24,342)

See notes to combined financial statements.

LUTHERAN HEALTHCARE

COMBINED STATEMENTS OF CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011
(In thousands)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
NET ASSETS — January 1, 2011	$175,208	$ 3,169	$506	$178,883
Excess of revenues over expenses	7,806			7,806
Changes in unrealized gains and losses on investments	(155)		(12)	(167)
Contributions	1,205	9,671		10,876
Net assets released from restrictions:				
Operating expenses		(1,682)		(1,682)
Capital acquisitions	7,739	(7,739)		
Defined benefit plan adjustments	(40,937)			(40,937)
Change in net assets	(24,342)	250	(12)	(24,104)
NET ASSETS — December 31, 2011	150,866	3,419	494	154,779
Excess of revenues over expenses	48,050			48,050
Changes in unrealized gains and losses on investments	3,744		3	3,747
Contributions	1,606	3,457		5,063
Net assets released from restrictions:				
Operating expenses		(1,652)		(1,652)
Capital acquisitions	1,352	(1,352)		
Defined benefit plan adjustments	(23,525)			(23,525)
Change in net assets	31,227	453	3	31,683
NET ASSETS — December 31, 2012	$182,093	$ 3,872	$497	$186,462

See notes to combined financial statements.

LUTHERAN HEALTHCARE

COMBINED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011
(In thousands)

	2012	2011
OPERATING ACTIVITIES:		
Change in net assets	$ 31,683	$ (24,104)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	20,601	20,371
Provision for bad debts	18,955	19,927
Restricted contributions	(1,178)	(8,313)
Defined benefit plan adjustments	23,525	40,937
Changes in unrealized gains and losses on investments	(3,747)	167
Realized gains and losses on investments	(886)	137
Gain on sale of operating and nonfinancial assets	(69,501)	
Gain on debt refinancing	(7,023)	
Changes in operating assets and liabilities:		
Patient accounts receivable	(28,782)	(25,199)
Premiums receivable	26,496	529
Other receivables	2,694	7,092
Due from and to third-party payors	15,196	446
Other current assets	(5,087)	(18,439)
Accounts payable, accrued expenses, accrued salaries, and related liabilities	(14,655)	8,075
Accrued medical costs	(99,736)	21,964
Professional liabilities	6,983	20,793
Accrued pension liability	(15,327)	(4,292)
Other assets and liabilities	(4,081)	(18,989)
Net cash (used in) provided by operating activities	(103,870)	41,102
INVESTING ACTIVITIES:		
Capital expenditures	(15,851)	(20,449)
Purchases of investments	(296,448)	(98,549)
Proceeds from sales of investments	266,342	101,868
Purchases of assets limited as to use	(17,610)	(26,436)
Proceeds from sales of assets limited as to use		24,521
Proceeds from sale of operating and nonfinancial assets	73,140	
Net cash provided by (used in) investing activities	9,573	(19,045)
FINANCING ACTIVITIES:		
Proceeds from line of credit borrowing	3,000	5,000
Repayments of line of credit borrowing	(3,000)	(5,000)
Proceeds from issuance of long-term debt	4,601	26,193
Repayments of long-term debt	(12,777)	(9,009)
Payment of debt issuance costs	(1,621)	(169)
Restricted contributions	1,178	8,313
Net cash (used in) provided by financing activities	(8,619)	25,328
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(102,916)	47,385
CASH AND CASH EQUIVALENTS — Beginning of year	131,846	84,461
CASH AND CASH EQUIVALENTS — End of year	$ 28,930	$ 131,846
SUPPLEMENTAL INFORMATION:		
Interest paid	$ 4,551	$ 5,838
Capital lease obligations incurred	$ 2,952	$ 781
Accruals for the acquisition of property and equipment	$ 1,808	$ 2,310

See notes to combined financial statements.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Lutheran Medical Center ("Medical Center") is a not-for-profit membership corporation organized under the New York State not-for-profit corporation law, whose sole member is the Evangelical Lutheran Church in America. The Medical Center operates an acute care hospital.

Sunset Park Health Council, Inc., a New York not-for-profit corporation, d/b/a Lutheran Family Health Centers, is referred to herein as "Lutheran Family Health Centers," LFHC, or "Sunset Park." LFHC is a Federally Qualified Health Center that, prior to 2007, operated as a division of the Medical Center.

Lutheran Medical Center and its subsidiaries and LFHC are referred to herein as "Lutheran HealthCare." Lutheran HealthCare provides a comprehensive integrated network of health services including inpatient and outpatient services, physician services, prepaid health care insurance coverage, home health care, long-term care, and senior housing primarily to the residents of Brooklyn, New York.

The following are subsidiaries of the Medical Center:

OHP PHSP, Inc. (formerly known as Health Plus Prepaid Health Services Plan, Inc.)(the "Plan") — A licensed, prepaid health services plan which provides comprehensive prepaid health care coverage to Medicaid, Family Health Plus, Child Health Plus and Medicare recipients. On May 1, 2012, the Plan sold all operating and nonfinancial assets and was required to change the name of the organization as part of the transaction (see Note 17). The Plan ceased receiving premiums and providing coverage to members effective with the closing of the sale and is now winding down operations. The Plan distributed $75 million and $30 million to the Medical Center on May 1, 2012 and March 14, 2013, respectively.

Lutheran Augustana Center for Extended Care and Rehabilitation, Inc. ("Augustana") — A long-term nursing care facility.

Senior Housing Projects — Comprised of Shore Hill Housing Company Inc. ("Shore Hill"), Shore Hill Housing Associates, L.P., Sunset Gardens Housing Development Fund Corporation ("Sunset Gardens"), and Harbor Hill Housing Development Fund Corporation ("Harbor Hill") and provide housing and rent subsidies for people meeting requirements defined by the United States Department of Housing and Urban Development (HUD).

Professional Corporations — Comprised of Shore Road Radiology, PC and LMC Physician Services, PC.

Other — Comprised of various other related organizations, including Shore Road Community Services, Inc., Sunset Bay Community Services, Inc., Community Care Organization, Inc., and LMC Community Foundation ("Lutheran Foundation").

Principles of Combination — The accompanying combined financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) in accordance with the American Institute of Certified Public Accountants' Audit and Accounting Guide, *Health Care Entities*, and other pronouncements applicable to health care organizations.

The combined financial statements include the accounts of all of the entities outlined above. The Medical Center accounts for its interests in entities in which it has significant influence on the equity basis of accounting. Such entities are presented in the supplemental combining information on a cost basis. Significant intercompany transactions and balances have been eliminated. Except as discussed in Note 11, the assets of any member of the combined group may not be available to meet the obligations of other members in the group.

Use of Estimates — The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenue and expenses during the reporting period. Significant estimates include the allowances for uncollectible patient accounts receivable and contractual allowances, estimated amounts due to and from third-party payors, valuation of investments, pension cost assumptions, accrued medical costs, and the estimated liability for self-insured losses. Actual results could differ from those estimates.

Cash and Cash Equivalents — Lutheran HealthCare considers all highly liquid debt instruments purchased with a maturity of three months or less, that are not deemed to be assets limited as to use, to be cash equivalents.

Investments — Investments in equity securities with readily determinable fair values and all investments in debt securities are stated at fair value. Investments received as a gift are initially recorded at fair value at the date of gift.

Investment income (interest, dividends, realized gains and losses, and the amortization of premium and accretion of discount to maturity) is included within revenue, unless the income or gain (loss) is restricted by donor or by law. Unrealized gains and losses on investments classified as available for sale are excluded from the excess of revenues over expenses and reported as a change in net assets, except that declines in fair value that are judged to be other-than-temporary are reported as realized losses. Gains and losses are determined using the specific identification cost basis. Investment income is reported net of expenses related to the management and custody of investments. Investments classified as current assets are available to support current operations.

Alternative investments held within assets whose use is limited and by the defined benefit plan, for which no quoted market prices are readily available, are carried at fair value determined based upon information provided by the fund managers. The fund managers' estimates and assumptions of fair values of nonmarketable investments may differ significantly from the values that would have been used had a ready market existed, and may also differ significantly from the values at which such investments may be sold, and the differences could be material.

Investments, in general, are exposed to various risks, such as interest rate risk, credit risk, and overall market volatility. As such, it is reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the amounts reported in the combined balance sheets and combined statements of operations, and changes in net assets.

Other-Than-Temporary Impairment of Investments — Lutheran HealthCare reviews its investments to identify those for which market value is below cost. Lutheran HealthCare then makes a determination as to whether the investment should be considered other-than-temporarily impaired based on guidelines established by the Financial Accounting Standards Board (FASB). Lutheran HealthCare considers various factors in determining whether to recognize a decline in value, including the length of time and extent to which the fair value has been less than Lutheran HealthCare's cost basis, the financial condition and near-term prospects of the issuer or investee, and Lutheran HealthCare's intent and ability to hold the investment for a period of time sufficient to allow for any anticipated recovery in market value. No losses related to declines in value that were other than temporary in nature were recognized in 2012 or 2011.

Assets Limited as to Use — Assets limited as to use primarily include assets held to meet regulatory requirements, assets held to meet requirements under indenture agreements, donor-restricted assets, and designated assets set aside by the Board of Trustees, over which the board retains control and may at its discretion subsequently use for other purposes.

Other Current Assets — Other current assets consist principally of prepaid expenses and supplies. Prepaid expenses include prepaid premiums on professional primary and excess insurance coverage of $18,931,000 and $23,247,000 as of December 31, 2012 and 2011, respectively. The coverage period for the primary insurance is through September 30, 2013 and for the excess insurance coverage is through September 30, 2014. The prepayment was financed by a lending institution, see Note 11. Supplies are valued at the lower of cost (first-in, first-out method) or market, and aggregated $5,225,000 and $4,197,000 as of December 31, 2012 and 2011, respectively.

Property and Equipment — Property and equipment acquisitions are recorded at cost, if purchased, and those acquired by gift at fair market value at the date of the gift. Capitalized lease obligations are recorded at the present value of the minimum lease payments at the inception of the lease. Leased assets are amortized over the lesser of the estimated useful life of the asset or lease term. Such amortization is reported within depreciation and amortization in the accompanying combined statements of operations. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. Depreciation is provided over the estimated useful life of each class of depreciable assets and is computed using the straight-line method. Estimated useful lives by classification are as follows:

Buildings and improvements	5–40 years
Equipment	3–25 years

Impairment of Long-Lived Assets — Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. When such events or changes in circumstances indicate an asset may not be recoverable, an impairment loss is recognized in an amount by which the asset's carrying value exceeds its estimated fair value.

Other Assets — Other assets consist of estimated insurance recoveries, costs incurred in connection with the issuance of debt, the non-current portion of pledges receivable, and tenant security deposits. Estimated insurance recoveries were $76,060,000 and $69,900,000 as of December 31, 2012 and 2011 respectively. Debt issuance costs are being amortized over the life of the debt using the interest method. The cost and accumulated amortization for debt issuance costs were $3,480,000 and $431,000 as of December 31, 2012, and $5,538,000 and $2,445,000 as of December 31, 2011.

Professional and General Liabilities — Prior to October 1, 1997, the Medical Center was self-insured for professional and general insurance liabilities. Subsequent to that date, the Medical Center has purchased claims-made insurance policies from a commercial insurer. Asserted claims and claim incidents that have been incurred but not reported are recorded taking into consideration the severity of incidents and expected timing of claim payments. The liabilities for outstanding losses and loss-related expenses, and the related provision for losses, and loss-related expenses include estimates for malpractice losses incurred but not reported, as well as losses pending settlement. Such liabilities are necessarily based on estimates and, while management believes the amounts provided are adequate, the ultimate liability may be in excess of or less than the amounts provided. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The methods for making such estimates and the resulting liability are actuarially reviewed on an annual basis, and any adjustments required are reflected in operations currently.

Lutheran Family Health Center is designated as a federally qualified community health center and receives funding under Section 330 of the Public Health Service Act (PHSA). As such, malpractice coverage is provided on an occurrence basis under certain legislative covenants of this section of the PHSA.

Defined Benefit Pension Plan — Lutheran HealthCare recognizes the underfunded status of its defined benefit plan as a liability in its combined balance sheet. Changes in the funded status of the plan are reported as a change in unrestricted net assets presented below the excess of revenues over expenses in its combined statements of operations and changes in net assets in the year in which the changes occur. Lutheran HealthCare's policy is to contribute amounts sufficient to meet the funding requirements under the Employee Retirement Income Security Act of 1974 or required under contractual arrangements.

Patient Care Receivables and Net Patient Service Revenue — Lutheran HealthCare has agreements with third-party payors that provide for payments at amounts different from their established charges. Payment arrangements include prospectively determined rates, reimbursed costs, discounted charges, and per-diem or per visit payments. Under certain agreements, Lutheran HealthCare is reimbursed at interim rates with final settlement in subsequent periods. Patient care receivables and net patient service revenue are reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered. Under the terms of various agreements, regulations, and statutes, certain elements of third-party reimbursement are subject to negotiation, audit, and/or final determination by the third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined or estimates are changed. Contracts, laws, and regulations governing Medicare, Medicaid, Blue Cross, and various managed care contracts are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Changes in estimates increased the excess of revenues over expenses in 2012 by $1,714,000 and decreased the excess of revenues over expenses by $2,014,000 in 2011.

A portion of the accrual for estimated settlements with third-party payors has been classified as long-term because such amounts, by their nature or by virtue of regulation or legislation, are not expected to be paid or collected within one year.

Provision for Bad Debts — Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, Lutheran HealthCare analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients who have third-party coverage, Lutheran HealthCare analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary. For receivables associated with self-pay patients, Lutheran HealthCare records a provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

Lutheran HealthCare's allowance for doubtful accounts totaled $18,288,000 at December 31, 2012 and $16,214,000 at December 31, 2011. At December 31, 2012 and 2011, the allowance for doubtful accounts is comprised of 67% for self-pay patients with no insurance and 33% for the patient responsibility for insured patients. During 2011, Lutheran HealthCare changed its charity care and uninsured discount policies to extend further charity care discounts. Lutheran HealthCare does not maintain a material allowance for uncollectible accounts from third-party payors. Lutheran HealthCare recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for charity care, Lutheran HealthCare recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). On the basis of historical experience, a portion of Lutheran HealthCare's uninsured patients may not qualify for charity care discounts and may be unable or unwilling to pay for the services provided. Thus, Lutheran HealthCare records a provision for bad debts related to uninsured patients in the period the services are provided.

Net patient service revenue (after contractual allowances and discounts), recognized during the year ended December 31, 2012 from Lutheran HealthCare's major payor sources, is as follows (in thousands):

	Medicare	Medicaid	Other Third-Party Payors	Self-Pay	Total All Payors
Net patient service revenue (after contractual allowances and discounts)	$195,377,000	$213,304,000	$111,520,000	$8,364,000	$528,565,000

Premium Receivables and Premium Revenue — During 2012 and 2011, the Plan received 94% and 96%, respectively, of its premium revenue from various programs of the State of New York. The Plan has Medicaid agreements with both the New York State Department of Health (NYSDOH) and the City of New York Department of Health (the "City"). The Plan's Medicaid program for New York City residents is administered by the City. The Plan's Medicaid program for Nassau County residents is covered under its agreement with NYSDOH. The Plan's Medicaid agreements with both NYSDOH and the City extend through February 28, 2013. The Plan's agreement with the NYSDOH for FHP includes both New York City and Nassau County residents; the agreement extends through February 28, 2013. The term of the Plan's agreement with NYSDOH for CHP for both New York City and Nassau County residents extends through December 31, 2012. During 2008, the Plan filed for and was approved by the Centers for Medicare and Medicaid Services (CMS) to begin enrolling Medicare eligible members in a Medicare Advantage Plan, with an effective date of January 1, 2009. The Plan was approved to operate its Medicare programs within the same service areas as its State of New York programs. The Plan received 6% and 4% of its premium revenue from the Medicare program in 2012 and 2011, respectively. The Plan's Medicare agreement extends through December 31, 2012. As a result of the sale of all operating and nonfinancial assets on May 1, 2012, the Plan's rights under these contracts were assumed by Amerigroup on May 1, 2012 (see Note 17).

Premium Deficiency Reserve — The Plan recognizes premium deficiency reserves based upon expected premium revenue, medical expense, and administrative expense levels and remaining contractual obligations using the Plan's historical experience. No premium deficiency reserves were recognized as of December 31, 2012 or 2011.

Grants and Contributions — Unrestricted gifts and bequests made to Lutheran HealthCare are recorded as revenue. Unconditional promises to give cash and other assets to Lutheran HealthCare are reported at fair market value at the date the promise is received. Conditional promises to give are reported at fair market value at the date the condition has been met. Gifts are reported as either temporarily or permanently restricted if they are received with a donor stipulation that limits the use of the donated assets. Revenue related to grants is recognized as the related costs are incurred. To the extent that Lutheran HealthCare receives grants for capital, they are excluded from the performance indicator.

Temporarily and Permanently Restricted Net Assets — Temporarily restricted net assets are those whose use by Lutheran HealthCare has been limited by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained by Lutheran HealthCare in perpetuity.

When a donor restriction expires, that is, when a stipulated time restriction or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the combined statements of operations as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying combined financial statements.

Pledges — Pledges receivable, which are unsecured, are recorded as contributions at the date the unconditional promise to give is made. As of December 31, 2012 and 2011, pledges receivable aggregated $150,000.

Other Revenue — Other revenue includes unrestricted contributions and other nonpatient-related revenues.

Meaningful Use — Under the Health Information Technology for Economic and Clinical Health (HITECH) Act, qualifying acute care hospitals and outpatient pacilities are eligible for incentive payments from both Medicare and Medicaid for achieving prescribed standards for the meaningful use of electronic health records. Lutheran HealthCare reports amounts earned as other revenue when Lutheran HealthCare has met the compliance requirements as set forth by Medicare and Medicaid. During 2012, Lutheran HealthCare recorded as other revenue an estimated $3,137,000 from Medicare and an estimated $3,960,000 from Medicaid. During 2011, Lutheran HealthCare recorded as other revenue an estimated $2,984,000 from Medicaid.

Medical Costs — The Plan contracts with various health care providers, including the Medical Center, for the provision of medical care to its members. The Plan compensates these providers on either a capitation or fee-for-service basis. Medical costs are accrued in the period services are provided to enrollees, based in part on estimates for medical costs, which have been incurred but not reported and on estimates of final rates to be promulgated by the State of New York. The estimates are made using various actuarial and statistical methods based upon historical financial and operational data. The liability for accrued medical costs includes the related assessments and state pool taxes. Management believes that methodologies employed to estimate accrued medical costs are reasonable and the amounts recorded at December 31, 2012 and 2011, are appropriate. Such estimates are regularly monitored and reviewed. Adjustments to accrued medical costs to reflect actual experiences, if any, are reflected in the combined statements of operations in the period in which such changes in estimates become known to management. Due to uncertainties inherent in the claims estimation process, it is at least reasonably possible that the claims paid in the near term could differ materially from the accrued amounts. Included in medical costs is an estimate for accrued physician and hospital claims incurred but not reported. For the years ended December 31, 2012 and 2011, medical costs were reduced by approximately $2,200,000 and $13,000,000, respectively, reflecting the difference between claims paid and the liability originally estimated in prior years.

Assessments and State Pool Taxes — In accordance with the New York State Health Care Reform Act, the Plan is required to pay tax on all Article 28 (inpatient hospital, outpatient hospital, diagnostic, and treatment centers) costs for non-Medicare patients. During 2012 and 2011, the assessable rate was 7.04% for Medicaid and Family Health Plus eligible patients and 9.63% for Child Health Plus eligible patients. Assessments and state pool taxes include estimates of amounts that will ultimately be assessed. Assessment and state pool taxes were $12,821,000 and $34,874,000 in 2012 and 2011, respectively, and are included in supplies and other in the combined statements of operations. Adjustments to such estimates to reflect actual payments are reflected in the combined statements of operations in the period in which such changes in estimate become known to management. Due to uncertainties inherent in the estimation process, it is at least reasonably possible that payments could differ materially from the amounts recorded as due to New York State. During 2011, the Plan decreased its liability for prior-year assessments and state pool taxes by approximately $300,000.

Stop-Loss Insurance — The Plan maintained stop-loss insurance coverage with insurance carriers and the State of New York for claims in order to limit losses on individual members. This coverage lapsed as of May 1, 2012, as the result of the Plan's sale of all operating and nonfinancial assets (see Note 17). Stop-loss insurance premiums are reported in medical costs and recoveries are reported as reductions in medical costs. Stop-loss recoveries include estimates of amounts that will ultimately be recovered. Adjustments to such estimates to reflect actual recoveries are reflected in the combined statements of operations in the period in which such adjustments become known to management. Due to uncertainties inherent in the estimation process, it is at least reasonably possible that recoveries could differ materially from the amounts recorded as receivable. Stop-loss recoveries in 2011 were less than the amounts estimated at December 31, 2010 by approximately $2,000,000. During 2012, stop-loss recoveries exceeded the amount of the receivable recorded at December 31, 2011 by approximately $1,300,000. At December 31, 2012 and 2011, substantially all of the stop-loss receivables were due from the State of New York.

Performance Indicator — For purposes of display, Lutheran HealthCare considers all of its health care and related activities to be part of its normal operations and considers the excess of revenues over expenses as the performance indicator. Peripheral or incidental transactions are reported as nonoperating gains. Such transactions include the gain on refinancing of the Medical Center's and Augustana's debt (see Note 11) and the gain on the Plan's sale of all operating and nonfinancial assets (see Note 17). Changes in unrestricted net assets that are excluded from excess of revenues over expenses, consistent with industry practice, include unrealized gains and losses on investments not classified as trading securities, transfers of assets to and from affiliates for other than goods and services, defined benefit plan adjustments, and grants and contributions of long-lived assets (including assets released from restrictions for such use).

Charity Care — Lutheran HealthCare provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because Lutheran HealthCare does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

Tax Status — Sunset Park, the Medical Center, and all but two of its subsidiaries have been recognized as tax-exempt pursuant to Section 501(a) of the Internal Revenue Code. Income taxes are not significant.

Adoption of New Accounting Pronouncements —In July 2011, the FASB issued ASU 2011-07, *Health Care Entities (Topic 954), Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities*. ASU 2011-07 required Lutheran HealthCare to change the presentation of its combined statements of operations by reclassifying the provision for bad debts associated with patient service revenue from an operating expense to a deduction from patient service revenue (after contractual allowances and discounts). It also required Lutheran HealthCare to provide enhanced disclosures regarding its sources of patient service revenue, policies for recognizing revenue and assessing bad debts, as well as qualitative and quantitative information about changes in the allowance for doubtful accounts. The provisions of ASU 2011-07 are effective for Lutheran HealthCare beginning January 1, 2012 and were applied retrospectively. The adoption of this ASU decreased net patient service revenue, total revenue, and total expenses by $19,927,000 for the year ended December 31, 2011. There was no impact on the excess of revenues over expenses or decrease in unrestricted net assets for the year ended December 31, 2011.

In September 2011, the FASB issued ASU 2011-09, *Compensation-Retirement Benefits-Multiemployer Plans*, which is intended to enhance the disclosure requirements for employers participating in multiemployer pension plans to improve transparency and increase awareness of the commitments and risks involved with participation in multiemployer plans. The ASU requires employers participating in multiemployer plans to provide additional quantitative and qualitative disclosures to provide users with more detailed information regarding an employer's involvement in multiemployer plans. Lutheran HealthCare adopted the provisions of ASU No. 2011-09 on January 1, 2012. The adoption of this accounting standard had no impact on Lutheran HealthCare's combined financial statements. Additional disclosures required under this ASU are included in Note 9 to the combined financial statements.

Subsequent Events — Lutheran HealthCare has evaluated subsequent events through May 30, 2013, which is the date the combined financial statements were issued.

2. CHARITY CARE

Lutheran Medical Center operates a 450-bed hospital and is a co-operator with LFHC of a network of nine (9) neighborhood primary care sites, fifteen (15) school health programs with 16 dental programs, and a diverse range of community-based programs that provide approximately 620,000 medical and dental visits annually.

The mission of Lutheran HealthCare is as follows:

a. Lutheran HealthCare exists only to serve the needs of its neighbors.

b. Lutheran HealthCare defines health as the total well-being of the community and its residents. Beyond the absence of individual physical illness, this includes, at least, decent housing, the ability to speak English, employment and educational opportunities, and civic participation.

c. Lutheran HealthCare understands that a hospital is not a collection of buildings, machines, and beds, but a staff of talented, creative, and committed people who serve the community as they are needed.

d. Lutheran HealthCare works with its neighbors, each relying on the other as friends who care about and assist each other.

In keeping with this mission, Lutheran HealthCare provides medical care to all patients, regardless of their ability to pay. Patients are notified of the availability of free and reduced price care, and patients are evaluated for charity care in accordance with established policies. In addition, Lutheran HealthCare operates numerous community benefit programs that seek to improve the health and welfare of its community. Services provided to these patients are not reported as revenue in the combined statements of operations.

The estimated cost incurred by Lutheran HealthCare to provide services to patients who are unable to pay was approximately $34,944,000 and $34,289,000 for the years ended December 31, 2012 and 2011, respectively. The estimated cost of these charity care services was determined using a ratio of cost to gross charges and applying that ratio to the gross charges associated with providing care to charity patients for the period. Gross charges associated with providing care to charity patients includes only the related charges for those patients who are financially unable to pay and qualify under Lutheran HealthCare's charity care policy and that do not otherwise qualify for reimbursement from a governmental program. Lutheran HealthCare also provides a significant amount of uncompensated care to their patients that is reported as a provision for bad debts, which is not included in the amounts reported above. Such provision for bad debts amounted to approximately $18,955,000 and $19,927,000 for 2012 and 2011, respectively.

3. THIRD-PARTY REIMBURSEMENT PROGRAMS

Medicare — Inpatient acute care services and long-term nursing care services provided to Medicare program beneficiaries are paid based on Medicare's Prospective Payment System (PPS). These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Settlements are calculated for add-ons to the PPS rates related to the indirect medical education and disproportionate share costs. Inpatient rehabilitation services are paid based on Medicare's prospective payment system for rehabilitation facilities. These rates vary based on clinical and other factors, similar to PPS. Inpatient psychiatric services are paid based on a prospective per-diem rate. Such payments are also adjusted to reflect clinical, diagnostic, and other factors. Direct medical education costs are reimbursed based on costs per resident from a base year trended to the current year, and adjusted for eligible resident counts and Medicare utilization. Most outpatient services are paid under Medicare's Outpatient Prospective Payment System (OPPS) based on Ambulatory Payment Classification groups. Those outpatient services excluded from OPPS continue to be paid based on fee schedules or cost-based methodologies. Eligible bad debts and charity care write-offs related to deductibles and coinsurance of Medicare patients are also reimbursed at 70% of the amounts written off. Any cost reimbursable items are reimbursed at a tentative rate with final settlement determined after submission of the annual cost reports. The Medical Center's Medicare cost reports have been audited and settled by the Medicare fiscal intermediary through the year ended December 31, 2005.

Non-Medicare Payments — The New York State Legislature (NYS) enacted the Health Care Reform Act of 2000 (HCRA 2000). Under this system, all non-Medicare payors, except Medicaid, workers' compensation, and no-fault insurance programs, negotiate payment rates with the individual hospital. If negotiated rates are not established, payors are billed at providers' established charges. Medicaid, workers' compensation, and no-fault payors pay rates promulgated by the New York State Department of Health (NYSDOH) on a prospective basis. Adjustments to current and prior years' rates for these payors will continue to be made in the future. Effective December 1, 2009, NYS implemented an updated inpatient case mix system, called APR DRGs. This system is intended to more accurately measure and reimburse for patient acuity and will increase the prospective nature of the rates. Outpatient reforms were implemented effective December 1, 2008.

In 2003, the Medical Center was informed by representatives of the Medicaid Fraud Control Unit of the Office of the New York State Attorney General that their office was conducting an investigation into the past Medicaid billings of certain part-time satellite clinics operated on the Medical Center's license. The matter was resolved in a civil settlement, executed in September 2006, which obligates the Medical Center to repay the State a total of $9,000,000. Of this amount, $1,575,000 had already been repaid to the State as of September 2006, and the balance of $7,425,000 is to be repaid in equal monthly installments over nine years starting in October 2006. The balance outstanding at December 31, 2012 and 2011, was $2,181,000 and $3,009,000, respectively. Consistent with, and following execution of the

Affiliation Agreement, discussed in Note 16, this repayment obligation has been assumed as a liability in by LFHC and is reported in the accompanying combined balance sheets with due to third-party payors.

4. PREPAID HEALTH CARE REGULATORY REQUIREMENTS

Escrow Deposit Account — In accordance with Part 98 of New York Codes of Rules and Regulations (NYCRR), the Plan is required to maintain an escrow deposit account equal to 5% of projected medical costs for the subsequent calendar year. The following additional requirements must be met:

a. The deposit must be in the form of a trust account, approved by New York State Department of Financial Services (NYSDFS), with a custodian that is a New York State bank or trust company.

b. The assets in the escrow account must be valued at their current fair market value and consist only of cash, certificates of deposit, or of the type specified in Part 1404(a) (1) and (2) of Insurance Law (government bonds and bonds of American institutions that are adequately collateralized, insured, or highly rated as determined by NYSDFS).

c. The escrow deposit must be fully funded by March 31 of each year.

d. No later than April 30th of each year, the custodian must furnish a statement to NYSDFS identifying the assets held in trust as of March 31, including the estimated fair market value of the assets. NYSDFS may approve withdrawal of amounts held in escrow that exceed the requirement.

Due to the sale of the Plan's operating and nonfinancial assets as of May 1, 2012 (see Note 17), there was no required escrow balance as of December 31, 2012. The required balance, based on 5% of estimated annual medical costs, amounted to $48,200,000 at December 31, 2011. Escrow deposit balances at December 31, 2012 and 2011, were approximately $50,700,000 and $45,400,000, respectively. Prior to March 31, 2012, the Plan funded the remaining amount required by NYSDOH as of December 31, 2011. Access to the escrow deposit account is prohibited without the written concurrence of the NYSDFS and the NYSDOH. During 2011, the Plan became responsible for the full pharmacy benefit for the Medicaid and Family Health Plus programs. The associated medical costs were not subject to the 5% escrow deposit requirement in 2011

Contingent Reserve — In addition, NYCRR required the Plan to maintain statutory net assets equal to 7.25% of net premium income for its Medicaid and Family Health Plus programs as of December 31, 2012 and 2011 and 12.5% and 11.5% of net premium income for its other programs as of December 31, 2012 and 2011, respectively. Statutory net assets at December 31, 2012 and 2011, were approximately $84,700,000 and $109,400,000, respectively. The statutory net asset reserve requirements at December 31, 2012 and 2011 were approximately $33,000,000 and $79,500,000, respectively.

In 2011 the Plan was not permitted to make a distribution of statutory net assets until the Plan's net worth remains at a minimum of 15% subsequent to the distribution as the Plan derives more than 75% of its revenue from New York State.

5. INVESTMENTS AND ASSETS LIMITED AS TO USE

Investments — Investments as of December 31, 2012 and 2011, consist of the following (in thousands):

	2012	2011
U.S. government and agency obligations	$ 18,613	$ 24,869
Corporate debt obligations	43,576	48,262
Fixed income mutual funds	8,713	
Equity mutual funds	31,872	6,763
Common collective trusts	7,320	
Mortgage-backed securities	14,483	17,021
Alternative investments	9,300	
Cash investments	1,730	3,953
Total investments	135,607	100,868
Less current investments	(63,028)	(100,868)
Investments - net of current	$ 72,579	$ -

Assets Limited as to Use — Assets limited as to use as of December 31, 2012 and 2011, consist of the following (in thousands):

	2012	2011
Debt requirements — cash investments	$ 20,216	$ 18,136
Regulatory requirements:		
Cash investments	3,272	1,226
U.S. government and agency obligations	12,864	14,755
Corporate debt obligations	35,625	30,346
Donor restricted:		
Cash investments	4,225	3,773
Beneficial interest in trust	143	140
Asset purchase agreement escrow requirement — cash investments	10,004	
Board designated — cash investments	3,163	3,526
Total assets limited as to use	89,512	71,902
Less current portion	(1,457)	(1,542)
Total assets limited as to use — less current portion	$ 88,055	$ 70,360

Investment Returns — The composition of investment returns for the years ended December 31, 2012 and 2011, is as follows (in thousands):

	2012	2011
Interest and dividend income	$ 4,580	$ 3,968
Realized gains and (losses) on investments — net	886	(137)
Total	$ 5,466	$ 3,831
Other changes in unrestricted net assets — net change in unrealized gains and (losses) on investments	$ 3,744	$ (155)

Unrealized Losses — As of December 31, 2012 and 2011, individual investments in an unrealized loss position are not material.

6. FAIR VALUE MEASUREMENTS

ASC 820, *Fair Value Measurements and Disclosures* (ASC 820) defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. A fair value hierarchy for valuation inputs prioritizes the inputs into three levels based on the extent to which inputs used in measuring fair value are observable in the market. Each fair value measurement is reported in one of the three levels and is determined by the lowest level input that is significant to the fair value measurement in its entirety. These levels are:

Level 1 — Quoted prices for identical assets or liabilities in active markets. 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 — Pricing inputs are based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 — Unobservable inputs that cannot be corroborated by observable market data.

The following tables present information as of December 31, 2012 and 2011, about Lutheran HealthCare's financial assets that are measured at fair value on a recurring basis (in thousands):

As of December 31, 2012	Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Fair Value
Investments and assets limited as to use:				
Cash investments	$ 42,610	$ -	$ -	$ 42,610
Debt securities:				
U.S. government and agency obligations		31,477		31,477
Corporate debt obligations		79,201		79,201
Mortgage-backed securities		14,483		14,483
Alternative investments			9,300	9,300
Common collective trusts		7,320		7,320
Beneficial interest in trust		143		143
Fixed income mutual funds	8,713			8,713
Equity mutual funds	31,872			31,872
Total	$ 83,195	$ 132,624	$ 9,300	$ 225,119
Share of assets held in pension plan:				
Debt securities:				
Corporate debt obligations	$ -	$ 13,162	$ -	$ 13,162
Mortgage-backed securities		1,336		1,336
Alternative investments			58,791	58,791
Common collective trusts		17,250		17,250
Equity mutual funds	46,659			46,659
Equity securities	38,084			38,084
Total	$ 84,743	$ 31,748	$ 58,791	$ 175,282

As of December 31, 2011	Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Fair Value
Investments and assets limited as to use:				
Cash investments	$ 30,613	$ -	$ -	$ 30,613
Debt securities:				
U.S. government and agency obligations		39,624		39,624
Corporate debt obligations		78,608		78,608
Mortgage-backed securities		17,021		17,021
Beneficial interest in trust		141		141
Equity mutual funds	6,763			6,763
Total	$ 37,376	$ 135,394	$ -	$ 172,770
Share of assets held in pension plan:				
Debt securities:				
Corporate debt obligations	$ -	$ 11,977	$ -	$ 11,977
Mortgage-backed securities		1,343		1,343
Alternative investments			48,638	48,638
Common collective trusts		10,126		10,126
Equity mutual funds	15,406			15,406
Fixed income mutual funds	21,014			21,014
Equity securities	34,728			34,728
Total	$ 71,148	$ 23,446	$ 48,638	$ 143,232

Share of Assets Held in the Pension Plan — As discussed in Note 9, the Health Services Retirement Plan (HSRP) administers the assets of Lutheran HealthCare's pension plan. The assets of all of the plans administered by HSRP are maintained in one trust account and allocated to the participating plans. The above table presents Lutheran HealthCare's pro rata share of each investment category.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

Cash Investments — The carrying value of cash investments approximates fair value as maturities are less than three months and/or include money market funds that are based on quoted prices and actively traded.

U.S. Government and Agency Obligations — The fair values of investments in U.S. government and agency obligations classified as Level 2 were primarily determined using techniques consistent with the income approach. Significant observable inputs to the income approach include data points for benchmark constant maturity curves and spreads.

Corporate Debt Obligations — The fair values of investments in corporate debt obligations classified as Level 2 were primarily determined using techniques that are consistent with the market approach. Significant observable inputs include benchmark yields, reported trades, observable broker/dealer quotes, issuer spreads, and security specific characteristics (such as early redemption options).

Mortgage-Backed Securities — The fair values of mortgage backed securities classified as Level 2 were primarily determined using techniques consistent with the income approach, such as a discounted cash flow model. Significant observable inputs include prepayment speeds and spreads, benchmark yield curves, volatility measures, and quotes.

Equity Securities and Mutual Funds — Fair value estimates for equity securities and mutual funds are based on quoted market prices.

Alternative Investments — The alternative investments presented above are Lutheran HealthCare's pro rata share of alternative investments held by the pension plan (see Note 9) and those held in Lutheran HealthCare's investment portfolio. Of the total alternative investments held by the pension plan, approximately 72% (72% in 2011) are in hedge funds, 20% (21% in 2011) in comingled equity funds and 8% (7% in 2011) in private equity funds. The estimated fair values of the alternative investments for which no quoted market prices are readily available are determined based upon information provided by the fund managers. Such information is generally based on the pro rata interest in the net asset value of the investments. The values for the underlying investments are fair value estimates determined by external fund managers based on recent filings, operating results, balance sheet stability, growth, and other business and market sector fundamentals.

Common Collective Trusts — The fair value of a common collective trust is based on the net asset value (NAV) of the fund, representing the fair value of the underlying investments which are generally securities which are traded on an active market. Such investments are classified as Level 2 because the pension plan has the ability to redeem its investment in the fund at the NAV per share (or its equivalent) at the measurement date or within the near term and there are no other potential liquidity restrictions.

Receivables and Payables — The carrying value of Lutheran HealthCare's receivables and payables approximates fair value, as maturities are short term.

Long-Term Debt — The carrying amounts and fair values of the Medical Center's and Augustana's long-term debt are based on current traded value. Such amounts at December 31, 2012 and 2011, are as follows (in thousands):

	2012	2011
Carrying amount	$ 68,460	$ 79,854
Estimated fair value	$ 68,683	$ 80,993

The fair values of Lutheran HealthCare's remaining long-term debt approximate the carrying amounts.

Interest Rate Swap Instruments — The fair values of interest rate swap instrument (see Note 11) were determined using the zero-coupon method. This method calculates the future net settlement payments required by the swap based on the current forward rates implied by the yield curve. These net payments are then discounted using a zero coupon discount rate derived from the London InterBank Offered Rate (LIBOR) swap curve. Management considers these inputs to be Level 2.

The following table presents the changes in fair value measurements using significant unobservable inputs (Level 3) for assets held for the years ended December 31, 2012 and 2011 (in thousands):

Investments and assets limited as to use:	**Hedge Funds**	**Total**
Balance — December 31, 2011	$ -	$ -
Purchase and sales	9,100	9,100
Unrealized gains and losses	200	200
Balance — December 31, 2012	$ 9,300	$ 9,300

Share of assets held in pension plan:	**Hedge Funds**	**Comingled Equity Funds**	**Private Equity Funds**	**Total**
Balance — January 1, 2011	$ 37,569	$ 12,712	$ 2,394	$ 52,675
Purchase and sales	1,167	(1,882)	552	(163)
Realized gains and losses	(488)	555	14	81
Unrealized gains and losses	(3,280)	(969)	294	(3,955)
Balance — December 31, 2011	34,968	10,416	3,254	48,638
Purchase and sales	4,262	952	1,304	6,518
Realized gains and losses	423	82	(36)	469
Unrealized gains and losses	2,819	99	248	3,166
Balance — December 31, 2012	$ 42,472	$ 11,549	$ 4,770	$ 58,791

Included within investments and the share of assets held in the pension plan are investments in certain limited liability partnerships and corporations and common collective trusts that report fair value using a calculated net asset value or its equivalent. Attributes relating to the nature and risk of such investments as of December 31, 2012 and 2011, are as follows:

	Fair Value as of December 31, 2012 (in thousands)	Fair Value as of December 31, 2011 (in thousands)	Unfunded Commitment	Redemption Frequency	Redemption Notice Period
Assets held in investments:					
Common collective trust:					
Wellington Global Bond Fund (q)	$ 7,320	$ -	None	monthly	22 days
Limited liability partnerships and corporations:					
EnTrust Capital Diversified Fund (r)	$ 4,625	$ -	None	quarterly	90 days
Weatherlow Offshore Fund I (s)	4,675		None	quarterly	65 days
Total	$ 9,300	$ -			
Assets held in pension plan:					
Common collective trust:					
EB Temporary Investment Fund II (a)	$ 7,458	$ 2,496	None	daily	N/A
MCM International Stock Index Fund (b)	9,792	7,630	None	daily	N/A
Total	$17,250	$10,126			
Limited liability partnerships and corporations:					
AXIOM International Equity Fund II (c)	$ 4,699	$ 3,827	None	monthly	15 days
City of London Investable Emerging Markets Country Fund (d)	7,828	6,239	None	monthly	30 days
Archstone ERISA Fund, Ltd. (e)	13,103	11,150	None	quarterly	90 days
Forester Partners, L.P. (f)	4,006	3,354	None	annual	95 days
Nyes Ledge Capital Offshore Fund (g)	6,649	5,650	None	annual	90 days
Gresham Investment Management Fund: Tap Fund (h)	6,186	4,749	None	monthly	5 days
Common Fund Capital Natural Resources Partners VII, L.P. (i)	991	583	776	illiquid	N/A
Common Fund Capital Natural Resources Partners IX, L.P. (p)	26		1,748	illiquid	N/A
Wellington Strategic Real Asset Pool (j)	11,549	10,415	None	monthly	30 days
HRJ Capital Special Opportunities II (U.S.) L.P. (k)	822	820	109	illiquid	N/A
HRJ Capital Special Opportunities II (International) L.P. (l)	658	482	140	illiquid	N/A
Park Street Capital Private Equity Fund IX, L.P. (m)	1,328	923	523	illiquid	N/A
Park Street Capital Private Equity Fund X, L.P. (o)	304		1,789	illiquid	N/A
Flag Venture Partners VII, L.P. (n)	642	446	410	illiquid	N/A
Total	$58,791	$48,638			

(a) EB Temporary Investment Fund II — The primary investment objective of the Fund is a high level of current income consistent with stability of principal and liquidity. The assets are invested in a diversified portfolio of U.S. Treasuries, federal agencies, sponsored agencies or sponsored corporations and short-term corporate obligations, maturing in 397 days or less.

(b) MCM International Stock Index Fund — The fund seeks to replicate the performance of the MSCI EAFE index with minimal tracking error. The assets are invested in stocks that make up the index, holding each stock in approximately the same proportion as its weighting in the index.

(c) AXIOM International Equity Fund II — The investment philosophy employs a bottom-up growth-oriented investment discipline that relies on detailed fundamental stock analysis to identify companies that are improving more quickly than generally expected. The assets are invested in non-U.S. securities that have a minimum market capitalization of $250 million, are covered by three or more sell-side brokerage analyst and have liquidity of over $1 million per day.

(d) City of London Investable Emerging Markets Country Fund — This fund employs a value oriented strategy which seeks to outperform the MSCI Emerging Markets Index while maintaining a lower level of volatility through active country allocation and stock selection. The assets of the fund are primarily invested in closed-end funds as an investment medium. The investment universe includes local and offshore listed as well as New York and UK listed funds.

(e) Archstone ERISA Funds, Ltd. — The fund's objective is to seek consistent long term growth of capital with reduced volatility compared to the general markets. The fund allocates its capital across a number of strategies that are anticipated to be uncorrelated to each other and whose returns should complement each other. The fund seeks to reduce its individual manager risk by allocating its capital to several managers in each strategy.

(f) Forester Partners, L.P. — The fund employs a fundamental approach to hedge fund research utilizing both qualitative and quantitative analysis. The fund invests in a variety of hedge funds.

(g) Nyes Ledge Capital Offshore Fund — The fund employs a fundamental three-step approach to fund manager selection: determine the economic basis for a particular asset class or market segment, identify appropriate strategies designed to exploit the targeted inefficiency, and source organizations that are properly structured to implement the identified strategies. The fund invests in a variety of hedge funds.

(h) Gresham Investment Management Fund: Tap Fund — The fund employs a long only strategy that seeks capital appreciation by investing in a portfolio of commodities. The fund invests in six commodity groups: agriculture, base metals, precious metals, softs and others, energy, and livestock and up to five commodities within each group.

(i) Common Fund Capital Natural Resources Partners VII, L.P. — The fund seeks to earn long-term capital appreciation, portfolio diversification through low and negative correlation to other asset classes and potential as an inflation hedge. The fund invests in 12 to 15 funds in the energy, timber, and natural resources sectors. The bulk of the fund focuses on managers directly involved in oil and gas production and oil field services. The remainder are allocated to timber and other energy strategies.

(j) Wellington Strategic Real Asset Pool — The investment strategy seeks to outperform a customized benchmark over a full business cycle. The fund invests in four market segments: global energy equities, global metals and mining equities, commodities and U.S. TIPS.

(k) HRJ Capital Special Opportunities II (U.S.) L.P. — The fund will target special opportunity funds headquartered in the U.S. whose investments are primarily in portfolio companies with operations in the U.S. The fund made commitments to 6 to 8 domestic managers pursuing turnaround, distressed and special situations strategies.

(l) HRJ Capital Special Opportunities II (International) L.P. — The fund will target special opportunity funds headquartered outside the U.S. whose investments are primarily in portfolio companies with operations outside the U.S. The fund made commitments to 6 to 8 international managers pursuing turnaround, distressed and special situations strategies.

(m) Park Street Capital Private Equity Fund IX, L.P. — The fund's portfolio will consist predominantly of U.S. based managers, with a 50/50 split between venture capital and non-venture capital private equity investments. The fund invests in approximately 20 to 25 venture and non-venture private equity managers.

(n) Flag Venture Partners VII, L.P. — The fund's mission is to construct a portfolio of select, top-quality fund managers in order to generate superior returns. The fund will invest in approximately 24 to 25 underlying venture funds. 80% of the fund will be invested in information technology and communications-focused managers, with the balance to health care or specialized strategies.

(o) Park Street Capital Private Equity Fund X, L.P. — The fund's portfolio will consist predominantly of U.S. based managers, with a 50/50 split between venture capital and non-venture capital private equity investments. The fund invests in approximately 20 to 25 venture and non-venture private equity managers.

(p) Common Fund Capital Natural Resources Partners IX, L.P. — The fund seeks to earn long-term capital appreciation, portfolio diversification through low and negative correlation to other asset classes and potential as an inflation hedge. The fund invests in 12 to 15 funds in the energy, timber, and natural resources sectors. The bulk of the fund focuses on managers directly involved in oil and gas production and oil field services. The remainder are allocated to timber and other energy strategies.

(q) Wellington Global Bond Fund — This fund uses diversified, independent sources of alpha in order to exploit unsynchronized movements in economic activity, interest rates, and credit cycles that impact global bond markets. The goal is to consistently add 100-150 basis points of excess return over the Citigroup World Government Bond Index.

(r) EnTrust Capital Diversified Fund — This fund is a fund of funds portfolio that seeks diversification through a combination of managers trading a range of strategies.

(s) Weatherlow Offshore Fund I — This fund is a diversified fund of hedge funds that seeks to generate equity-like returns with bond-like volatility.

7. PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2012 and 2011, is as follows (in thousands):

	2012	2011
Land	$ 11,523	$ 11,433
Buildings and improvements	229,469	229,904
Equipment	206,449	204,883
Construction-in-progress	6,204	3,892
Property and equipment — gross	453,645	450,112
Less accumulated depreciation and amortization	(275,466)	(266,948)
Property and equipment — net	$ 178,179	$ 183,164

Lutheran HealthCare capitalizes interest during the construction period. During 2012 and 2011, approximately $91,000 and $86,000, respectively, of interest related to construction projects was capitalized.

Substantially all property, buildings, and equipment serve as collateral for debt obligations.

As of December 31, 2012, Lutheran HealthCare is committed to contracts approximating $3,643,000 for the completion of the projects. All of this is expected to be grant funded or funded utilizing temporarily restricted net assets.

Equipment under capital leases as of December 31, 2012 and 2011, is as follows (in thousands):

	2012	2011
Computer hardware and software	$ 8,352	$ 8,464
Equipment	26,272	26,781
Less accumulated amortization	(26,269)	(26,859)
Total	$ 8,355	$ 8,386

8. PROFESSIONAL LIABILITIES

For the period January 1, 1976 through September 30, 1997, the Medical Center was self-insured for professional and other general liability claims. Effective October 1, 1997, the Medical Center purchased primary and excess professional liability coverage on a claims-made basis and general liability coverage on an occurrence basis from a commercial insurer. All other Lutheran HealthCare entities have professional liability insurance under occurrence basis policies.

The professional liabilities are estimated based on the Medical Center's actual claim experience, asserted claims and incidents that have been incurred but not yet reported, estimates of settlement amounts, administrative and other expenses, and similar items. The undiscounted value of estimated professional liabilities at December 31, 2012 and 2011, approximated $110,190,000 and $102,056,000, respectively. These amounts are discounted to the estimated present value of $89,138,000 and $82,155,000 at December 31, 2012 and 2011, respectively, based on a discount factor of 3.0% for both years. Estimated insurance recoveries were $76,060,000 and $69,900,000 as of December 31, 2012 and 2011 respectively and are included in other assets in the combined balance sheets.

Various claimants have asserted malpractice and general liability claims against Lutheran HealthCare. The claims are in various stages of processing and some have been or may ultimately be brought to trial. Furthermore, there are known incidents that have occurred through December 31, 2012, that may result in the assertion of additional claims, and other claims may be asserted arising from services provided in the past. It is the opinion of Lutheran HealthCare management that the ultimate resolution of the claims will not have a material adverse effect on Lutheran HealthCare's financial position or results of operations.

9. RETIREMENT BENEFITS

Defined Benefit Pension Plan — The Medical Center has a noncontributory-defined benefit pension plan covering those employees of the Medical Center and certain affiliated entities not covered under multiemployer union pension plans. The benefits are based on years of service. This plan was partially frozen in 2003 with one class of employees covered under a union agreement remaining active. All other eligible employees were transferred to a defined contribution plan.

Lutheran HealthCare uses a December 31 measurement date.

Obligations and Funded Status — The defined benefit plan's funded status and amounts recognized in the accompanying combined financial statements as of December 31, 2012 and 2011, are as follows (in thousands):

	2012	2011
Change in benefit obligation:		
Benefit obligation — beginning of year	$226,570	$189,415
Service cost	5,679	4,590
Interest cost	11,585	11,393
Actuarial losses	31,492	29,061
Benefits paid	(8,508)	(7,889)
Benefit obligation — end of year	266,818	226,570
Change in plan assets:		
Fair value of plan assets — beginning of year	143,232	142,722
Actual return on plan assets	13,973	(3,436)
Employer contributions	26,585	11,835
Benefits paid	(8,508)	(7,889)
Fair value of plan assets — end of year	175,282	143,232
Net amount recognized	$ 91,536	$ 83,338
Accumulated benefit obligation	$244,409	$209,011
Components of net periodic benefit cost:		
Service cost	$ 5,679	$ 4,590
Interest cost	11,585	11,393
Expected return of plan assets	(13,359)	(12,473)
Amortization of prior service cost	1	1
Recognized actuarial loss	7,353	4,032
Total net periodic benefit cost	$ 11,259	$ 7,543

Included in unrestricted net assets as of December 31, 2012 and 2011, are unrecognized actuarial losses of $126,611,000 and $103,087,000, respectively, that have not yet been recognized in net periodic pension cost. The unrecognized actuarial losses expected to be recognized in net periodic pension cost during 2013 are $10,546,000. Unrecognized prior service costs that have not yet been recognized in net periodic pension cost are immaterial.

Assumptions — The following assumptions were used to determine benefit obligations as of December 31, 2012 and 2011, respectively:

Discount rate	4.24 %	5.24 %
Salary increase rate	3.00	3.00

For the years ended December 31, 2012 and 2011, the following assumptions were used to determine net periodic benefit cost:

	2012	2011
Discount rate	5.24 %	6.13 %
Expected long-term return on assets	8.25	8.25
Rate of compensation increase	3.00	3.00

Plan Assets — The Health Services Retirement Plan (HSRP) administers the assets of Lutheran HealthCare's pension plan. The assets of all of the plans administered by HSRP are maintained in one trust account and allocated to the participating plans. The Plan's asset allocation as of December 31, 2012, is set forth in Note 6.

The plan invests in certain funds or asset pools that are managed by investment managers for which no quoted market price is available (see Note 6).

The Board of Trustees of HSRP assumes the responsibility for establishing the investment policy that is to guide the investment of pension assets. The investment policy describes the degree of investment risk that the trustees deem appropriate. Below is a summary of the investment policy.

The fund assets at December 31, 2012 and 2011, are generally to be allocated according to the following target allocation rates:

	2012	2011
U.S. equities	27 %	27 %
Non-U.S./global equities	14	14
Alternative investments	39	39
Debt securities	20	20
Total	100 %	100 %

The objective of the U.S. equities component is to provide an engine for growth via steady performance with relatively low volatility as compared to other long-only equity assets classes.

The objective for the non-U.S. stock component is to provide an engine for growth and to create diversification to domestic equities on both a geographical and currency level, thereby reducing the presence of domestic bias within the portfolio.

The objective of the alternative investments is to enhance total portfolio return through capital appreciation from investments in illiquid, less efficient, private market opportunities and to provide portfolio diversification via relatively lowly correlated assets.

The objective of the fixed income component is to help maintain a source of spending during prolonged economic contractions, to provide protection during deflationary periods and portfolio volatility reduction via steady flow of income and high liquidity.

Ordinary cash flows will be used to maintain the allocation as close as practical to the normal allocation. If cash flows are insufficient to maintain the allocation within the permissible ranges as of any calendar quarter-end, the HSRP staff will transfer balances between the asset classes to bring the allocation back to the target.

Diversification — Fund assets are diversified in an effort to minimize the impact of large losses in individual investments. Multiple investment managers may be retained to further that end.

Investment Objective and Performance Evaluation — The fund's rate of return (net of fees) will be compared with (1) the return of a policy portfolio consisting of 31% of the DJ Wilshire 5000 Stock Index, 14% of the Morgan Stanley Capital International (MSCI) EAFE, 7% of the MSCI Emerging Markets Index, 14% of the Hedge Fund Research Diversified Fund of Funds Index, 14% of the Real Assets custom blend, and 20% of the Barclays Long-Term Government/Credit Index and (2) the returns of a broad universe of pension funds.

Cash Flows — Lutheran HealthCare expects to contribute $9,530,000 to the plan in the year ending December 31, 2013.

Future benefit payments by the defined benefit plan, reflective of expected future service, as of December 31, 2012, are expected to be paid as follows (in thousands):

December 31	
2013	$ 10,232
2014	11,079
2015	11,650
2016	12,700
2017	13,719
2018–2022	81,201

Defined Contribution Plan — During 2001, the Medical Center established a 401(k) plan (the "401(k) Plan"), which covers Lutheran HealthCare's employees for full-time nonunion and part-time nonunion employees (scheduled to work at least 50% of the full-time standard) not covered under the defined benefit plan. Contributions of 3% of employees' eligible compensation, subhect to certain Internal Revenue Code limitations, are made as a basic employer contribution for all qualifying nonunion and certain union employees. A supplemental discretionary contribution that ranges from 3% to 5% was suspended on April 1, 2011; however Lutheran HealthCare retained the right to make periodic discretionary contributions to the 401(k) Plan. Contributions under the 401(k) Plan approximated $4,222,000 for 2012 and $5,778,000 for 2011.

Other Plans — Lutheran HealthCare is also a contributing employer to the 1199 SEIU Health Care Employees Pension Fund (the "Multiemployer Plan"). Contributions to the Multiemployer Plan are made in accordance with contractual agreements under which contributions are based on a percentage of salaries.

Under the Employee Retirement Income Security Act of 1974, as amended by the Multiemployer Pension Plan Amendments Act of 1980, the risks of participating in multiemployer plans are different from single-employer plans in the following respects:

- Assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers.

- If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.

- If the employer chooses to stop participating in some of its multiemployer plans, the employer may be required to pay those plan an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

Until such events above occur, Lutheran HealthCare's share, if any, of the unfunded vested liabilities cannot be determined. As of December 31, 2012, Lutheran HealthCare has no plans to withdraw from the Multiemployer Plan.

Lutheran HealthCare's participation in the Multiemployer Plan for the years ended December 31, 2012 and 2011, is outlined below:

- The Employee Identification Number is 13-3604862 and the three-digit plan number is 001.

- The Pension Plan Protection Act of 2006 (PPA) zone status is based on information that Lutheran HealthCare received from the Multiemployer Plan's sponsor and is certified by the Multiemployer Plan's actuary. The Multiemployer Plan is in the green zone indicating that it is at least 80% funded as of January 1, 2012 and January 1, 2011. January 1, 2013 data is not available at this time.

- Lutheran HealthCare was not required to pay a surcharge to the Multiemployer Plan.

- The collective bargaining agreement to which the Multiemployer Plan is subject expires on July 31, 2015.

- Lutheran HealthCare contributed $8,395,000 and $7,522,000 to the Multiemployer Plan for the years ended December 31, 2012 and 2011, respectively. Lutheran HealthCare did not contribute greater than 5% of the total contributions to the Multiemployer Plan and was not listed in the Form 5500 for the Multiemployer Plan years ended December 31, 2012 and December 31, 2011.

The Multiemployer Plan was certified by its actuary to be in "green zone" status – not endangered seriously nor critically as of January 1, 2012 and 2011. January 1, 2013 data is not available as of this time.

At the date the combined financial statements were issued, Form 5500 was not available for the Multiemployer Plan year ending December 31, 2012.

10. LINE OF CREDIT

The Medical Center has entered into a $10 million line-of-credit agreement with a bank. At the Medical Center's discretion, the line of credit can either have a floating rate based on the prime interest rate or it can fix an interest rate at LIBOR, plus 1.25% for a 30- or 60-day period and then reset at the end of the period. The line of credit expires in June 2013. It is secured by a second position on certain assets of the Medical Center and Sunset Park. The line of credit contains certain covenants, among others, which require compliance with certain financial ratios as well as limits on additional indebtedness. As of December 31, 2012 and 2011, the Medical Center had no outstanding balance on the line of credit.

11. LONG-TERM DEBT

Long-term debt as of December 31, 2012 and 2011, is as follows (in thousands):

	2012	2011
Medical Center mortgage loan (a)	$ 44,428	$ 55,318
Augustana mortgage loans (b)	24,032	24,536
Sunset Gardens mortgage loan (c)	12,972	12,972
Harbor Hill mortgage loan (d)	7,627	7,627
Shore Hill Housing loan (e)	18,924	19,149
Capital lease obligations	7,448	8,497
Other indebtedness	9,264	26,872
Total long-term debt	124,695	154,971
Less current portion	9,360	23,544
Total long-term debt — less current portion	$ 115,335	$ 131,427

(a) During 2003, the Medical Center entered into a mortgage agreement to refinance certain existing mortgage obligations and to provide additional funds to perform major renovation work at the Medical Center. The Dormitory Authority of the State of New York (DASNY) provided $85.3 million, which was made available from portions of the proceeds of DASNY’s sale of Series 2003 revenue bonds. The loan is payable in monthly payments of principal and interest at a fixed rate of 4.15% through 2028. The mortgage is collateralized by a substantial portion of the Medical Center’s and Sunset Park’s property, buildings and equipment, and unrestricted assets and revenue and is insured by the U.S. Department of Housing and Urban Development (HUD) under Section 242 of the National Housing Act. The mortgage has certain covenants which, among others, require compliance with specified financial ratios for which noncompliance may limit additional indebtedness. On August 21, 2012 the Medical Center closed on a refinancing that modified the mortgage for a reduced interest rate to 2.28% and a reduction in the principal by $5,696,000. The refinancing was funded by the proceeds from Ginnie Mae taxable securities. The proceeds funded an escrow to defease the 2003 revenue bonds. As required, the Medical Center has deposited funds in assets whose use is limited to satisfy the ending balance requirement of $11,213,000 and $9,859,000 as of December 31, 2012 and 2011, respectively. For the years ended December 31, 2012 and 2011, the Medical Center was in compliance with its required covenants.

As a result of the refinancing, the Debt Service Reserve Fund (DSRF) of $8,395,000 was released by DASNY to the Medical Center. The proceeds from this fund were used to reduce the principal and to pay issuance cost. Primarily because of the release of the DSRF, the Medical Center reported a gain from debt refinancing of $6,081,000 that is reported in nonoperating gains in the combined statements of operations.

(b) Augustana received financing from DASNY. The original mortgage note was $17,928,000. On April 29, 1998, additional financing through a supplemental mortgage note was approved by DASNY for additional project costs in the amount of $2,701,300. Under the terms of Augustana’s refinancing agreement with DASNY in December 2000, principal payments are to be made through March 2035 at an interest rate of 6.65%. The mortgage is insured by HUD under Section 232 of the National Housing Act. Effective March 2012, due to mortgage refinancing, DASNY assigned its rights to Century Health Capital, Inc. at the loan balance amount of $17,566,000 and at an interest rate of 3.73%, maturing on April 1, 2035.

Equal monthly payments of $94,680 commenced on April 1, 2012. All other terms remained the same. In connection with the terms, provisions, and covenants of the mortgage agreement, Augustana is required to make annual deposits in restricted depreciation and replacement reserve funds. Required deposits are $14,355 monthly for replacement reserves, $45,800 for mortgage insurance escrow and $22,083 for depreciation funds. The balance of this mortgage was $17,201,000 and $17,620,000 as of December 31, 2012 and 2011, respectively.

In August 2001, Augustana received additional financing for facility expansion. The principal amount was $7,775,000 at an initial interest rate of 8% through October 1, 2002, and 6.75% thereafter. The balance of the mortgage of $6,882,000 was refinanced in July 2012 at an interest rate of 3.73% with rights assigned to Century Health Capital, Inc. The loan matures on October 1, 2042. Required deposits include $3,769 and $2,770 into a replacement reserve and mortgage insurance escrow fund, respectively. The balance of this mortgage was $6,831,000 and $6,916,000 as of December 31, 2012 and 2011, respectively.

Debt service funds of $942,000 released to Augustana by DASNY as a result of the refinancings are included as a gain from debt refinancing and are reported in nonoperating gains in the combined statements of operations.

(c) Sunset Gardens is a not-for-profit corporation organized pursuant to Article XI of the Private Housing Finance Law and Section 402 of the Not-for-Profit Corporation Law to acquire an interest in real property located in Brooklyn, New York and to construct and operate thereon an apartment complex of 81 units, under Section 202 of the National Housing Act. Rental operations began in July 2008, at the time the initial units were completed.

The project has a fully insured HUD mortgage ("capital advance") in the amount of $12,972,000 at December 31, 2012 and 2011. This capital advance bears no interest and need not be repaid so long as the housing remains available to elderly or disabled persons for at least 40 years. Failure to keep the housing available for the elderly or disabled would result in HUD billing the project owner the entire capital advance outstanding, plus interest since the date of the first advance. Management believes that the likelihood that Sunset Gardens will fail to meet its requirements under the HUD mortgage is remote and, accordingly, interest is not being accrued on the mortgage. The amount of such unrecorded interest at December 31, 2012 and 2011, was approximately $3,293,000 and $2,677,000, respectively.

(d) Harbor Hill is a not-for-profit corporation organized pursuant to Article IX of the Private Housing Finance Law and Section 402 of the Not-for-Profit Corporation Law to acquire an interest in real property located in Brooklyn, New York and to construct and operate thereon an apartment complex of 87 units, under Section 202 of the National Housing Act. Rental operations began in October 1995, at the time the initial units were completed.

Harbor Hill has a fully insured HUD mortgage ("capital advance") in the amount of $7,627,000. This capital advance bears no interest and need not be repaid so long as the housing remains available to elderly or disabled persons for at least 40 years. Failure to keep the housing available for elderly or disabled persons would result in HUD billing the project owner the entire capital advance outstanding plus interest since the date of the first advance. Management believes that the likelihood that Harbor Hill will fail to meet its requirements under the HUD mortgage is remote and, accordingly, interest is not being accrued on the mortgage. The amount of such unrecorded interest at December 31, 2012 and 2011, was approximately $9,432,000 and $8,927,000, respectively.

Under the regulatory agreement, the project is required to set aside $42,960 each year for replacement of property and other project expenditures as approved by HUD. These restricted deposits are held in separate accounts and generally are not available for operating purposes. These assets are presented as assets limited as to use in the accompanying combined balance sheets.

(e) During 2008, Shore Hill Housing Associates, L.P. obtained financing in the form of a variable rate $39,000,000 note from the New York State Housing Finance Agency through the issuance of tax-exempt Shore Hill Housing Revenue Bonds, 2008 Series A. Interest only payments were due monthly until May 2010. The average interest rate on this debt was approximately 4% during 2010 and 5% during 2009. In May 2010, the $39,000,000 note was repaid with $19,500,000 proceeds of limited partner funding (see Note 18) and $19,500,000 permanent mortgage financing with Wells Fargo Bank. Commencing in 2010, monthly payments of principal and interest on the $19,500,000 mortgage totaling $73,000 will be required through December 1, 2044. The note is collateralized by a mortgage on the related property.

Concurrently with the execution of the note, the partnership entered into an interest rate swap agreement with JPMorgan Chase Bank. The swap has a notional amount of $18,943,000 and $19,167,000 at December 31, 2012 and 2011, respectively. The interest rate swap was entered into to manage interest rate risk associated with the related variable rate debt. The swap agreement fixes the interest rate at 3.451% through September 1, 2023. At December 31, 2012 and 2011, the fair value of the swap liability totaled $3,505,000 and $2,906,000, respectively. This amount is reported with other long-term liabilities in the accompanying combined balance sheets. The change in the fair value of the swap totaled $599,000 and $2,083,000 in 2012 and 2011, respectively. Because the swap has not been designated as a hedge for accounting purposes, these amounts are reported with supplies and expenses. Net settlements on the interest rate swap are included as a component of interest expense in the accompanying combined statements of operations.

Lutheran HealthCare and the counterparty in the interest rate swap agreement are exposed to credit risk in the event of nonperformance or early termination. The agreement may be terminated following the occurrence of certain events, at which time Lutheran HealthCare may be required to make a termination payment.

Leases — As of December 31, 2012, future minimum payments, by year and in the aggregate, under capital leases and noncancelable operating leases with initial or remaining terms of one year or more consisted of the following (in thousands):

Years Ending December 31	Capital Leases	Operating Leases
2013	$ 3,177	$ 2,856
2014	2,159	2,656
2015	1,404	2,340
2016	618	2,115
2017	452	895
Thereafter	62	916
Total minimum lease payments	7,872	$ 11,778
Less amount representing interest (various rates)	424	
	$ 7,448	

Total rental expense charged to operations was $5,595,000 in 2012 and $8,947,000 in 2011.

Other Indebtedness — On December 15, 2011 the Medical Center entered into an $18,300,000 non-revolving credit facility with TD Bank. The facility is structured into a three year advance draw period after which it converts to a five year term loan. The annual interest rate is reset monthly and is based on the higher of the (1) LIBOR index plus 2.00% or (2) 2.20%. During the advance period, only interest will be paid monthly. On conversion to the five year term loan, the monthly payment of principle and interest will be based on an amortization of the principle over a ten year period that will result in a balloon payment at the end of the loan term. At December 31, 2012, the interest rate in effect was 2.21% and the outstanding balance was $8,701,000.

In 2011 other indebtedness also includes $22,000,000 of financing arrangements that the Medical Center entered into to finance its professional insurance premium. Interest is at the rate of 3.25% with monthly payments being made over a 36-month period.

Maturities of Long-Term Debt — Scheduled repayments of long-term debt, including capital leases, as of December 31, 2012, for each of the next five years and thereafter are as follows (in thousands):

Years Ending December 31	
2013	$ 9,360
2014	8,562
2015	9,881
2016	8,930
2017	4,827
Thereafter	83,135
Total	$ 124,695

12. TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Temporarily restricted net assets as of December 31, 2012 and 2011, are available for the following purposes (in thousands):

	2012	2011
Patient care services and educational programs	$ 3,203	$ 2,576
Plant replacement and expansion	669	843
	$ 3,872	$ 3,419

Permanently restricted net assets as of December 31, 2012 and 2011, were $497,000 and $494,000, respectively, and consisted entirely of amounts to be held in perpetuity, the income from which is unrestricted and can be used for any purpose. During 2010, the State of New York passed the Prudent Management of Institutional Funds Act. Lutheran HealthCare has interpreted this law as requiring realized and unrealized gains of permanently restricted net assets to be retained in a temporarily restricted net asset classification until appropriated by the Board of Trustees (the "Board") and expended. This law allows the Board to appropriate so much of the net appreciation of permanently restricted net assets as is prudent considering Lutheran HealthCare's long- and short-term needs, present and anticipated financial requirements, and expected total return on its investments, price level trends, and general economic conditions. No amounts were appropriated in 2012 or 2011. Accumulated gains are not material.

13. FUNCTIONAL EXPENSES

Lutheran HealthCare provides a comprehensive integrated network of health services.

Functional expenses related to providing such services for the years ended December 31, 2012 and 2011, are as follows (in thousands):

	2012	2011
Health care and related services	$ 922,955	$ 1,281,707
Program support and general	128,535	281,704
	$ 1,051,490	$ 1,563,411

14. CONCENTRATION OF CREDIT RISK

Lutheran HealthCare grants credit without collateral to its patients, most of whom are local residents and are insured under third-party agreements. Significant concentrations of accounts receivable for services to Medicaid patients as of December 31, 2012 and 2011, accounted for approximately 49% and 52%, respectively. Significant concentrations of accounts receivable for services to Medicare patients as of December 31, 2012 and 2011, accounted for approximately 33% and 23%, respectively.

Lutheran HealthCare routinely invests its surplus operating funds in money market funds. These funds generally invest in highly liquid U.S. government and agency obligations. Investments in money market funds may not be insured or guaranteed by the U.S. government.

At December 31, 2012 and 2011, approximately $48.2 million and $49.6 million, respectively, of Lutheran Healthcare’s investments in corporate debt obligations were invested in companies in the financial services sector.

15. ACCRUED MEDICAL COSTS

Activity in the liability for accrued medical costs for the years ended December 31, 2012 and 2011, is summarized as follows:

	2012	2011
Balance — beginning of year	$ 105,587,605	$ 83,623,867
Less stop-loss insurance receivables — net	(5,930,993)	(14,411,596)
Net balance — beginning of year	99,656,612	69,212,271
Incurred related to:		
Current year	397,156,687	916,370,444
Prior years	(3,486,518)	(11,025,859)
Total incurred	393,670,169	905,344,585
Paid related to:		
Current year	(387,630,415)	(806,475,401)
Prior years	(104,595,727)	(68,424,843)
Total paid	(492,226,142)	(874,900,244)
Net balance — end of year	1,100,639	99,656,612
Plus stop-loss insurance receivable — net	4,751,025	5,930,993
Balance — December 31	$ 5,851,664	$ 105,587,605

16. AFFILIATION AGREEMENT

Affiliation Agreement between the Medical Center and Sunset Park — Effective July 1, 2007 (“Effective Date”), the Medical Center transferred the operations of the Health Center to Sunset Park to comply with the requirements of the Health Resources and Services Administration (within the United States Department of Health and Human Services) in order to maintain eligibility for a Federal Section 330 grant (“330 grant”). The Medical Center and Sunset Park entered into an Affiliation Agreement and a Support Services Agreement whereby Sunset Park has been established by NYSDOH as a “co-operator” of the Health Center and the Medical Center continues to provide support services to allow the Health Center to operate as it did before the transaction. The Health Center operates under the Medical Center’s New York State operating certificate and state and federal provider numbers. Patient care services are billed to patients and third-party payors (principally Medicaid and Medicare) by the Medical Center. Although the Medical Center continues to bill for all patient care services furnished by the Health Center in the Medical Center’s name and under the Medical Center’s provider numbers, all of the Health Center’s patient revenues contractually inure to the benefit of Sunset Park under the terms of the Affiliation Agreement. There are several common board members; however, neither the Medical Center nor Sunset Park have the ability to exercise majority control of the other’s board.

A steering committee of equal representation from both entities is responsible for overseeing and facilitating the clinical and administrative arrangements between the Medical Center and Sunset Park.

The Medical Center and Sunset Park continue to cooperate in implementing a coordinated and integrated quality assurance/quality management program for the Health Centers.

Accounting for the Affiliation Agreement — Following execution of the Affiliation Agreement, substantially all of the operations and the related assets of the Health Center were transferred to, and its liabilities were assumed by, Sunset Park. The assets transferred and liabilities assumed were accounted for in a manner similar to a pooling-of-interests whereby Sunset Park initially recognized the assets and liabilities transferred at their carrying amounts in the accounts of the Medical Center as of January 1, 2007.

Provision of Clinical Services — Sunset Park is responsible for ensuring that the clinical services of the Health Centers are available and accessible promptly, as appropriate, and in a manner, which ensures continuity of service to the residents of each Health Center's area. In providing clinical services, the parties agreed to utilize the licensed physicians and other health care professionals employed and/or otherwise engaged by Sunset Park. Such physicians are also generally members of the medical and dental staffs of the Medical Center.

Sunset Park Authority — Sunset Park has all of the authority, with respect to the Health Center, required to qualify as a federally qualified health center and to receive 330 grants and has autonomy over all decisions related to operation of the Health Center.

Property and Equipment — As of the Effective Date, title to the property, equipment, and supplies associated with the Health Center remained with the Medical Center. Sunset Park obtained authority to use the property in connection with its co-operation of the Health Center. The property and equipment associated with the Health Center remained subject to Department of Housing and Urban Development (HUD) mortgage covenants (see Note 11). The Medical Center agreed to include Sunset Park as joint owner on the title of three health centers with a net book value of approximately $2,712,000 as of the Effective Date, and agreed to transfer full title for these three health center facilities to Sunset Park upon the expiration of the HUD covenants. Commencing on the Effective Date, the parties agreed that the Health Center's facilities will be utilized exclusively for the operation of the section 330 grant-supported health centers. Under certain circumstances, the Medical Center has agreed to fund Sunset Park's annual capital improvements in an amount equal to the lower of $1,500,000 or Sunset Park's depreciation expense for the year.

Employees — Certain physicians and senior management personnel were transferred to Sunset Park's employ during 2007, and the remainder of the nonunionized management personnel were transferred to Sunset Park's employ in 2008. After the Effective Date, Sunset Park began to directly employ or engage any additional clinical staff that provides health services to the Health Center's patients. Certain of the Medical Center employees, including those covered by collective bargaining agreements executed by and binding on the Medical Center, provide services to the Health Center. Such employees remain employees of the Medical Center, but are contracted to Sunset Park.

Services and Flow of Funds — Sunset Park maintains a bank account into which all 330 grant funds (and other grants for which Sunset Park is the direct recipient) are directly deposited. The Medical Center bills patients and third parties, including Medicare and New York State Medicaid, for the Health Center's services generally in accordance with Sunset Park's schedule of charges and discounts. The Medical Center has agreed to collect such billings in accordance with Sunset Park's collection policies. Such collections are initially deposited into the accounts of the Medical Center; however, separate accountability is maintained. The parties agreed to allocate certain amounts initially received or paid by the Medical Center. Amounts allocated include: (i) the New York State general hospital indigent care pool (or successor pool) distributions attributable to the provision of uncompensated care services at the

Health Center sites, (ii) costs associated with physician supervision and training of residents in the Medical Center-sponsored residency programs in connection with their clinical rotations to Health Center sites, (iii) Medicare GME reimbursement associated with dental and other residents whose principal site of training consist of one or more Health Center sites, and (iv) costs related to the occupational health program operated through the Health Center. The amounts to be transferred are determined prospectively based on mutually agreed upon annual budgets.

The Medical Center provides certain administrative support services including accounting, human resources support, and information technology/systems management support for which it receives an annual fee. The Medical Center also pays certain nonpayroll and payroll amounts on behalf of Sunset Park and certain other amounts are paid by the Medical Center and allocated to Sunset Park based upon predetermined annual budgets. On a monthly basis, the excess (or deficiency) of cash collected plus or minus allocated net revenue or expenses over expenses paid by the Medical Center on Sunset Park's behalf and the Medical Center service fee for providing support services is reported with the current portion of due from the Medical Center. Such amount is due on demand.

Term of the Agreements — The Affiliation and Support Services Agreements remain in effect for so long as Sunset Park receives the 330 grant to support the Health Center and the parties remain established as co-operators of the Health Center clinical sites in accordance with New York law, unless otherwise terminated in the event of a material breach of any material term or condition of the agreements or upon the mutual agreement of Sunset Park and the Medical Center (the "Parties"). The Agreement will also terminate immediately in the event of the revocation, termination, or expiration of the section 330 grant. Upon termination or expiration of this Agreement, the Parties agreed to cooperate in the orderly winding down of the co-operation of the Health Center.

17. COMMITMENTS AND CONTINGENCIES

Sale of the Plan's Operating and Non-financial Assets — On October 24, 2011, the Plan entered into an Asset Purchase Agreement (APA) with Amerigroup New York, LLC, a New York limited liability company d/b/a Amerigroup Community Care New York ("Amerigroup"). The transaction received all required regulatory and legal approvals and closed on May 1, 2012. Included in nonoperating gains is the gain that the Plan realized of approximately $69 million.

Under the terms of the APA, Amerigroup purchased all of the Plan's operating and nonfinancial assets, including property and equipment and the Plan's rights and obligations after April 30, 2012 under its Medicaid, FHP, CHP and Medicare contracts, including the right to provide services and receive the premium for such services. The purchase price of $85 million was received by the Plan in cash at closing. Of this amount, $5 million is being held in escrow for 18 months and an additional $5 million is being held in escrow for 36 months to settle claims which may arise under the APA. These amounts, plus interest earnings, are included in assets limited as to use in the combined balance sheets.

Amerigroup did not purchase the Plan's cash and cash equivalents, investments, premiums and other receivables, or assets limited as to use as of the closing date, or any other financial assets. Further, Amerigroup is not responsible for liabilities that existed up to and including the closing date (including medical claim liabilities). As of May 1, 2012, Amerigroup assumed the obligations and liabilities under the assumed provider and payor contracts and other assumed contracts, for all activity occurring after the closing date and related solely to dates of service after April 30, 2012.

The Plan and the Medical Center have agreed that the Plan will remain in existence for a period of at least 36 months following the closing date, and will maintain cash and investments in an amount necessary to satisfy its liabilities. As of May 1, 2012, Amerigroup and the Plan entered into a

Management Services Agreement under which Amerigroup will provide various services, including the collection of amounts due to the Plan and the payment of Plan liabilities.

Subsequent to December 31, 2012, the Plan received approval from NYSDOH to make a distribution of $30 million to the Medical Center. Of the $30 million distributed, the Plan received approval from NYSDFS to distribute $15 million from the escrow deposit account. The distribution was made on March 14, 2013.

Litigation and Regulatory Investigations — Laws and regulations governing health care programs are complex and subject to interpretation for which action for noncompliance includes fines, penalties, and exclusion from the Medicare and Medicaid programs. Lutheran HealthCare 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 Lutheran HealthCare's financial position, results of operations or cash flows.

Health Care Reform — In 2010, the Patient Protection and Affordable Care Act (PPACA) was enacted into law. PPACA is expected to result in sweeping changes across the health care industry, including how care is provided and paid for. To fund expansion of insurance coverage, the legislation contains measures designed to promote quality and cost efficiency in health care delivery and to generate budgetary savings in the Medicare and Medicaid programs. Lutheran HealthCare is unable to fully predict the impact of PPACA on its operations and financial results; however, management expects that future reimbursement for services from both public and private payers will be reduced and made conditional, in part, on various quality measures.

Collective Bargaining Agreement — The organization is subject to collective bargaining agreements with respect to its RN and LPN nursing staff and certain other administrative and clinical positions. The current agreement for RNs runs through February 28, 2016 and covers approximately 700 staff. The agreement for substantially all other union staff runs through April 30, 2015, and covers approximately 2,500 staff.

18. SHORE HILL HOUSING COMPANY RESTRUCTURING

During 2008, Shore Hill restructured the ownership and financing of its apartment building for low-income senior citizens to enable the rehabilitation and improvement of the facility (the "restructuring"). In order to achieve the restructuring, a partnership (Shore Hill Housing Associates, L.P. (the "Partnership")) was formed.

Shore Hill Housing Associates GP, Inc. ("General Partner"), which is owned 79% by Shore Hill and 21% by the Lutheran Foundation, is the general partner and owns 0.01% of the Partnership. The partnership agreement provides that the General Partner has complete and exclusive control over the management of the Partnership. The limited partners are not liable for any debts, liabilities, losses, contracts, or other obligations of the Partnership. They are only liable to make capital contributions in the amounts and on the dates as specified in the Partnership agreement. The Medical Center and certain of its affiliates are responsible for all such obligations and losses. The Partnership term is through December 31, 2058, unless terminated earlier. Based on the nature of Lutheran HealthCare's control and economic interest in the Partnership, the Partnership has been included in Lutheran HealthCare's combined financial statements.

The General Partner may not sell, exchange, lease (outside of the normal course of business to qualified tenants), or otherwise dispose of the property without the consent of the limited partners. The General Partner also may not use Partnership assets, property, or improvements to secure the debt of any partners, their affiliates, or any third party. The Partnership is also required to maintain a minimum Debt

Service Coverage ratio. For the years ended December 31, 2012 and 2011, the Partnership was in compliance with the requirement.

Capital Contributions — The General Partner is required to make capital contributions of $1,000,000. The Limited Partner has agreed to make a capital contributions totaling $22,442,000, subject to possible adjustments based on the amount of low-income housing tax credits ultimately allocated to the Partnership, in addition to other potential occurrences. Payments are due upon reaching certain milestones during the life of the project. All Limited Partner capital contributions have been received as of December 31, 2012 and 2011. Cumulative capital contributions at December 31, 2012 and 2011 totaled $22,658,000. Such contributions are subject to recapture if the organization does not comply with the regulatory agreement or certain tax requirements for a period of twenty years. Management intends to comply with all requirements necessary to sustain the tax credits and believes that the likelihood of this not happening is remote.

The capital contributions are being accounted for as prepaid rent and are being deferred and will be recognized as revenue on a straight-line basis over a period of twenty years, which commenced with completion of the project in 2010. During 2012, approximately $1,131,000 was recognized as revenue. At December 31, 2012 and 2011, approximately $19,228,000 and $20,359,000 of deferred revenue is reported in other long-term liabilities in the accompanying combined balance sheets.

Sale of Beneficial Rights to the Property — Pursuant to the restructuring, Shore Hill sold the beneficial rights to its property to the Partnership. Because the Partnership is included in the combined financial statements, the gain on the sale has been eliminated in preparing the combined financial statements, and the property is stated at its historical cost basis. Shore Hill retained legal title to the property and a right of first refusal to repurchase the beneficial rights in certain circumstances, subject to the existing debt on the Property, at a price expected to equal to one dollar, plus applicable taxes.

Development Fee Agreement — In connection with the restructuring, the Medical Center entered into a Development Fee Agreement, with the Partnership. The Partnership agreed to pay the Medical Center a Development Fee in the amount of $6,488,000, subject to tax related adjustments. Of this amount, $850,000 was received by the Medical Center and recognized as revenue in 2008 in the Medical Center’s financial statements. During 2009, the amount of the development fee was finalized and the project was placed in service. Accordingly, the balance of $5,638,000 was recognized as revenue by the Medical Center in 2009. At December 31, 2012 and 2011, $6,488,000 and $5,798,000 respectively of Development Fee was paid. All of the development fee revenue has been eliminated in the combined financial statements.

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SUPPLEMENTAL COMBINING INFORMATION

LUTHERAN HEALTHCARE

SUPPLEMENTAL COMBINING INFORMATION — BALANCE SHEETS
AS OF DECEMBER 31, 2012
(In thousands)

ASSETS	Lutheran Medical and Lutheran Family Health Centers	OHP PHSP, Inc.	Augustana	Senior Housing Projects	Professional Corporations	Other Entities	Elimination Entries	Combined Balances
CURRENT ASSETS:								
Cash and cash equivalents	$ 16,791	$	$ 3,883	$ 3,687	$ 165	$ 4,404	$	$ 28,930
Investments	18,216	44,812						63,028
Assets limited as to use			241	1,216				1,457
Patient accounts receivable — net	68,172		8,530		1,651	1,889	(161)	80,081
Premiums receivable		3,950						3,950
Other receivables	10,464	4,751		214	6	251		15,686
Due from third-party payors	16,260		1,284		162			17,706
Due from related entities	6,121	311	110	1	233	251	(7,027)	
Other current assets	27,468	11,844	454	305	636	175		40,882
Total current assets	163,492	65,668	14,502	5,423	2,853	6,970	(7,188)	251,720
ASSETS LIMITED AS TO USE — Less current portion	15,366	60,672	9,192	2,825				88,055
INVESTMENTS	72,579							72,579
PROPERTY AND EQUIPMENT — Net	114,027		13,851	54,583	397	1,323	(6,002)	178,179
OTHER ASSETS	77,752		259	1,493				79,504
TOTAL	$ 443,216	$126,340	$ 37,804	$ 64,324	$ 3,250	$ 8,293	$ (13,190)	$670,037

(Continued)

The Medical Center discloses its interests in its controlled affiliates using the cost method of accounting.

LUTHERAN HEALTHCARE

SUPPLEMENTAL COMBINING INFORMATION — BALANCE SHEETS
AS OF DECEMBER 31, 2012
(In thousands)

LIABILITIES AND NET ASSETS	Lutheran Medical and Lutheran Family Health Centers	OHP PHSP, Inc.	Augustana	Senior Housing Projects	Professional Corporations	Other Entities	Elimination Entries	Combined Balances
CURRENT LIABILITIES:								
Accounts payable and accrued expenses	$ 38,490	$ 8,756	$ 1,776	$ 501	$ 1,203	$ 401	$	$ 51,127
Accrued salaries and related liabilities	23,931		1,916	137	1,602	381		27,967
Accrued medical costs		6,013					(161)	5,852
Current portion of long-term debt	8,493		630	237				9,360
Current portion of professional liabilities	2,600							2,600
Due to related entities	657	142	4,262	164	464	1,338	(7,027)	
Other current liabilities	18,031		204	3,507		220		21,962
Current portion of due to third-party payors	2,891	12,085	2,343					17,319
Total current liabilities	95,093	26,996	11,131	4,546	3,269	2,340	(7,188)	136,187
DUE TO THIRD-PARTY PAYORS	33,262							33,262
PROFESSIONAL LIABILITIES — Less current portion	86,538							86,538
LONG-TERM DEBT — Less current portion	52,647		23,402	39,286				115,335
ACCRUED PENSION LIABILITY	91,536							91,536
OTHER LONG-TERM LIABILITIES	1,291			19,426				20,717
Total liabilities	360,367	26,996	34,533	63,258	3,269	2,340	(7,188)	483,575
NET ASSETS:								
Unrestricted	78,707	99,344	3,044	1,066	(19)	5,953	(6,002)	182,093
Temporarily restricted	3,834		38					3,872
Permanently restricted	308		189					497
Total net assets	82,849	99,344	3,271	1,066	(19)	5,953	(6,002)	186,462
TOTAL	$443,216	$ 126,340	$ 37,804	$ 64,324	$ 3,250	$ 8,293	$ (13,190)	$670,037

(Concluded)

The Medical Center discloses its interests in its controlled affiliates using the cost method of accounting.

LUTHERAN HEALTHCARE
LUTHERAN MEDICAL CENTER AND LUTHERAN FAMILY HEALTH CENTERS

SUPPLEMENTAL COMBINING INFORMATION — BALANCE SHEETS
AS OF DECEMBER 31, 2012
(In thousands)

	Lutheran Medical Center	Lutheran Family Health Center	Eliminations	Lutheran Medical and Lutheran Family Health Centers
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	$ 14,958	$ 1,833	$	$ 16,791
Investments	18,216			18,216
Patient accounts receivable — net	57,438	10,734		68,172
Other receivables	3,272	7,192		10,464
Due from third-party payors	16,260			16,260
Due from related entity	5,681	1,437	(997)	6,121
Other current assets	27,468	108	(108)	27,468
Total current assets	143,293	21,304	(1,105)	163,492
ASSETS LIMITED AS TO USE — Less current portion	15,366	771	(771)	15,366
INVESTMENTS	72,579			72,579
PROPERTY AND EQUIPMENT — Net	114,024	15,119	(15,116)	114,027
OTHER ASSETS	90,592	236	(13,076)	77,752
TOTAL	$ 435,854	$ 37,430	$ (30,068)	$ 443,216
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES:				
Accounts payable and accrued expenses	$ 38,490	$ 4,267	$ (4,267)	$ 38,490
Accrued salaries and related liabilities	18,628	6,020	(717)	23,931
Current portion of long-term debt	8,493	94	(94)	8,493
Current portion of professional liabilities	2,600			2,600
Due to related entity	1,654		(997)	657
Other liabilities	18,031			18,031
Current portion of due to third-party payors	2,891	828	(828)	2,891
Total current liabilities	90,787	11,209	(6,903)	95,093
DUE TO THIRD-PARTY PAYORS — Less current portion	33,262	19,806	(19,806)	33,262
PROFESSIONAL LIABILITIES — Less current portion	86,538			86,538
LONG-TERM DEBT — Less current portion	52,647	423	(423)	52,647
ACCRUED PENSION LIABILITY	91,536			91,536
OTHER LONG-TERM LIABILITIES	3,227	1,000	(2,936)	1,291
Total liabilities	357,997	32,438	(30,068)	360,367
NET ASSETS:				
Unrestricted	74,486	4,221		78,707
Temporarily restricted	3,063	771		3,834
Permanently restricted	308			308
Total net assets	77,857	4,992		82,849
TOTAL	$ 435,854	$ 37,430	$ (30,068)	$ 443,216

LUTHERAN HEALTHCARE

SUPPLEMENTAL COMBINING INFORMATION — BALANCE SHEETS
AS OF DECEMBER 31, 2011
(In thousands)

ASSETS	Lutheran Medical and Lutheran Family Health Centers	HealthPlus	Augustana	Senior Housing Projects	Professional Corporations	Other Entities	Elimination Entries	Combined Balances
CURRENT ASSETS:								
Cash and cash equivalents	$ 15,045	$104,431	$ 3,705	$ 3,051	$ 786	$ 4,828	$ -	$131,846
Investments	35,741	65,127						100,868
Assets limited as to use			249	1,293				1,542
Patient accounts receivable — net	65,053		8,350		1,315	1,884	(6,348)	70,254
Premiums receivable		30,446						30,446
Other receivables	11,983	5,931		104	3	359		18,380
Due from third-party payors	14,772		911		184			15,867
Due from related entities	7,639	249	172	4	359	219	(8,642)	-
Other current assets	30,596	3,901	262	260	640	136		35,795
Total current assets	180,829	210,085	13,649	4,712	3,287	7,426	(14,990)	404,998
ASSETS LIMITED AS TO USE — Less current portion	13,988	45,375	8,462	2,535				70,360
DUE FROM RELATED ENTITIES		43					(43)	-
PROPERTY AND EQUIPMENT — Net	113,081	5,885	14,729	53,936	380	1,317	(6,164)	183,164
OTHER ASSETS	71,766		55	1,563				73,384
TOTAL	$379,664	$261,388	$ 36,895	$ 62,746	$ 3,667	$ 8,743	$ (21,197)	$731,906

(Continued)

The Medical Center discloses its interests in its controlled affiliates using the cost method of accounting.

LUTHERAN HEALTHCARE

SUPPLEMENTAL COMBINING INFORMATION — BALANCE SHEETS
AS OF DECEMBER 31, 2011
(In thousands)

LIABILITIES AND NET ASSETS	Lutheran Medical and Lutheran Family Health Centers	HealthPlus	Augustana	Senior Housing Projects	Professional Corporations	Other Entities	Elimination Entries	Combined Balances
CURRENT LIABILITIES:								
Accounts payable and accrued expenses	$ 37,045	$ 21,773	$ 2,044	$ 458	$ 812	$ 134	$ -	$ 62,266
Accrued salaries and related liabilities	21,424	4,846	1,818	101	1,189	297		29,675
Accrued medical costs		111,936					(6,348)	105,588
Current portion of long-term debt	22,920		399	225				23,544
Current portion of professional liabilities	2,600							2,600
Due to related entities	1,099	1,424	3,561	764	322	1,472	(8,642)	-
Other current liabilities		236	357	2,966		363		3,922
Current portion of due to third-party payors	961	2,579	639					4,179
Total current liabilities	86,049	142,794	8,818	4,514	2,323	2,266	(14,990)	231,774
DUE TO THIRD-PARTY PAYORS	29,367							29,367
DUE TO RELATED ENTITIES	43						(43)	-
PROFESSIONAL LIABILITIES — Less current portion	79,555							79,555
LONG-TERM DEBT — Less current portion	67,766		24,137	39,524				131,427
ACCRUED PENSION LIABILITY	83,338							83,338
OTHER LONG-TERM LIABILITIES	1,111			20,555				21,666
Total liabilities	347,229	142,794	32,955	64,593	2,323	2,266	(15,033)	577,127
NET ASSETS:								
Unrestricted	28,746	118,594	3,716	(1,847)	1,344	6,477	(6,164)	150,866
Temporarily restricted	3,381		38					3,419
Permanently restricted	308		186					494
Total net assets	32,435	118,594	3,940	(1,847)	1,344	6,477	(6,164)	154,779
TOTAL	$379,664	$261,388	$ 36,895	$ 62,746	$ 3,667	$ 8,743	$ (21,197)	$731,906

(Concluded)

The Medical Center discloses its interests in its controlled affiliates using the cost method of accounting.

LUTHERAN HEALTHCARE
LUTHERAN MEDICAL CENTER AND LUTHERAN FAMILY HEALTH CENTERS

SUPPLEMENTAL COMBINING INFORMATION — BALANCE SHEETS
AS OF DECEMBER 31, 2011
(In thousands)

	Lutheran Medical Center	Lutheran Family Health Center	Eliminations	Lutheran Medical and Lutheran Family Health Centers
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	$ 12,751	$ 2,294	$ -	$ 15,045
Investments	35,741			35,741
Assets limited as to use				
Patient accounts receivable — net	53,654	11,399		65,053
Other receivables	7,611	4,372		11,983
Due from third-party payors	14,772			14,772
Due from related entity	6,993	3,241	(2,595)	7,639
Other current assets	30,524	140	(68)	30,596
Total current assets	162,046	21,446	(2,663)	180,829
DUE FROM THIRD-PARTY PAYORS — Less current portion				
ASSETS LIMITED AS TO USE — Less current portion	13,988	731	(731)	13,988
DUE FROM RELATED ENTITY				
PROPERTY AND EQUIPMENT — Net	112,930	15,778	(15,627)	113,081
OTHER ASSETS	83,249	253	(11,736)	71,766
TOTAL	$372,213	$38,208	$(30,757)	$379,664
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES:				
Accounts payable and accrued expenses	$ 37,045	$ 3,593	$ (3,593)	$ 37,045
Accrued salaries and related liabilities	17,011	5,313	(900)	21,424
Current portion of long-term debt	22,920	10	(10)	22,920
Current portion of professional liabilities	2,600			2,600
Due to related entity	3,690	4	(2,595)	1,099
Current portion of due to third-party payors	961	828	(828)	961
Total current liabilities	84,227	9,748	(7,926)	86,049
DUE TO THIRD-PARTY PAYORS — Less current portion	29,367	19,783	(19,783)	29,367
DUE TO RELATED ENTITY — Less current portion	43			43
PROFESSIONAL LIABILITIES — Less current portion	79,555			79,555
LONG-TERM DEBT — Less current portion	67,766	14	(14)	67,766
ACCRUED PENSION LIABILITY	83,338			83,338
OTHER LONG-TERM LIABILITIES	3,277	868	(3,034)	1,111
Total liabilities	347,573	30,413	(30,757)	347,229
NET ASSETS:				
Unrestricted	21,681	7,065		28,746
Temporarily restricted	2,651	730		3,381
Permanently restricted	308			308
Total net assets	24,640	7,795		32,435
TOTAL	$372,213	$38,208	$(30,757)	$379,664

LUTHERAN HEALTHCARE

SUPPLEMENTAL COMBINING INFORMATION — STATEMENTS OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2012
(In thousands)

	Lutheran Medical and Lutheran Family Health Centers	OHP PHSP, Inc.	Augustana	Senior Housing Projects	Professional Corporations	Other Entities	Elimination Entries	Combined Totals
REVENUE:								
Net patient service revenue (after contractual allowances and discounts)	$495,154	$ -	$35,150	$ -	$24,600	$ 6,783	$(33,122)	$ 528,565
Provision for bad debts	(18,075)		(880)					(18,955)
Net patient service revenue, net of provision for bad debts	477,079		34,270		24,600	6,783	(33,122)	509,610
Premium revenue	8,304	427,748					(2,676)	433,376
Grant income	47,867			125				47,992
Investment income	1,877	3,525	39	17	2	6		5,466
Net assets released from restrictions	1,652							1,652
Other revenue	22,392		294	9,424	812	3,326	(8,780)	27,468
Total revenue	559,171	431,273	34,603	9,566	25,414	10,115	(44,578)	1,025,564
EXPENSES:								
Salaries and wages	265,045	20,998	15,781	969	23,339	7,348	(266)	333,214
Employee benefits	90,081	6,417	5,673	398	2,752	1,043	(30)	106,334
Supplies and expenses	182,818	42,642	10,336	2,295	9,313	2,229	(21,332)	228,301
Medical costs		381,010					(22,946)	358,064
Depreciation and amortization	16,915	672	1,382	1,732	43	19	(162)	20,601
Interest	2,727		994	1,259			(4)	4,976
Total expenses	557,586	451,739	34,166	6,653	35,447	10,639	(44,740)	1,051,490
OPERATING INCOME (LOSS)	1,585	(20,466)	437	2,913	(10,033)	(524)	162	(25,926)
NONOPERATING GAINS	6,081	69,004	(1,109)					73,976
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES	7,666	48,538	(672)	2,913	(10,033)	(524)	162	48,050
OTHER CHANGES IN UNRESTRICTED NET ASSETS:								
Defined benefit plan adjustments	(23,525)							(23,525)
Changes in unrealized gains and losses on investments	2,032	1,712						3,744
Contributions	1,606							1,606
Transfers (to) from related entities	60,830	(69,500)			8,670			
Net assets released from restrictions for capital acquisitions	1,352							1,352
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	$ 49,961	$ (19,250)	$ (672)	$ 2,913	$ (1,363)	$ (524)	$ 162	$ 31,227

The Medical Center discloses its interests in its controlled affiliates using the cost method of accounting.

LUTHERAN HEALTHCARE
LUTHERAN MEDICAL CENTER AND LUTHERAN FAMILY HEALTH CENTERS

SUPPLEMENTAL COMBINING INFORMATION — STATEMENTS OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2012
(In thousands)

	Lutheran Medical Center	Lutheran Family Health Center	Eliminations	Lutheran Medical and Lutheran Family Health Centers
REVENUE:				
Net patient service revenue (after contractual allowances and discounts)	$ 384,363	$ 111,667	$ (876)	$ 495,154
Provision for bad debts	(16,271)	(1,804)		(18,075)
Net patient service revenue, net of provision for bad debts	368,092	109,863	(876)	477,079
Premium revenue		8,304		8,304
Grant income		47,867		47,867
Investment income	1,869	8		1,877
Net assets released from restrictions	1,508	144		1,652
Other revenue	28,931	5,252	(11,791)	22,392
Total revenue	400,400	171,438	(12,667)	559,171
EXPENSES:				
Salaries and wages	181,170	83,875		265,045
Employee benefits	64,784	25,297		90,081
Supplies and expenses	136,626	58,859	(12,667)	182,818
Depreciation and amortization	14,468	2,447		16,915
Interest	2,727			2,727
Total expenses	399,775	170,478	(12,667)	557,586
OPERATING INCOME	625	960		1,585
NONOPERATING GAINS	6,081			6,081
EXCESS OF REVENUE OVER EXPENSES	6,706	960		7,666
OTHER CHANGES IN UNRESTRICTED NET ASSETS:				
Defined benefit plan adjustments	(23,525)			(23,525)
Changes in unrealized gains and losses on investments	2,032			2,032
Contributions		1,606		1,606
Transfers from (to) related entities	66,241	(5,411)		60,830
Net assets released from restrictions for capital acquisitions	1,351	1		1,352
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	$ 52,805	$ (2,844)	$	$ 49,961

LUTHERAN HEALTHCARE

SUPPLEMENTAL COMBINING INFORMATION — STATEMENTS OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2011
(In thousands)

	Lutheran Medical and Lutheran Family Health Centers	HealthPlus	Augustana	Senior Housing Projects	Professional Corporations	Other Entities	Elimination Entries	Combined Totals
REVENUE:								
Net patient service revenue (after contractual allowances and discounts)	$469,764	$ -	$34,323	$ -	$23,380	$ 6,827	$(56,371)	$ 477,923
Provision for bad debts	(19,007)		(831)	(3)		(86)		(19,927)
Net patient service revenue, net of provision for bad debts	450,757		33,492	(3)	23,380	6,741	(56,371)	457,996
Premium revenue	8,425	1,039,496					(7,904)	1,040,017
Grant income	47,485							47,485
Investment income	1,107	2,668	27	21	3	5		3,831
Net assets released from restrictions	1,679		3					1,682
Other revenue	11,515	(41)	283	9,204	69	3,319	(4,143)	20,206
Total revenue	520,968	1,042,123	33,805	9,222	23,452	10,065	(68,418)	1,571,217
EXPENSES:								
Salaries and wages	248,104	56,411	15,877	1,027	20,124	6,926	(304)	348,165
Employee benefits	79,583	15,970	5,568	414	2,388	982	(33)	104,872
Supplies and expenses	171,693	76,554	10,525	6,460	7,962	2,249	(15,204)	260,239
Medical costs		876,819					(52,857)	823,962
Depreciation and amortization	14,454	2,265	1,379	2,380	37	18	(162)	20,371
Interest	3,505		1,650	667			(20)	5,802
Total expenses	517,339	1,028,019	34,999	10,948	30,511	10,175	(68,580)	1,563,411
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES	3,629	14,104	(1,194)	(1,726)	(7,059)	(110)	162	7,806
OTHER CHANGES IN UNRESTRICTED NET ASSETS:								
Defined benefit plan adjustments	(40,937)							(40,937)
Changes in unrealized gains and losses on investments	(470)	315						(155)
Contributions	1,205							1,205
Transfers (to) from related entities	(8,278)				8,278			
Net assets released from restrictions for capital acquisitions	7,739							7,739
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	$ (37,112)	$ 14,419	$ (1,194)	$(1,726)	$ 1,219	$ (110)	$ 162	$ (24,342)

The Medical Center discloses its interests in its controlled affiliates using the cost method of accounting.

LUTHERAN HEALTHCARE
LUTHERAN MEDICAL CENTER AND LUTHERAN FAMILY HEALTH CENTERS

SUPPLEMENTAL COMBINING INFORMATION — STATEMENTS OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2011
(In thousands)

	Lutheran Medical Center	Lutheran Family Health Center	Eliminations	Lutheran Medical and Lutheran Family Health Centers
REVENUE:				
Net patient service revenue (after contractual allowances and discounts)	$ 363,756	$ 106,884	$ (876)	$ 469,764
Provision for bad debts	(11,379)	(7,628)		(19,007)
Net patient service revenue, net of provision for bad debts	352,377	99,256	(876)	450,757
Premium revenue		8,425		8,425
Grant income	981	46,504		47,485
Investment income	1,102	5		1,107
Net assets released from restrictions	1,491	188		1,679
Other revenue	21,429	2,626	(12,540)	11,515
Total revenue	377,380	157,004	(13,416)	520,968
EXPENSES:				
Salaries and wages	173,752	74,352		248,104
Employee benefits	58,399	21,184		79,583
Supplies and expenses	127,832	57,277	(13,416)	171,693
Depreciation and amortization	12,063	2,391		14,454
Interest	3,505			3,505
Total expenses	375,551	155,204	(13,416)	517,339
EXCESS OF REVENUE OVER EXPENSES	1,829	1,800	-	3,629
OTHER CHANGES IN UNRESTRICTED NET ASSETS:				
Defined benefit plan adjustments	(40,937)			(40,937)
Changes in unrealized gains and losses on investments	(470)			(470)
Contributions	47	1,158		1,205
Transfers to related entities	1,137	(9,415)		(8,278)
Net assets released from restrictions for capital acquisitions	7,706	33		7,739
DECREASE IN UNRESTRICTED NET ASSETS	$ (30,688)	$ (6,424)	$ -	$ (37,112)

LUTHERAN HEALTHCARE

SUPPLEMENTAL COMBINING INFORMATION — CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2012
(In thousands)

	Lutheran Medical and Lutheran Family Health Centers	HealthPlus	Augustana	Senior Housing Projects	Professional Corporations	Other Entities	Elimination Entries	Combined Totals
UNRESTRICTED NET ASSETS								
NET ASSETS — Beginning of year	$ 28,746	$118,594	$3,716	$ (1,847)	$ 1,344	$6,477	$ (6,164)	$150,866
Excess (deficiency) of revenues over expenses	7,666	48,538	(672)	2,913	(10,033)	(524)	162	48,050
Changes in unrealized gains and losses on investments	2,032	1,712						3,744
Contributions	1,606							1,606
Net assets released for capital acquisitions	1,352							1,352
Defined benefit plan adjustments	(23,525)							(23,525)
Transfers to related entities	60,830	(69,500)			8,670			
Change in net assets	49,961	(19,250)	(672)	2,913	(1,363)	(524)	162	31,227
NET ASSETS — End of year	$ 78,707	$ 99,344	$3,044	$ 1,066	$ (19)	$5,953	$ (6,002)	$182,093
TEMPORARILY RESTRICTED NET ASSETS								
NET ASSETS — Beginning of year	$ 3,381	$	$ 38	$	$	$	$	$ 3,419
Contributions	3,457							3,457
Net assets released for operating expenses	(1,652)							(1,652)
Net assets released for capital acquisitions	(1,352)							(1,352)
Change in net assets	453							453
NET ASSETS — End of year	$ 3,834	$	$ 38	$	$	$	$	$ 3,872
PERMANENTLY RESTRICTED NET ASSETS								
NET ASSETS — Beginning of year	$ 308	$	$ 186	$	$	$	$	$ 494
Gain on beneficial interest in perpetual trust			3					3
NET ASSETS — End of year	$ 308	$	$ 189	$	$	$	$	$ 497

The Medical Center discloses its interests in its controlled affiliates using the cost method of accounting.

LUTHERAN HEALTHCARE
LUTHERAN MEDICAL CENTER AND LUTHERAN FAMILY HEALTH CENTERS

SUPPLEMENTAL COMBINING INFORMATION — CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2012
(In thousands)

	Lutheran Medical Center	Lutheran Family Health Center	Eliminations	Lutheran Medical and Lutheran Family Health Centers
UNRESTRICTED NET ASSETS				
NET ASSETS — Beginning of year	$ 21,681	$ 7,065	$	$ 28,746
Excess of revenue over expenses	6,706	960		7,666
Defined benefit plan adjustments	(23,525)			(23,525)
Changes in net unrealized gains and losses on investments	2,032			2,032
Contributions		1,606		1,606
Net assets released for capital acquisitions	1,351	1		1,352
Transfers to related entities	66,241	(5,411)		60,830
Change in net assets	52,805	(2,844)		49,961
NET ASSETS — End of year	$ 74,486	$ 4,221	$	$ 78,707
TEMPORARY RESTRICTED NET ASSETS				
NET ASSETS — Beginning of year	$ 2,651	$ 730	$	$ 3,381
Contributions	3,271	186		3,457
Net assets released from restriction for operating expenses	(1,508)	(144)		(1,652)
Transfer				
Net assets released from restriction for capital acquisitions	(1,351)	(1)		(1,352)
Change in net assets	412	41		453
NET ASSETS — End of year	$ 3,063	$ 771	$	$ 3,834
PERMANENTLY RESTRICTED NET ASSETS				
NET ASSETS — Beginning and end of year	$ 308	$	$	$ 308

LUTHERAN HEALTHCARE

SUPPLEMENTAL COMBINING INFORMATION — CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2011
(In thousands)

	Lutheran Medical and Lutheran Family Health Centers	HealthPlus	Augustana	Senior Housing Projects	Professional Corporations	Other Entities	Elimination Entries	Combined Totals
UNRESTRICTED NET ASSETS								
NET ASSETS — Beginning of year	$ 65,858	$104,175	$ 4,910	$ (121)	$ 125	$ 6,587	$ (6,326)	$175,208
Excess (deficiency) of revenues over expenses	3,629	14,104	(1,194)	(1,726)	(7,059)	(110)	162	7,806
Changes in unrealized gains and losses on investments	(470)	315						(155)
Contributions	1,205							1,205
Net assets released for capital acquisitions	7,739							7,739
Defined benefit plan adjustments	(40,937)							(40,937)
Transfers to related entities	(8,278)				8,278			-
Change in net assets	(37,112)	14,419	(1,194)	(1,726)	1,219	(110)	162	(24,342)
NET ASSETS — End of year	$ 28,746	$118,594	$ 3,716	$ (1,847)	$ 1,344	$ 6,477	$ (6,164)	$150,866
TEMPORARILY RESTRICTED NET ASSETS								
NET ASSETS — Beginning of year	$ 3,128	$ -	$ 41	$ -	$ -	$ -	$ -	$ 3,169
Contributions	9,671							9,671
Net assets released for operating expenses	(1,679)		(3)					(1,682)
Net assets released for capital acquisitions	(7,739)							(7,739)
Change in net assets	253	-	(3)	-	-	-	-	250
NET ASSETS — End of year	$ 3,381	$ -	$ 38	$ -	$ -	$ -	$ -	$ 3,419
PERMANENTLY RESTRICTED NET ASSETS							-	
NET ASSETS — Beginning of year	$ 308	$ -	$ 198	$ -	$ -	$ -	$ -	$ 506
Gain on beneficial interest in perpetual trust			(12)					(12)
NET ASSETS — End of year	$ 308	$ -	$ 186	$ -	$ -	$ -	$ -	$ 494

The Medical Center discloses its interests in its controlled affiliates using the cost method of accounting.

LUTHERAN HEALTHCARE
LUTHERAN MEDICAL CENTER AND LUTHERAN FAMILY HEALTH CENTERS

SUPPLEMENTAL COMBINING INFORMATION — CHANGES IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2011
(In thousands)

	Lutheran Medical Center	Lutheran Family Health Center	Eliminations	Lutheran Medical and Lutheran Family Health Centers
UNRESTRICTED NET ASSETS				
NET ASSETS — Beginning of year	$ 52,369	$ 13,489	$ -	$ 65,858
Excess of revenue over expenses	1,829	1,800		3,629
Defined benefit plan adjustments	(40,937)			(40,937)
Changes in net unrealized gains and losses on investments	(470)			(470)
Contributions	47	1,158		1,205
Net assets released for capital acquisitions	7,706	33		7,739
Transfers to related entities	1,137	(9,415)		(8,278)
Change in net assets	(30,688)	(6,424)	-	(37,112)
NET ASSETS — End of year	$ 21,681	$ 7,065	$ -	$ 28,746
TEMPORARY RESTRICTED NET ASSETS				
NET ASSETS — Beginning of year	$ 2,349	$ 779	$ -	$ 3,128
Contributions	9,516	155		9,671
Net assets released from restriction for operating expenses	(1,491)	(188)		(1,679)
Transfer	(17)	17		
Net assets released from restriction for capital acquisitions	(7,706)	(33)		(7,739)
Change in net assets	302	(49)	-	253
NET ASSETS — End of year	$ 2,651	$ 730	$ -	$ 3,381
PERMANENTLY RESTRICTED NET ASSETS				
NET ASSETS — Beginning and end of year	$ 308	$ -	$ -	$ 308