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Form **990**  
 Department of the Treasury  
 Internal Revenue Service

**Return of Organization Exempt From Income Tax**  
**Under section 501(c), 527, or 4947(a)(1) of the Internal Revenue Code (except black lung benefit trust or private foundation)**

▶ The organization may have to use a copy of this return to satisfy state reporting requirements

OMB No 1545-0047  
**2012**  
**Open to Public Inspection**

**A For the 2012 calendar year, or tax year beginning 07-01-2012, 2012, and ending 06-30-2013**

<b>B</b> Check if applicable: <input type="checkbox"/> Address change <input type="checkbox"/> Name change <input type="checkbox"/> Initial return <input type="checkbox"/> Terminated <input type="checkbox"/> Amended return <input type="checkbox"/> Application pending	<b>C</b> Name of organization READING HEALTH SYSTEM		<b>D</b> Employer identification number 23-2201344
	Doing Business As		<b>E</b> Telephone number (484) 628-8445
	Number and street (or P O box if mail is not delivered to street address) PO BOX 16052	Room/suite	
	City or town, state or country, and ZIP + 4 READING, PA 196126052		<b>G</b> Gross receipts \$ 2,565,708,144

<b>F</b> Name and address of principal officer CLINT MATTHEWS SEE SCHEDULE O PO BOX 6052 READING, PA 196126052	<b>H(a)</b> Is this a group return for affiliates? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No <b>H(b)</b> Are all affiliates included? <input type="checkbox"/> Yes <input type="checkbox"/> No If "No," attach a list (see instructions) <b>H(c)</b> Group exemption number ▶
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<b>I</b> Tax-exempt status <input checked="" type="checkbox"/> 501(c)(3) <input type="checkbox"/> 501(c) ( ) (Insert no ) <input type="checkbox"/> 4947(a)(1) or <input type="checkbox"/> 527	<b>J</b> Website: ▶	<b>K</b> Form of organization <input checked="" type="checkbox"/> Corporation <input type="checkbox"/> Trust <input type="checkbox"/> Association <input type="checkbox"/> Other ▶	<b>L</b> Year of formation 1982	<b>M</b> State of legal domicile PA
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**Part I Summary**

<b>Activities &amp; Governance</b>	<b>1</b> Briefly describe the organization's mission or most significant activities AS A HEALTH CARE SYSTEM PARENT COMPANY, THE READING HEALTH SYSTEM IS DEDICATED TO PROVIDING HIGH QUALITY AND ACCESSIBLE HEALTH CARE THAT MEETS THE NEEDS OF THE PEOPLE AND COMMUNITIES IT SERVES		
	<b>2</b> Check this box <input type="checkbox"/> if the organization discontinued its operations or disposed of more than 25% of its net assets		
	<b>3</b> Number of voting members of the governing body (Part VI, line 1a)	<b>3</b>	21
	<b>4</b> Number of independent voting members of the governing body (Part VI, line 1b)	<b>4</b>	18
	<b>5</b> Total number of individuals employed in calendar year 2012 (Part V, line 2a)	<b>5</b>	0
	<b>6</b> Total number of volunteers (estimate if necessary)	<b>6</b>	28
	<b>7a</b> Total unrelated business revenue from Part VIII, column (C), line 12	<b>7a</b>	0
<b>b</b> Net unrelated business taxable income from Form 990-T, line 34	<b>7b</b>		
<b>Revenue</b>	<b>8</b> Contributions and grants (Part VIII, line 1h)	<b>Prior Year</b>	<b>Current Year</b>
	<b>9</b> Program service revenue (Part VIII, line 2g)		0
	<b>10</b> Investment income (Part VIII, column (A), lines 3, 4, and 7d)	19,243,559	78,513,002
	<b>11</b> Other revenue (Part VIII, column (A), lines 5, 6d, 8c, 9c, 10c, and 11e)		0
	<b>12</b> Total revenue—add lines 8 through 11 (must equal Part VIII, column (A), line 12)	19,243,559	78,513,002
<b>Expenses</b>	<b>13</b> Grants and similar amounts paid (Part IX, column (A), lines 1–3)		0
	<b>14</b> Benefits paid to or for members (Part IX, column (A), line 4)		0
	<b>15</b> Salaries, other compensation, employee benefits (Part IX, column (A), lines 5–10)		0
	<b>16a</b> Professional fundraising fees (Part IX, column (A), line 11e)		0
	<b>b</b> Total fundraising expenses (Part IX, column (D), line 25) ▶ <sup>0</sup>		
	<b>17</b> Other expenses (Part IX, column (A), lines 11a–11d, 11f–24e)	41,398,104	2,004,000
<b>18</b> Total expenses Add lines 13–17 (must equal Part IX, column (A), line 25)	41,398,104	2,004,000	
<b>19</b> Revenue less expenses Subtract line 18 from line 12	-22,154,545	76,509,002	
<b>Net Assets or Fund Balances</b>	<b>20</b> Total assets (Part X, line 16)	<b>Beginning of Current Year</b>	<b>End of Year</b>
	<b>21</b> Total liabilities (Part X, line 26)	1,398,096,309	1,487,171,859
	<b>22</b> Net assets or fund balances Subtract line 21 from line 20	686,371,752	659,009,039

**Part II Signature Block**

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete Declaration of preparer (other than officer) is based on all information of which preparer has any knowledge

<b>Sign Here</b>	***** Signature of officer	2014-02-17 Date
	RICHARD W JONES CHIEF FINANCIAL OFFICER Type or print name and title	

<b>Paid Preparer Use Only</b>	Prnt/Type preparer's name PRICEWATERHOUSECOOPERS LLP	Preparer's signature	Date 2014-04-28	Check <input type="checkbox"/> if self-employed	PTIN
	Firm's name ▶ PRICEWATERHOUSECOOPERS LLP			Firm's EIN ▶	
	Firm's address ▶ 2001 MARKET ST STE 170000 PHILADELPHIA, PA 19103			Phone no (267) 330-3000	

May the IRS discuss this return with the preparer shown above? (see instructions)  Yes  No

Part III Statement of Program Service Accomplishments

Check if Schedule O contains a response to any question in this Part III

1 Briefly describe the organization's mission

AS A HEALTH CARE SYSTEM PARENT COMPANY, THE READING HEALTH SYSTEM IS DEDICATED TO PROVIDING HIGH QUALITY AND ACCESSIBLE HEALTH CARE THAT MEETS THE NEEDS OF THE PEOPLE AND COMMUNITIES IT SERVES

2 Did the organization undertake any significant program services during the year which were not listed on the prior Form 990 or 990-EZ? Yes No

If "Yes," describe these new services on Schedule O

3 Did the organization cease conducting, or make significant changes in how it conducts, any program services? Yes No

If "Yes," describe these changes on Schedule O

4 Describe the organization's program service accomplishments for each of its three largest program services, as measured by expenses Section 501(c)(3) and 501(c)(4) organizations are required to report the amount of grants and allocations to others, the total expenses, and revenue, if any, for each program service reported

4a (Code) (Expenses \$ including grants of \$) (Revenue \$)

REINVESTING RESOURCES INTO THE HEALTH OF OUR COMMUNITY (SEE SCHEDULE O) ASK SOMEONE TO DEFINE A HEALTH SYSTEM'S ROLE IN THE COMMUNITY, AND MOST OFTEN YOU HEAR ABOUT SERVICES AND DEPARTMENTS, OR ABOUT DOCTORS, NURSES AND OTHER CAREGIVERS IN ADDITION TO ITS PRIMARY ROLE AS A PROVIDER OF DIRECT CARE, READING HEALTH SYSTEM ADDRESSES ISSUES OUTSIDE THAT REALM THAT IMPACT HEALTH AND WELLNESS IN FACT, A KEY PART OF OUR MISSION MEANS THE REINVESTMENT OF OUR RESOURCES INTO THESE EFFORTS, WHICH ARE COLLECTIVELY KNOWN AS COMMUNITY BENEFIT WE ARE PROUD TO REPORT THAT IN OUR LAST FISCAL YEAR, WE COMMITTED APPROXIMATELY 151 MILLION TO THIS CAUSE OUR CAREGIVERS AND SUPPORT STAFF PARTICIPATE IN HEALTH EDUCATION, FREE SCREENINGS, AND IMMUNIZATIONS THEY SUPPORT ACTIVITIES FOR INDIVIDUALS WITH SERIOUS OR CHRONIC HEALTH CONDITIONS, ADVANCE SELF-CARE BY INCREASING HEALTHCARE KNOWLEDGE, AND ADDRESS SPECIFIC COMMUNITY NEEDS THROUGH AN ARRAY OF OTHER EDUCATIONAL, SERVICE AND OUTREACH ACTIVITIES HERE ARE A FEW EXAMPLES OF WHY THESE PROGRAMS REPRESENT THE BEST OF ALL OF US, WORKING TOGETHER FOR THE HEALTH OF OUR COMMUNITY MAKING BERKS COUNTY EVEN MORE HEARTSAFE HEARTSAFE BERKS COUNTY IS AN INNOVATIVE PROGRAM THAT PLACES AUTOMATIC EXTERNAL DEFIBRILLATORS (AEDS) IN KEY INSTITUTIONS THROUGHOUT THE COUNTY AN AED CAN HELP REVIVE A PERSON WHOSE HEART HAS STOPPED BEFORE EMERGENCY MEDICAL PERSONNEL ARRIVE THROUGH THE NEW EMPLOYEE ENGAGEMENT INITIATIVE, READING HEALTH EMPLOYEES GET THE OPPORTUNITY TO TAKE PAID TIME TO PARTICIPATE IN ONE COMMUNITY VOLUNTEER ACTIVITY EACH YEAR SCREENINGS FOR BETTER HEALTH SCREENING TESTS CAN HELP FIND CANCER AT AN EARLY STAGE, BEFORE SYMPTOMS APPEAR AS THE NATIONAL CANCER INSTITUTE EXPLAINS, WHEN ABNORMAL TISSUE OR CANCER IS FOUND EARLY, IT MAY BE EASIER TO TREAT OR CURE EACH YEAR, WE OFFER POTENTIALLY LIFE-SAVING FREE CANCER SCREENINGS THEY INCLUDE BREAST, CERVICAL, PROSTATE, SKIN, AND ORAL CANCERS NOW IN ITS SEVENTH YEAR, OUR INJURY PREVENTION PROGRAM REACHES THOUSANDS OF AREA RESIDENTS, EDUCATING THEM IN SAFETY AS A WAY OF LIFE THE GOAL IS TO PREVENT THOSE ACCIDENTS AND INJURIES THAT RESULT IN THE HIGHEST PATIENT VOLUME IN OUR TRAUMA CENTER OUR TRAUMA CENTER'S EDUCATION COORDINATOR PARTICIPATES IN AND RECRUITS STAFF TO HELP WITH PROGRAMS SUCH AS "DARE TO PREPARE," A PROGRAM IN PARTNERSHIP WITH AAA AND THE PENNSYLVANIA DEPARTMENT OF TRANSPORTATION, WHICH ASSISTS PARENTS IN PREPARING TEENS FOR DRIVING BY REVIEWING RISKS AND DISTRACTIONS FOR NEW DRIVERS "VISITS TO ELEMENTARY SCHOOLS TO REVIEW SAFETY ISSUES ON THE PLAYGROUND AND SCHOOL BUSES, AS WELL AS TO PROMOTE THE USE OF BIKE HELMETS "CARFIT" EDUCATIONAL EVENTS FOR OLDER DRIVERS, WHICH REVIEW A SENIOR'S DRIVING SKILLS AND DISTRACTIONS ON THE ROAD AGING BODIES ARE MORE FRAGILE AND VULNERABLE IN A CAR CRASH, SO MAKING SURE A CAR IS PROPERLY "FITTED" FOR A SENIOR DRIVER GREATLY INCREASES THE DRIVER'S SAFETY "FIRST AID STATIONS AT MAJOR COMMUNITY EVENTS, SUCH AS THE READING FAIR, MAPLE GROVE RACEWAY EVENTS, AND MID-ATLANTIC AIR MUSEUM'S WORLD WAR II WEEKEND CREATING GREATER ACCESS IN PARTNERSHIP WITH LEADING COMMUNITY ORGANIZATIONS, READING HEALTH SYSTEM HELPED CREATE A FEDERALLY QUALIFIED HEALTH CENTER IN DOWNTOWN READING THE NEW BERKS COMMUNITY HEALTH CENTER, LOCATED AT THE SITE OF THE FORMER READING HEALTH DISPENSARY, OPENED IN JUNE A FORMAL MEMORANDUM OF AGREEMENT TRANSFERRED THE OPERATIONS OF THE DISPENSARY FROM READING HOSPITAL TO THE BOARD OF BCHC BECAUSE FEDERALLY QUALIFIED HEALTH CENTERS RECEIVE HIGHER REIMBURSEMENT AND GRANTS FROM THE FEDERAL GOVERNMENT, THIS MOVE SHOULD RESULT IN GREATER ACCESS IN TERMS OF BOTH NUMBER OF PATIENTS SERVED AND TYPES OF SERVICES OFFERED TO UNDERSERVED MEMBERS OF THE COMMUNITY ASKING THE QUESTIONS READING HEALTH SYSTEM JOINED WITH ST JOSEPH MEDICAL CENTER, UNITED WAY OF BERKS COUNTY, AND BERKS COMMUNITY FOUNDATION TO CONDUCT A QUANTITATIVE SURVEY OF COMMUNITY NEEDS UNDER THE GUIDANCE OF A COMMUNITY HEALTH NEEDS ASSESSMENT ADVISORY BOARD, THESE ORGANIZATIONS ENGAGED PUBLIC HEALTH MANAGEMENT COMPANY TO CONDUCT A HEALTH SURVEY OF BERKS COUNTY RESIDENTS THIS SUMMER READING HOSPITAL ALSO CONDUCTED A SEPARATE RESEARCH PROJECT TARGETING INDIVIDUALS WHO LIVE IN THE CITY OF READING RESULTS FROM BOTH INITIATIVES, ALONG WITH ANECDOTAL INFORMATION ON SERVICE UTILIZATION AND GAPS, WILL DRIVE FUTURE COMMUNITY BENEFIT ACTIVITIES COMMUNITY BENEFIT TOTAL 152,526,230 (FISCAL YEAR 2013) DIRECT PATIENT CARE UNREIMBURSED MEDICARE 66.3 MILLION (ESTIMATED 49,000 INDIVIDUALS) THE DIFFERENCE BETWEEN MEDICARE CHARGES AND MEDICARE PAYMENTS AND THE ACTUAL COST OF PROVIDING PATIENT CARE UNREIMBURSED MEDICAID 35.3 MILLION (ESTIMATED 37,400 INDIVIDUALS) THE DIFFERENCE BETWEEN MEDICAL ASSISTANCE CHARGES AND MEDICAID PAYMENTS AND THE ACTUAL COST OF PROVIDING PATIENT CARE BAD DEBT 10.7 MILLION (ESTIMATED 29,600 INDIVIDUALS) THE COST OF PROVIDING CARE TO PATIENTS WHOM WE BELIEVE WOULD QUALIFY FOR FINANCIAL ASSISTANCE UNDER OUR CHARITY CARE POLICY UNCOMPENSATED CHARITY CARE 17.4 MILLION (ESTIMATED 4,000 INDIVIDUALS) FREE HEALTH SERVICES PROVIDED TO PERSONS WHO MEET OUR CRITERIA FOR FINANCIAL ASSISTANCE THIS AMOUNT REFLECTS THE ACTUAL COST OF PROVIDING CARE COMMUNITY HEALTH IMPROVEMENT SERVICES PATIENT CARE COMMUNITY SERVICES 3.2 MILLION INCLUDES FREE FLU SHOTS, CANCER SCREENINGS, MEDICATIONS, MEDICAL EQUIPMENT AND TRANSPORTATION FOR COMMUNITY MEMBERS, FREE INTERPRETING SERVICES, AND FREE COMMUNITY HELP LINE COMMUNITY HEALTH EDUCATION 0.5 MILLION INCLUDES HEALTH EDUCATION PROGRAMS, CPR CLASSES, SUPPORT GROUPS AND FREE WORKSITE HEALTH EDUCATION PROGRAMS THAT IMPROVE COMMUNITY HEALTH FINANCIAL AND IN-KIND DONATIONS 2.5 MILLION CONTRIBUTIONS MADE BY TRHMC AND ITS EMPLOYERS TO COMMUNITY NON-PROFIT ORGANIZATIONS PROFESSIONAL EDUCATION AND CLINICAL RESEARCH MEDICAL EDUCATION FOR PHYSICIANS/MEDICAL STUDENTS 13.0 MILLION INCLUDES SALARIES AND BENEFITS FOR MEDICAL RESIDENTS, MEDICAL LIBRARY, AND CONTINUING MEDICAL EDUCATION PROGRAMS AVAILABLE TO ALL PHYSICIANS WITHIN THE COMMUNITY ALSO INCLUDES NURSING, PARAMEDIC AND PASTORAL CARE EDUCATION THAT RESULT IN A DEGREE, CERTIFICATE OR TRAINING NECESSARY TO BE LICENSED TO PRACTICE AS A HEALTH PROFESSIONAL INCLUDES CONTINUING MEDICAL EDUCATION PROGRAMS OFFERED TO ALL NURSES IN THE COMMUNITY CANCER CLINICAL RESEARCH AND TUMOR REGISTRY 3.1 MILLION INCLUDES RESEARCH AND CLINICAL TRIALS IN THE AREAS OF CANCER, AND TUMOR REGISTRY EXPENSES

4b (Code) (Expenses \$ including grants of \$) (Revenue \$)

4c (Code) (Expenses \$ including grants of \$) (Revenue \$)

4d Other program services (Describe in Schedule O) (Expenses \$ including grants of \$) (Revenue \$)

4e Total program service expenses

**Part IV Checklist of Required Schedules**

	Yes	No
<b>1</b> Is the organization described in section 501(c)(3) or 4947(a)(1) (other than a private foundation)? <i>If "Yes," complete Schedule A</i> <input checked="" type="checkbox"/>	Yes	
<b>2</b> Is the organization required to complete <i>Schedule B, Schedule of Contributors</i> (see instructions)?		No
<b>3</b> Did the organization engage in direct or indirect political campaign activities on behalf of or in opposition to candidates for public office? <i>If "Yes," complete Schedule C, Part I</i>		No
<b>4 Section 501(c)(3) organizations.</b> Did the organization engage in lobbying activities, or have a section 501(h) election in effect during the tax year? <i>If "Yes," complete Schedule C, Part II</i>		No
<b>5</b> Is the organization a section 501(c)(4), 501(c)(5), or 501(c)(6) organization that receives membership dues, assessments, or similar amounts as defined in Revenue Procedure 98-19? <i>If "Yes," complete Schedule C, Part III</i>		No
<b>6</b> Did the organization maintain any donor advised funds or any similar funds or accounts for which donors have the right to provide advice on the distribution or investment of amounts in such funds or accounts? <i>If "Yes," complete Schedule D, Part I</i> <input checked="" type="checkbox"/>		No
<b>7</b> Did the organization receive or hold a conservation easement, including easements to preserve open space, the environment, historic land areas, or historic structures? <i>If "Yes," complete Schedule D, Part II</i> <input checked="" type="checkbox"/>		No
<b>8</b> Did the organization maintain collections of works of art, historical treasures, or other similar assets? <i>If "Yes," complete Schedule D, Part III</i> <input checked="" type="checkbox"/>		No
<b>9</b> Did the organization report an amount in Part X, line 21 for escrow or custodial account liability, serve as a custodian for amounts not listed in Part X, or provide credit counseling, debt management, credit repair, or debt negotiation services? <i>If "Yes," complete Schedule D, Part IV</i> <input checked="" type="checkbox"/>		No
<b>10</b> Did the organization, directly or through a related organization, hold assets in temporarily restricted endowments, permanent endowments, or quasi-endowments? <i>If "Yes," complete Schedule D, Part V</i> <input checked="" type="checkbox"/>	Yes	
<b>11</b> If the organization's answer to any of the following questions is "Yes," then complete Schedule D, Parts VI, VII, VIII, IX, or X as applicable		
<b>a</b> Did the organization report an amount for land, buildings, and equipment in Part X, line 10? <i>If "Yes," complete Schedule D, Part VI</i> <input checked="" type="checkbox"/>	Yes	
<b>b</b> Did the organization report an amount for investments—other securities in Part X, line 12 that is 5% or more of its total assets reported in Part X, line 16? <i>If "Yes," complete Schedule D, Part VII</i> <input checked="" type="checkbox"/>		No
<b>c</b> Did the organization report an amount for investments—program related in Part X, line 13 that is 5% or more of its total assets reported in Part X, line 16? <i>If "Yes," complete Schedule D, Part VIII</i> <input checked="" type="checkbox"/>		No
<b>d</b> Did the organization report an amount for other assets in Part X, line 15 that is 5% or more of its total assets reported in Part X, line 16? <i>If "Yes," complete Schedule D, Part IX</i> <input checked="" type="checkbox"/>		No
<b>e</b> Did the organization report an amount for other liabilities in Part X, line 25? <i>If "Yes," complete Schedule D, Part X</i> <input checked="" type="checkbox"/>	Yes	
<b>f</b> Did the organization's separate or consolidated financial statements for the tax year include a footnote that addresses the organization's liability for uncertain tax positions under FIN 48 (ASC 740)? <i>If "Yes," complete Schedule D, Part X</i> <input checked="" type="checkbox"/>		No
<b>12a</b> Did the organization obtain separate, independent audited financial statements for the tax year? <i>If "Yes," complete Schedule D, Parts XI and XII</i> <input checked="" type="checkbox"/>		No
<b>b</b> Was the organization included in consolidated, independent audited financial statements for the tax year? <i>If "Yes," and if the organization answered "No" to line 12a, then completing Schedule D, Parts XI and XII is optional</i> <input checked="" type="checkbox"/>	Yes	
<b>13</b> Is the organization a school described in section 170(b)(1)(A)(ii)? <i>If "Yes," complete Schedule E</i>		No
<b>14a</b> Did the organization maintain an office, employees, or agents outside of the United States?		No
<b>b</b> Did the organization have aggregate revenues or expenses of more than \$10,000 from grantmaking, fundraising, business, investment, and program service activities outside the United States, or aggregate foreign investments valued at \$100,000 or more? <i>If "Yes," complete Schedule F, Parts I and IV</i>		No
<b>15</b> Did the organization report on Part IX, column (A), line 3, more than \$5,000 of grants or assistance to any organization or entity located outside the United States? <i>If "Yes," complete Schedule F, Parts II and IV</i>		No
<b>16</b> Did the organization report on Part IX, column (A), line 3, more than \$5,000 of aggregate grants or assistance to individuals located outside the United States? <i>If "Yes," complete Schedule F, Parts III and IV</i>		No
<b>17</b> Did the organization report a total of more than \$15,000 of expenses for professional fundraising services on Part IX, column (A), lines 6 and 11e? <i>If "Yes," complete Schedule G, Part I (see instructions)</i>		No
<b>18</b> Did the organization report more than \$15,000 total of fundraising event gross income and contributions on Part VIII, lines 1c and 8a? <i>If "Yes," complete Schedule G, Part II</i>		No
<b>19</b> Did the organization report more than \$15,000 of gross income from gaming activities on Part VIII, line 9a? <i>If "Yes," complete Schedule G, Part III</i>		No
<b>20a</b> Did the organization operate one or more hospital facilities? <i>If "Yes," complete Schedule H</i>		No
<b>b</b> If "Yes" to line 20a, did the organization attach a copy of its audited financial statements to this return?		

**Part IV Checklist of Required Schedules** (continued)

<b>21</b>	Did the organization report more than \$5,000 of grants and other assistance to any government or organization in the United States on Part IX, column (A), line 1? <i>If "Yes," complete Schedule I, Parts I and II</i> . . . . .	<b>21</b>		No
<b>22</b>	Did the organization report more than \$5,000 of grants and other assistance to individuals in the United States on Part IX, column (A), line 2? <i>If "Yes," complete Schedule I, Parts I and III</i> . . . . .	<b>22</b>		No
<b>23</b>	Did the organization answer "Yes" to Part VII, Section A, line 3, 4, or 5 about compensation of the organization's current and former officers, directors, trustees, key employees, and highest compensated employees? <i>If "Yes," complete Schedule J</i> . . . . .	<b>23</b>	Yes	
<b>24a</b>	Did the organization have a tax-exempt bond issue with an outstanding principal amount of more than \$100,000 as of the last day of the year, that was issued after December 31, 2002? <i>If "Yes," answer lines 24b through 24d and complete Schedule K. If "No," go to line 25</i> . . . . .	<b>24a</b>	Yes	
<b>b</b>	Did the organization invest any proceeds of tax-exempt bonds beyond a temporary period exception? . . . . .	<b>24b</b>		No
<b>c</b>	Did the organization maintain an escrow account other than a refunding escrow at any time during the year to defease any tax-exempt bonds? . . . . .	<b>24c</b>		No
<b>d</b>	Did the organization act as an "on behalf of" issuer for bonds outstanding at any time during the year? . . . . .	<b>24d</b>		No
<b>25a</b>	<b>Section 501(c)(3) and 501(c)(4) organizations.</b> Did the organization engage in an excess benefit transaction with a disqualified person during the year? <i>If "Yes," complete Schedule L, Part I</i> . . . . .	<b>25a</b>		No
<b>b</b>	Is the organization aware that it engaged in an excess benefit transaction with a disqualified person in a prior year, and that the transaction has not been reported on any of the organization's prior Forms 990 or 990-EZ? <i>If "Yes," complete Schedule L, Part I</i> . . . . .	<b>25b</b>		No
<b>26</b>	Was a loan to or by a current or former officer, director, trustee, key employee, highest compensated employee, or disqualified person outstanding as of the end of the organization's tax year? <i>If "Yes," complete Schedule L, Part II</i> . . . . .	<b>26</b>		No
<b>27</b>	Did the organization provide a grant or other assistance to an officer, director, trustee, key employee, substantial contributor or employee thereof, a grant selection committee member, or to a 35% controlled entity or family member of any of these persons? <i>If "Yes," complete Schedule L, Part III</i> . . . . .	<b>27</b>		No
<b>28</b>	Was the organization a party to a business transaction with one of the following parties (see Schedule L, Part IV instructions for applicable filing thresholds, conditions, and exceptions)			
<b>a</b>	A current or former officer, director, trustee, or key employee? <i>If "Yes," complete Schedule L, Part IV</i> . . . . .	<b>28a</b>		No
<b>b</b>	A family member of a current or former officer, director, trustee, or key employee? <i>If "Yes," complete Schedule L, Part IV</i> . . . . .	<b>28b</b>		No
<b>c</b>	An entity of which a current or former officer, director, trustee, or key employee (or a family member thereof) was an officer, director, trustee, or direct or indirect owner? <i>If "Yes," complete Schedule L, Part IV</i> . . . . .	<b>28c</b>		No
<b>29</b>	Did the organization receive more than \$25,000 in non-cash contributions? <i>If "Yes," complete Schedule M</i> . . . . .	<b>29</b>		No
<b>30</b>	Did the organization receive contributions of art, historical treasures, or other similar assets, or qualified conservation contributions? <i>If "Yes," complete Schedule M</i> . . . . .	<b>30</b>		No
<b>31</b>	Did the organization liquidate, terminate, or dissolve and cease operations? <i>If "Yes," complete Schedule N, Part I</i> . . . . .	<b>31</b>		No
<b>32</b>	Did the organization sell, exchange, dispose of, or transfer more than 25% of its net assets? <i>If "Yes," complete Schedule N, Part II</i> . . . . .	<b>32</b>		No
<b>33</b>	Did the organization own 100% of an entity disregarded as separate from the organization under Regulations sections 301.7701-2 and 301.7701-3? <i>If "Yes," complete Schedule R, Part I</i> . . . . .	<b>33</b>		No
<b>34</b>	Was the organization related to any tax-exempt or taxable entity? <i>If "Yes," complete Schedule R, Part II, III, or IV, and Part V, line 1</i> . . . . .	<b>34</b>	Yes	
<b>35a</b>	Did the organization have a controlled entity within the meaning of section 512(b)(13)?	<b>35a</b>	Yes	
<b>b</b>	If 'Yes' to line 35a, did the organization receive any payment from or engage in any transaction with a controlled entity within the meaning of section 512(b)(13)? <i>If "Yes," complete Schedule R, Part V, line 2</i> . . . . .	<b>35b</b>	Yes	
<b>36</b>	<b>Section 501(c)(3) organizations.</b> Did the organization make any transfers to an exempt non-charitable related organization? <i>If "Yes," complete Schedule R, Part V, line 2</i> . . . . .	<b>36</b>		No
<b>37</b>	Did the organization conduct more than 5% of its activities through an entity that is not a related organization and that is treated as a partnership for federal income tax purposes? <i>If "Yes," complete Schedule R, Part VI</i> . . . . .	<b>37</b>		No
<b>38</b>	Did the organization complete Schedule O and provide explanations in Schedule O for Part VI, lines 11b and 19? <b>Note.</b> All Form 990 filers are required to complete Schedule O . . . . .	<b>38</b>	Yes	

**Part V Statements Regarding Other IRS Filings and Tax Compliance**

Check if Schedule O contains a response to any question in this Part V

		Yes	No
<b>1a</b>	Enter the number reported in Box 3 of Form 1096. Enter -0- if not applicable.		
<b>1b</b>	Enter the number of Forms W-2G included in line 1a. Enter -0- if not applicable.		
<b>1c</b>	Did the organization comply with backup withholding rules for reportable payments to vendors and reportable gaming (gambling) winnings to prize winners?	Yes	
<b>2a</b>	Enter the number of employees reported on Form W-3, Transmittal of Wage and Tax Statements, filed for the calendar year ending with or within the year covered by this return.		
<b>2b</b>	If at least one is reported on line 2a, did the organization file all required federal employment tax returns? <b>Note.</b> If the sum of lines 1a and 2a is greater than 250, you may be required to e-file (see instructions).		
<b>3a</b>	Did the organization have unrelated business gross income of \$1,000 or more during the year?		No
<b>3b</b>	If "Yes," has it filed a Form 990-T for this year? If "No," provide an explanation in Schedule O.		
<b>4a</b>	At any time during the calendar year, did the organization have an interest in, or a signature or other authority over, a financial account in a foreign country (such as a bank account, securities account, or other financial account)?		No
<b>b</b>	If "Yes," enter the name of the foreign country: _____ See instructions for filing requirements for Form TD F 90-22.1, Report of Foreign Bank and Financial Accounts.		
<b>5a</b>	Was the organization a party to a prohibited tax shelter transaction at any time during the tax year?		No
<b>5b</b>	Did any taxable party notify the organization that it was or is a party to a prohibited tax shelter transaction?		No
<b>5c</b>	If "Yes," to line 5a or 5b, did the organization file Form 8886-T?		
<b>6a</b>	Does the organization have annual gross receipts that are normally greater than \$100,000, and did the organization solicit any contributions that were not tax deductible as charitable contributions?		No
<b>6b</b>	If "Yes," did the organization include with every solicitation an express statement that such contributions or gifts were not tax deductible?		
<b>7</b>	<b>Organizations that may receive deductible contributions under section 170(c).</b>		
<b>a</b>	Did the organization receive a payment in excess of \$75 made partly as a contribution and partly for goods and services provided to the payor?		No
<b>7b</b>	If "Yes," did the organization notify the donor of the value of the goods or services provided?		
<b>7c</b>	Did the organization sell, exchange, or otherwise dispose of tangible personal property for which it was required to file Form 8282?		No
<b>7d</b>	If "Yes," indicate the number of Forms 8282 filed during the year.		
<b>7e</b>	Did the organization receive any funds, directly or indirectly, to pay premiums on a personal benefit contract?		No
<b>7f</b>	Did the organization, during the year, pay premiums, directly or indirectly, on a personal benefit contract?		No
<b>7g</b>	If the organization received a contribution of qualified intellectual property, did the organization file Form 8899 as required?		
<b>7h</b>	If the organization received a contribution of cars, boats, airplanes, or other vehicles, did the organization file a Form 1098-C?		
<b>8</b>	<b>Sponsoring organizations maintaining donor advised funds and section 509(a)(3) supporting organizations.</b> Did the supporting organization, or a donor advised fund maintained by a sponsoring organization, have excess business holdings at any time during the year?		
<b>9</b>	<b>Sponsoring organizations maintaining donor advised funds.</b>		
<b>9a</b>	Did the organization make any taxable distributions under section 4966?		
<b>9b</b>	Did the organization make a distribution to a donor, donor advisor, or related person?		
<b>10</b>	<b>Section 501(c)(7) organizations.</b> Enter		
<b>10a</b>	Initiation fees and capital contributions included on Part VIII, line 12.		
<b>10b</b>	Gross receipts, included on Form 990, Part VIII, line 12, for public use of club facilities.		
<b>11</b>	<b>Section 501(c)(12) organizations.</b> Enter		
<b>11a</b>	Gross income from members or shareholders.		
<b>11b</b>	Gross income from other sources (Do not net amounts due or paid to other sources against amounts due or received from them).		
<b>12a</b>	<b>Section 4947(a)(1) non-exempt charitable trusts.</b> Is the organization filing Form 990 in lieu of Form 1041?		
<b>12b</b>	If "Yes," enter the amount of tax-exempt interest received or accrued during the year.		
<b>13</b>	<b>Section 501(c)(29) qualified nonprofit health insurance issuers.</b>		
<b>13a</b>	Is the organization licensed to issue qualified health plans in more than one state? <b>Note.</b> See the instructions for additional information the organization must report on Schedule O.		
<b>13b</b>	Enter the amount of reserves the organization is required to maintain by the states in which the organization is licensed to issue qualified health plans.		
<b>13c</b>	Enter the amount of reserves on hand.		
<b>14a</b>	Did the organization receive any payments for indoor tanning services during the tax year?		No
<b>14b</b>	If "Yes," has it filed a Form 720 to report these payments? If "No," provide an explanation in Schedule O.		

Part VI Governance, Management, and Disclosure For each "Yes" response to lines 2 through 7b below, and for a "No" response to lines 8a, 8b, or 10b below, describe the circumstances, processes, or changes in Schedule O. See instructions.

Check if Schedule O contains a response to any question in this Part VI . . . . . [X]

Section A. Governing Body and Management

Table with 3 columns: Question, Yes, No. Rows include: 1a (21), 1b (18), 2 (Yes), 3 (No), 4 (No), 5 (No), 6 (Yes), 7a (Yes), 7b (Yes), 8a (Yes), 8b (Yes), 9 (No).

Section B. Policies (This Section B requests information about policies not required by the Internal Revenue Code.)

Table with 3 columns: Question, Yes, No. Rows include: 10a (No), 10b, 11a (Yes), 12a (Yes), 12b (Yes), 12c (Yes), 13 (Yes), 14 (Yes), 15a (Yes), 15b (Yes), 16a (No), 16b.

Section C. Disclosure

- 17 List the States with which a copy of this Form 990 is required to be filed PA
18 Section 6104 requires an organization to make its Form 1023 (or 1024 if applicable), 990, and 990-T (501(c) (3)s only) available for public inspection. Indicate how you made these available. Check all that apply. [ ] Own website [ ] Another's website [X] Upon request [ ] Other (explain in Schedule O)
19 Describe in Schedule O whether (and if so, how), the organization made its governing documents, conflict of interest policy, and financial statements available to the public during the tax year
20 State the name, physical address, and telephone number of the person who possesses the books and records of the organization. RICHARD W JONES CFO SIXTH AVE SPRUCE ST WEST READING, PA (484) 628-8445





**Part VIII Statement of Revenue**

Check if Schedule O contains a response to any question in this Part VIII

		(A) Total revenue	(B) Related or exempt function revenue	(C) Unrelated business revenue	(D) Revenue excluded from tax under sections 512, 513, or 514	
<b>Contributions, Gifts, Grants and Other Similar Amounts</b>	<b>1a</b> Federated campaigns . . . <b>1a</b> _____					
	<b>b</b> Membership dues . . . . . <b>1b</b> _____					
	<b>c</b> Fundraising events . . . . . <b>1c</b> _____					
	<b>d</b> Related organizations . . . . . <b>1d</b> _____					
	<b>e</b> Government grants (contributions) <b>1e</b> _____					
	<b>f</b> All other contributions, gifts, grants, and similar amounts not included above <b>1f</b> _____					
	<b>g</b> Noncash contributions included in lines 1a-1f \$ _____					
	<b>h Total.</b> Add lines 1a-1f . . . . . <b>▶</b>					
<b>Program Service Revenue</b>	<b>2a</b> _____ Business Code _____					
	<b>b</b> _____					
	<b>c</b> _____					
	<b>d</b> _____					
	<b>e</b> _____					
	<b>f</b> All other program service revenue					
	<b>g Total.</b> Add lines 2a-2f . . . . . <b>▶</b>					
<b>Other Revenue</b>	<b>3</b> Investment income (including dividends, interest, and other similar amounts) . . . . . <b>▶</b>	18,257,645			18,257,645	
	<b>4</b> Income from investment of tax-exempt bond proceeds . . . . . <b>▶</b>					
	<b>5</b> Royalties . . . . . <b>▶</b>					
	<b>6a</b> Gross rents	(i) Real				
		(ii) Personal				
		<b>b</b> Less rental expenses				
		<b>c</b> Rental income or (loss)				
	<b>d</b> Net rental income or (loss) . . . . . <b>▶</b>					
	<b>7a</b> Gross amount from sales of assets other than inventory	(i) Securities	2,547,450,499			
		(ii) Other				
		<b>b</b> Less cost or other basis and sales expenses	2,487,195,142			
		<b>c</b> Gain or (loss)	60,255,357			
	<b>d</b> Net gain or (loss) . . . . . <b>▶</b>	60,255,357			60,255,357	
	<b>8a</b> Gross income from fundraising events (not including \$ _____ of contributions reported on line 1c) See Part IV, line 18 . . . . . <b>a</b> _____					
		<b>b</b> Less direct expenses . . . . . <b>b</b> _____				
<b>c</b> Net income or (loss) from fundraising events . . . . . <b>▶</b>						
<b>9a</b> Gross income from gaming activities See Part IV, line 19 . . . . . <b>a</b> _____						
	<b>b</b> Less direct expenses . . . . . <b>b</b> _____					
	<b>c</b> Net income or (loss) from gaming activities . . . . . <b>▶</b>					
<b>10a</b> Gross sales of inventory, less returns and allowances . . . . . <b>a</b> _____						
	<b>b</b> Less cost of goods sold . . . . . <b>b</b> _____					
	<b>c</b> Net income or (loss) from sales of inventory . . . . . <b>▶</b>					
Miscellaneous Revenue	Business Code					
<b>11a</b> _____						
	<b>b</b> _____					
	<b>c</b> _____					
	<b>d</b> All other revenue . . . . .					
<b>e Total.</b> Add lines 11a-11d . . . . . <b>▶</b>						
<b>12 Total revenue.</b> See Instructions . . . . . <b>▶</b>	78,513,002			78,513,002		

**Part IX Statement of Functional Expenses**

Section 501(c)(3) and 501(c)(4) organizations must complete all columns. All other organizations must complete column (A)

Check if Schedule O contains a response to any question in this Part IX

Do not include amounts reported on lines 6b, 7b, 8b, 9b, and 10b of Part VIII.		(A) Total expenses	(B) Program service expenses	(C) Management and general expenses	(D) Fundraising expenses
<b>1</b>	Grants and other assistance to governments and organizations in the United States. See Part IV, line 21.				
<b>2</b>	Grants and other assistance to individuals in the United States. See Part IV, line 22.				
<b>3</b>	Grants and other assistance to governments, organizations, and individuals outside the United States. See Part IV, lines 15 and 16.				
<b>4</b>	Benefits paid to or for members.				
<b>5</b>	Compensation of current officers, directors, trustees, and key employees.				
<b>6</b>	Compensation not included above, to disqualified persons (as defined under section 4958(f)(1)) and persons described in section 4958(c)(3)(B).				
<b>7</b>	Other salaries and wages.				
<b>8</b>	Pension plan accruals and contributions (include section 401(k) and 403(b) employer contributions).				
<b>9</b>	Other employee benefits.				
<b>10</b>	Payroll taxes.				
<b>11</b>	Fees for services (non-employees)				
<b>a</b>	Management				
<b>b</b>	Legal				
<b>c</b>	Accounting				
<b>d</b>	Lobbying				
<b>e</b>	Professional fundraising services. See Part IV, line 17.				
<b>f</b>	Investment management fees	2,004,000		2,004,000	
<b>g</b>	Other (If line 11g amount exceeds 10% of line 25, column (A) amount, list line 11g expenses on Schedule O)				
<b>12</b>	Advertising and promotion				
<b>13</b>	Office expenses				
<b>14</b>	Information technology				
<b>15</b>	Royalties				
<b>16</b>	Occupancy				
<b>17</b>	Travel				
<b>18</b>	Payments of travel or entertainment expenses for any federal, state, or local public officials				
<b>19</b>	Conferences, conventions, and meetings				
<b>20</b>	Interest				
<b>21</b>	Payments to affiliates				
<b>22</b>	Depreciation, depletion, and amortization				
<b>23</b>	Insurance				
<b>24</b>	Other expenses. Itemize expenses not covered above (List miscellaneous expenses in line 24e. If line 24e amount exceeds 10% of line 25, column (A) amount, list line 24e expenses on Schedule O)				
<b>a</b>					
<b>b</b>					
<b>c</b>					
<b>d</b>					
<b>e</b>	All other expenses				
<b>25</b>	<b>Total functional expenses.</b> Add lines 1 through 24e.	2,004,000	0	2,004,000	0
<b>26</b>	<b>Joint costs.</b> Complete this line only if the organization reported in column (B) joint costs from a combined educational campaign and fundraising solicitation. Check here <input type="checkbox"/> if following SOP 98-2 (ASC 958-720)				

**Part X Balance Sheet**

Check if Schedule O contains a response to any question in this Part X

		(A)		(B)
		Beginning of year		End of year
<b>Assets</b>	<b>1</b> Cash—non-interest-bearing . . . . .		<b>1</b>	
	<b>2</b> Savings and temporary cash investments . . . . .	8,944,900	<b>2</b>	-32
	<b>3</b> Pledges and grants receivable, net . . . . .		<b>3</b>	
	<b>4</b> Accounts receivable, net . . . . .	531,506,458	<b>4</b>	532,948,580
	<b>5</b> Loans and other receivables from current and former officers, directors, trustees, key employees, and highest compensated employees. Complete Part II of Schedule L . . . . .		<b>5</b>	
	<b>6</b> Loans and other receivables from other disqualified persons (as defined under section 4958(f)(1)), persons described in section 4958(c)(3)(B), and contributing employers and sponsoring organizations of section 501(c)(9) voluntary employees' beneficiary organizations (see instructions). Complete Part II of Schedule L . . . . .		<b>6</b>	
	<b>7</b> Notes and loans receivable, net . . . . .		<b>7</b>	
	<b>8</b> Inventories for sale or use . . . . .		<b>8</b>	
	<b>9</b> Prepaid expenses and deferred charges . . . . .		<b>9</b>	
	<b>10a</b> Land, buildings, and equipment cost or other basis. Complete Part VI of Schedule D . . . . .	<b>10a</b> 40,194,230		
	<b>b</b> Less accumulated depreciation . . . . .	<b>10b</b>	38,140,876	<b>10c</b> 40,194,230
	<b>11</b> Investments—publicly traded securities . . . . .	811,763,338	<b>11</b>	900,699,219
	<b>12</b> Investments—other securities. See Part IV, line 11 . . . . .		<b>12</b>	
	<b>13</b> Investments—program-related. See Part IV, line 11 . . . . .		<b>13</b>	
	<b>14</b> Intangible assets . . . . .		<b>14</b>	
	<b>15</b> Other assets. See Part IV, line 11 . . . . .	7,740,737	<b>15</b>	13,329,862
<b>16 Total assets.</b> Add lines 1 through 15 (must equal line 34) . . . . .	1,398,096,309	<b>16</b>	1,487,171,859	
<b>Liabilities</b>	<b>17</b> Accounts payable and accrued expenses . . . . .	7,172,495	<b>17</b>	2,981,226
	<b>18</b> Grants payable . . . . .		<b>18</b>	
	<b>19</b> Deferred revenue . . . . .		<b>19</b>	
	<b>20</b> Tax-exempt bond liabilities . . . . .	597,253,160	<b>20</b>	596,671,702
	<b>21</b> Escrow or custodial account liability. Complete Part IV of Schedule D . . . . .		<b>21</b>	
	<b>22</b> Loans and other payables to current and former officers, directors, trustees, key employees, highest compensated employees, and disqualified persons. Complete Part II of Schedule L . . . . .		<b>22</b>	
	<b>23</b> Secured mortgages and notes payable to unrelated third parties . . . . .		<b>23</b>	
	<b>24</b> Unsecured notes and loans payable to unrelated third parties . . . . .		<b>24</b>	
	<b>25</b> Other liabilities (including federal income tax, payables to related third parties, and other liabilities not included on lines 17-24). Complete Part X of Schedule D . . . . .	81,946,097	<b>25</b>	59,356,111
	<b>26 Total liabilities.</b> Add lines 17 through 25 . . . . .	686,371,752	<b>26</b>	659,009,039
<b>Net Assets or Fund Balances</b>	<b>Organizations that follow SFAS 117 (ASC 958), check here <input checked="" type="checkbox"/> and complete lines 27 through 29, and lines 33 and 34.</b>			
	<b>27</b> Unrestricted net assets . . . . .	711,724,557	<b>27</b>	828,162,820
	<b>28</b> Temporarily restricted net assets . . . . .		<b>28</b>	
	<b>29</b> Permanently restricted net assets . . . . .		<b>29</b>	
	<b>Organizations that do not follow SFAS 117 (ASC 958), check here <input type="checkbox"/> and complete lines 30 through 34.</b>			
	<b>30</b> Capital stock or trust principal, or current funds . . . . .		<b>30</b>	
	<b>31</b> Paid-in or capital surplus, or land, building or equipment fund . . . . .		<b>31</b>	
	<b>32</b> Retained earnings, endowment, accumulated income, or other funds . . . . .		<b>32</b>	
<b>33</b> Total net assets or fund balances . . . . .	711,724,557	<b>33</b>	828,162,820	
<b>34</b> Total liabilities and net assets/fund balances . . . . .	1,398,096,309	<b>34</b>	1,487,171,859	

**Part XI Reconciliation of Net Assets**

Check if Schedule O contains a response to any question in this Part XI

<b>1</b>	Total revenue (must equal Part VIII, column (A), line 12)	<b>1</b>	78,513,002
<b>2</b>	Total expenses (must equal Part IX, column (A), line 25)	<b>2</b>	2,004,000
<b>3</b>	Revenue less expenses Subtract line 2 from line 1	<b>3</b>	76,509,002
<b>4</b>	Net assets or fund balances at beginning of year (must equal Part X, line 33, column (A))	<b>4</b>	711,724,557
<b>5</b>	Net unrealized gains (losses) on investments	<b>5</b>	
<b>6</b>	Donated services and use of facilities	<b>6</b>	
<b>7</b>	Investment expenses	<b>7</b>	
<b>8</b>	Prior period adjustments	<b>8</b>	
<b>9</b>	Other changes in net assets or fund balances (explain in Schedule O)	<b>9</b>	39,929,261
<b>10</b>	Net assets or fund balances at end of year Combine lines 3 through 9 (must equal Part X, line 33, column (B))	<b>10</b>	828,162,820

**Part XII Financial Statements and Reporting**

Check if Schedule O contains a response to any question in this Part XII

	Yes	No
<b>1</b> Accounting method used to prepare the Form 990 <input type="checkbox"/> Cash <input checked="" type="checkbox"/> Accrual <input type="checkbox"/> Other _____ If the organization changed its method of accounting from a prior year or checked "Other," explain in Schedule O		
<b>2a</b> Were the organization's financial statements compiled or reviewed by an independent accountant? If "Yes," check a box below to indicate whether the financial statements for the year were compiled or reviewed on a separate basis, consolidated basis, or both <input type="checkbox"/> Separate basis <input type="checkbox"/> Consolidated basis <input type="checkbox"/> Both consolidated and separate basis		No
<b>2b</b> Were the organization's financial statements audited by an independent accountant? If "Yes," check a box below to indicate whether the financial statements for the year were audited on a separate basis, consolidated basis, or both <input type="checkbox"/> Separate basis <input checked="" type="checkbox"/> Consolidated basis <input type="checkbox"/> Both consolidated and separate basis	Yes	
<b>2c</b> If "Yes," to line 2a or 2b, does the organization have a committee that assumes responsibility for oversight of the audit, review, or compilation of its financial statements and selection of an independent accountant? If the organization changed either its oversight process or selection process during the tax year, explain in Schedule O	Yes	
<b>3a</b> As a result of a federal award, was the organization required to undergo an audit or audits as set forth in the Single Audit Act and OMB Circular A-133?		No
<b>3b</b> If "Yes," did the organization undergo the required audit or audits? If the organization did not undergo the required audit or audits, explain why in Schedule O and describe any steps taken to undergo such audits		

**Additional Data**

**Software ID:**  
**Software Version:**  
**EIN:** 23-2201344  
**Name:** READING HEALTH SYSTEM

**Form 990, Part VII - Compensation of Officers, Directors, Trustees, Key Employees, Highest Compensated Employees, and Independent Contractors**

(A) Name and Title	(B) Average hours per week (list any hours for related organizations below dotted line)	(C) Position (do not check more than one box, unless person is both an officer and a director/trustee)						(D) Reportable compensation from the organization (W-2/1099-MISC)	(E) Reportable compensation from related organizations (W-2/1099-MISC)	(F) Estimated amount of other compensation from the organization and related organizations
		Individual trustee or director	Institutional Trustee	Officer	Key employee	Highest compensated employee	Former			
CLINT MATTHEWS PRESIDENT	60 00	X		X				0	1,018,668	287,948
ROBERT BRIGHAM DIR OF SURGE	40 00	X						0	786,801	15,722
LIL MURPHY BOARD MEMBER	1 00	X						0	0	0
JOHN WEIDENHAMMER BOARD MEMBER	1 00	X						0	0	0
KAREN RITEMYRE BOARD MEMBER	1 00	X						0	0	0
BEN ZINTAK BOARD MEMBER	1 00	X						0	0	0
BARBARA ARNER BOARD MEMBER	1 00	X						0	0	0
THEODORE AUMAN BOARD MEMBER	1 00	X						0	0	0
MARY ELLEN BATMAN BOARD MEMBER	1 00	X						0	0	0
BRUCE BENGSTON BOARD MEMBER	1 00	X						0	0	0
ROBERT J GIBBLE BOARD MEMBER	1 00	X						0	0	0
VICTOR HAMMEL VICE CHAIR	1 00	X						0	0	0
JULIA KLEIN BOARD MEMBER	1 00	X						0	0	0
CHRIST G KRARAS BOARD MEMBER	1 00	X						0	0	0
EDWARD T LENTZ BOARD MEMBER	1 00	X						0	0	0
TERRENCE MCGLINN BOARD MEMBER	1 00	X						0	0	0
MARGARET S MCSHANE BOARD MEMBER	1 00	X						0	0	0
RICHARD M PALMER JR BOARD MEMBER	1 00	X						0	0	0
JOHN ROLAND ESQ BOARD MEMBER	1 00	X						0	0	0
ELIZABETH ROTHERMEL BOARD MEMBER	1 00	X						0	0	0
JAY S SIDHU BOARD MEMBER	1 00	X						0	0	0
C THOMAS WORK ESQ CHAIRMAN	1 00	X		X				0	0	0
BRENT WAGNER MD BOARD MEMBER	1 00	X						0	0	0
P MICHAEL EHLERMAN BOARD MEMBER	1 00	X		X				0	0	0
ELIZABETH EHLICH BOARD MEMBER	1 00	X						0	0	0

**Form 990, Part VII - Compensation of Officers, Directors, Trustees, Key Employees, Highest Compensated Employees, and Independent Contractors**

(A) Name and Title	(B) Average hours per week (list any hours for related organizations below dotted line)	(C) Position (do not check more than one box, unless person is both an officer and a director/trustee)						(D) Reportable compensation from the organization (W-2/1099-MISC)	(E) Reportable compensation from related organizations (W-2/1099-MISC)	(F) Estimated amount of other compensation from the organization and related organizations
		Individual trustee or director	Institutional Trustee	Officer	Key employee	Highest compensated employee	Former			
SAMUEL A MCCULLOUGH BOARD MEMBER	1 00	X						0	0	0
MARLIN MILLER JR BOARD MEMBER	1 00	X						0	0	0
DAVID L THUN BOARD MEMBER	1 00	X						0	0	0
THOMAS FLYNN BOARD MEMBER	1 00	X						0	0	0
THERESE SUCHER COO	0 00 50 00			X				0	640,907	147,948
RICHARD W JONES CFO	50 00			X				0	519,045	142,458
RICHARD J MABLE SENIOR VP PL	0 00 50 00			X				0	310,915	50,548
CARL J SEIDL VICE PRESIDE	0 00 50 00			X				0	237,756	44,890
MARGARET M BLIGH VICE PRESIDE	0 00 50 00			X				0	233,743	15,637
DONNA F WEBER VP NURSING	0 00						X	0	487,962	28,289
SCOTT R WOLFE FORMER PRESI	0 00						X	0	334,198	0

**SCHEDULE A**  
(Form 990 or 990EZ)

**Public Charity Status and Public Support**

OMB No 1545-0047

**2012**

**Open to Public Inspection**

Complete if the organization is a section 501(c)(3) organization or a section 4947(a)(1) nonexempt charitable trust.

▶ Attach to Form 990 or Form 990-EZ. ▶ See separate instructions.

Name of the organization  
READING HEALTH SYSTEM

Employer identification number

23-2201344

**Part I Reason for Public Charity Status** (All organizations must complete this part.) See instructions.

The organization is not a private foundation because it is (For lines 1 through 11, check only one box )

- 1  A church, convention of churches, or association of churches described in **section 170(b)(1)(A)(i).**
- 2  A school described in **section 170(b)(1)(A)(ii).** (Attach Schedule E )
- 3  A hospital or a cooperative hospital service organization described in **section 170(b)(1)(A)(iii).**
- 4  A medical research organization operated in conjunction with a hospital described in **section 170(b)(1)(A)(iii).** Enter the hospital's name, city, and state \_\_\_\_\_
- 5  An organization operated for the benefit of a college or university owned or operated by a governmental unit described in **section 170(b)(1)(A)(iv).** (Complete Part II )
- 6  A federal, state, or local government or governmental unit described in **section 170(b)(1)(A)(v).**
- 7  An organization that normally receives a substantial part of its support from a governmental unit or from the general public described in **section 170(b)(1)(A)(vi).** (Complete Part II )
- 8  A community trust described in **section 170(b)(1)(A)(vi)** (Complete Part II )
- 9  An organization that normally receives (1) more than 33 1/3% of its support from contributions, membership fees, and gross receipts from activities related to its exempt functions—subject to certain exceptions, and (2) no more than 33 1/3% of its support from gross investment income and unrelated business taxable income (less section 511 tax) from businesses acquired by the organization after June 30, 1975 See **section 509(a)(2).** (Complete Part III )
- 10  An organization organized and operated exclusively to test for public safety See **section 509(a)(4).**
- 11  An organization organized and operated exclusively for the benefit of, to perform the functions of, or to carry out the purposes of one or more publicly supported organizations described in section 509(a)(1) or section 509(a)(2) See **section 509(a)(3).** Check the box that describes the type of supporting organization and complete lines 11e through 11h  
 a  Type I b  Type II c  Type III - Functionally integrated d  Type III - Non-functionally integrated
- e  By checking this box, I certify that the organization is not controlled directly or indirectly by one or more disqualified persons other than foundation managers and other than one or more publicly supported organizations described in section 509(a)(1) or section 509(a)(2)
- f  If the organization received a written determination from the IRS that it is a Type I, Type II, or Type III supporting organization, check this box
- g Since August 17, 2006, has the organization accepted any gift or contribution from any of the following persons?  
 (i) A person who directly or indirectly controls, either alone or together with persons described in (ii) and (iii) below, the governing body of the supported organization?  
 (ii) A family member of a person described in (i) above?  
 (iii) A 35% controlled entity of a person described in (i) or (ii) above?
- h Provide the following information about the supported organization(s)

	Yes	No
<b>11g(i)</b>		No
<b>11g(ii)</b>		No
<b>11g(iii)</b>		No

(i) Name of supported organization	(ii) EIN	(iii) Type of organization (described on lines 1- 9 above or IRC section (see instructions))	(iv) Is the organization in col (i) listed in your governing document?		(v) Did you notify the organization in col (i) of your support?		(vi) Is the organization in col (i) organized in the U S ?		(vii) Amount of monetary support
			Yes	No	Yes	No	Yes	No	
See Additional Data Table									
<b>Total</b>									19,021,880

**Part II Support Schedule for Organizations Described in Sections 170(b)(1)(A)(iv) and 170(b)(1)(A)(vi)**

(Complete only if you checked the box on line 5, 7, or 8 of Part I or if the organization failed to qualify under Part III. If the organization fails to qualify under the tests listed below, please complete Part III.)

**Section A. Public Support**

Calendar year (or fiscal year beginning in) ▶	(a) 2008	(b) 2009	(c) 2010	(d) 2011	(e) 2012	(f) Total
<b>1</b> Gifts, grants, contributions, and membership fees received (Do not include any "unusual grants.")						
<b>2</b> Tax revenues levied for the organization's benefit and either paid to or expended on its behalf						
<b>3</b> The value of services or facilities furnished by a governmental unit to the organization without charge						
<b>4 Total.</b> Add lines 1 through 3						
<b>5</b> The portion of total contributions by each person (other than a governmental unit or publicly supported organization) included on line 1 that exceeds 2% of the amount shown on line 11, column (f)						
<b>6 Public support.</b> Subtract line 5 from line 4						

**Section B. Total Support**

Calendar year (or fiscal year beginning in) ▶	(a) 2008	(b) 2009	(c) 2010	(d) 2011	(e) 2012	(f) Total
<b>7</b> Amounts from line 4						
<b>8</b> Gross income from interest, dividends, payments received on securities loans, rents, royalties and income from similar sources						
<b>9</b> Net income from unrelated business activities, whether or not the business is regularly carried on						
<b>10</b> Other income Do not include gain or loss from the sale of capital assets (Explain in Part IV )						
<b>11 Total support</b> (Add lines 7 through 10)						
<b>12</b> Gross receipts from related activities, etc (see instructions)					<b>12</b>	
<b>13 First five years.</b> If the Form 990 is for the organization's first, second, third, fourth, or fifth tax year as a 501(c)(3) organization, check this box and <b>stop here</b> . . . . . ▶						

**Section C. Computation of Public Support Percentage**

<b>14</b> Public support percentage for 2012 (line 6, column (f) divided by line 11, column (f))	<b>14</b>	
<b>15</b> Public support percentage for 2011 Schedule A, Part II, line 14	<b>15</b>	
<b>16a 33 1/3% support test—2012.</b> If the organization did not check the box on line 13, and line 14 is 33 1/3% or more, check this box and <b>stop here.</b> The organization qualifies as a publicly supported organization ▶		
<b>b 33 1/3% support test—2011.</b> If the organization did not check a box on line 13 or 16a, and line 15 is 33 1/3% or more, check this box and <b>stop here.</b> The organization qualifies as a publicly supported organization ▶		
<b>17a 10%-facts-and-circumstances test—2012.</b> If the organization did not check a box on line 13, 16a, or 16b, and line 14 is 10% or more, and if the organization meets the "facts-and-circumstances" test, check this box and <b>stop here.</b> Explain in Part IV how the organization meets the "facts-and-circumstances" test The organization qualifies as a publicly supported organization ▶		
<b>b 10%-facts-and-circumstances test—2011.</b> If the organization did not check a box on line 13, 16a, 16b, or 17a, and line 15 is 10% or more, and if the organization meets the "facts-and-circumstances" test, check this box and <b>stop here.</b> Explain in Part IV how the organization meets the "facts-and-circumstances" test The organization qualifies as a publicly supported organization ▶		
<b>18 Private foundation.</b> If the organization did not check a box on line 13, 16a, 16b, 17a, or 17b, check this box and see instructions ▶		

**Part III Support Schedule for Organizations Described in Section 509(a)(2)**

(Complete only if you checked the box on line 9 of Part I or if the organization failed to qualify under Part II. If the organization fails to qualify under the tests listed below, please complete Part II.)

**Section A. Public Support**

Calendar year (or fiscal year beginning in) ▶	(a) 2008	(b) 2009	(c) 2010	(d) 2011	(e) 2012	(f) Total
<b>1</b> Gifts, grants, contributions, and membership fees received (Do not include any "unusual grants.")						
<b>2</b> Gross receipts from admissions, merchandise sold or services performed, or facilities furnished in any activity that is related to the organization's tax-exempt purpose						
<b>3</b> Gross receipts from activities that are not an unrelated trade or business under section 513						
<b>4</b> Tax revenues levied for the organization's benefit and either paid to or expended on its behalf						
<b>5</b> The value of services or facilities furnished by a governmental unit to the organization without charge						
<b>6 Total.</b> Add lines 1 through 5						
<b>7a</b> Amounts included on lines 1, 2, and 3 received from disqualified persons						
<b>b</b> Amounts included on lines 2 and 3 received from other than disqualified persons that exceed the greater of \$5,000 or 1% of the amount on line 13 for the year						
<b>c</b> Add lines 7a and 7b						
<b>8 Public support</b> (Subtract line 7c from line 6)						

**Section B. Total Support**

Calendar year (or fiscal year beginning in) ▶	(a) 2008	(b) 2009	(c) 2010	(d) 2011	(e) 2012	(f) Total
<b>9</b> Amounts from line 6						
<b>10a</b> Gross income from interest, dividends, payments received on securities loans, rents, royalties and income from similar sources						
<b>b</b> Unrelated business taxable income (less section 511 taxes) from businesses acquired after June 30, 1975						
<b>c</b> Add lines 10a and 10b						
<b>11</b> Net income from unrelated business activities not included in line 10b, whether or not the business is regularly carried on						
<b>12</b> Other income. Do not include gain or loss from the sale of capital assets (Explain in Part IV.)						
<b>13 Total support.</b> (Add lines 9, 10c, 11, and 12.)						
<b>14 First five years.</b> If the Form 990 is for the organization's first, second, third, fourth, or fifth tax year as a 501(c)(3) organization, check this box and <b>stop here</b> <input type="checkbox"/>						

**Section C. Computation of Public Support Percentage**

<b>15</b> Public support percentage for 2012 (line 8, column (f) divided by line 13, column (f))	<b>15</b>	
<b>16</b> Public support percentage from 2011 Schedule A, Part III, line 15	<b>16</b>	

**Section D. Computation of Investment Income Percentage**

<b>17</b> Investment income percentage for <b>2012</b> (line 10c, column (f) divided by line 13, column (f))	<b>17</b>	
<b>18</b> Investment income percentage from <b>2011</b> Schedule A, Part III, line 17	<b>18</b>	

- 19a 33 1/3% support tests—2012.** If the organization did not check the box on line 14, and line 15 is more than 33 1/3%, and line 17 is not more than 33 1/3%, check this box and **stop here**. The organization qualifies as a publicly supported organization
- b 33 1/3% support tests—2011.** If the organization did not check a box on line 14 or line 19a, and line 16 is more than 33 1/3% and line 18 is not more than 33 1/3%, check this box and **stop here**. The organization qualifies as a publicly supported organization
- 20 Private foundation.** If the organization did not check a box on line 14, 19a, or 19b, check this box and see instructions

**Part IV** **Supplemental Information.** Complete this part to provide the explanations required by Part II, line 10; Part II, line 17a or 17b; and Part III, line 12. Also complete this part for any additional information. (See instructions).

<b>Facts And Circumstances Test</b>
-------------------------------------

<b>Explanation</b>

**Additional Data****Software ID:****Software Version:****EIN:** 23-2201344**Name:** READING HEALTH SYSTEM**Form 990, Sch A, Part I, Line 11h - Provide the following information about the supported organization(s).**

(i) Name of Supported Organization	(ii) EIN	(iii) Type of organization (described on lines 1- 9 above or IRC section )	(iv) Is the organization in (i) listed in your governing document?		(v) Did you notify the organization in (i) of your support?		(vi) Is the organization in (i) organized in the U S ?		(vii) Amount of support?
			Yes	No	Yes	No	Yes	No	
READING HOSPITAL	231352204	3	Yes		Yes		Yes		78527603
READING PROFESSIONAL SERVICES	232266054	3	Yes		Yes		Yes		33787375
TRH MEDICAL GROUP	205095905	3	Yes		Yes		Yes		25718348

SCHEDULE D (Form 990)

OMB No 1545-0047

Supplemental Financial Statements

2012

Open to Public Inspection

Complete if the organization answered "Yes," to Form 990, Part IV, line 6, 7, 8, 9, 10, 11a, 11b, 11c, 11d, 11e, 11f, 12a, or 12b. Attach to Form 990. See separate instructions.

Department of the Treasury Internal Revenue Service

Name of the organization READING HEALTH SYSTEM

Employer identification number

23-2201344

Part I Organizations Maintaining Donor Advised Funds or Other Similar Funds or Accounts. Complete if the organization answered "Yes" to Form 990, Part IV, line 6.

Table with 3 columns: Question, (a) Donor advised funds, (b) Funds and other accounts. Rows include total number at end of year, aggregate contributions, aggregate grants, aggregate value, and questions about donor advised funds and grant purposes.

Part II Conservation Easements. Complete if the organization answered "Yes" to Form 990, Part IV, line 7.

Table with 3 columns: Question, (a) Donor advised funds, (b) Funds and other accounts. Rows include purpose of easements, total number, acreage, number of easements on historic structures, modified easements, monitoring policy, staff hours, expenses, and reporting requirements.

Part III Organizations Maintaining Collections of Art, Historical Treasures, or Other Similar Assets. Complete if the organization answered "Yes" to Form 990, Part IV, line 8.

Table with 3 columns: Question, (a) Donor advised funds, (b) Funds and other accounts. Rows include reporting requirements for art and historical treasures, and amounts required to be reported.

**Part III Organizations Maintaining Collections of Art, Historical Treasures, or Other Similar Assets** *(continued)*

**3** Using the organization's acquisition, accession, and other records, check any of the following that are a significant use of its collection items (check all that apply)

- a**  Public exhibition
- b**  Scholarly research
- c**  Preservation for future generations
- d**  Loan or exchange programs
- e**  Other

**4** Provide a description of the organization's collections and explain how they further the organization's exempt purpose in Part XIII

**5** During the year, did the organization solicit or receive donations of art, historical treasures or other similar assets to be sold to raise funds rather than to be maintained as part of the organization's collection?  Yes  No

**Part IV Escrow and Custodial Arrangements.** Complete if the organization answered "Yes" to Form 990, Part IV, line 9, or reported an amount on Form 990, Part X, line 21.

**1a** Is the organization an agent, trustee, custodian or other intermediary for contributions or other assets not included on Form 990, Part X?  Yes  No

**b** If "Yes," explain the arrangement in Part XIII and complete the following table

	Amount
<b>1c</b> Beginning balance	
<b>1d</b> Additions during the year	
<b>1e</b> Distributions during the year	
<b>1f</b> Ending balance	

**2a** Did the organization include an amount on Form 990, Part X, line 21?  Yes  No

**b** If "Yes," explain the arrangement in Part XIII. Check here if the explanation has been provided in Part XIII

**Part V Endowment Funds.** Complete if the organization answered "Yes" to Form 990, Part IV, line 10.

	(a) Current year	(b) Prior year	(c) Two years back	(d) Three years back	(e) Four years back
<b>1a</b> Beginning of year balance . . . . .					
<b>b</b> Contributions . . . . .				61,240	
<b>c</b> Net investment earnings, gains, and losses					
<b>d</b> Grants or scholarships . . . . .					
<b>e</b> Other expenditures for facilities and programs . . . . .					
<b>f</b> Administrative expenses . . . . .					
<b>g</b> End of year balance . . . . .				61,240	

**2** Provide the estimated percentage of the current year end balance (line 1g, column (a)) held as

- a** Board designated or quasi-endowment ▶
  - b** Permanent endowment ▶
  - c** Temporarily restricted endowment ▶
- The percentages in lines 2a, 2b, and 2c should equal 100%

**3a** Are there endowment funds not in the possession of the organization that are held and administered for the organization by

	Yes	No
<b>(i)</b> unrelated organizations . . . . .	<b>3a(i)</b>	No
<b>(ii)</b> related organizations . . . . .	<b>3a(ii)</b>	No
<b>b</b> If "Yes" to 3a(ii), are the related organizations listed as required on Schedule R? . . . . .	<b>3b</b>	

**4** Describe in Part XIII the intended uses of the organization's endowment funds

**Part VI Land, Buildings, and Equipment.** See Form 990, Part X, line 10.

Description of property	(a) Cost or other basis (investment)	(b) Cost or other basis (other)	(c) Accumulated depreciation	(d) Book value
<b>1a</b> Land . . . . .		40,194,230		40,194,230
<b>b</b> Buildings . . . . .				
<b>c</b> Leasehold improvements . . . . .				
<b>d</b> Equipment . . . . .				
<b>e</b> Other . . . . .				
<b>Total.</b> Add lines 1a through 1e (Column (d) must equal Form 990, Part X, column (B), line 10(c).) . . . . .				40,194,230

**Part VII Investments—Other Securities.** See Form 990, Part X, line 12.

(a) Description of security or category (including name of security)	(b) Book value	(c) Method of valuation Cost or end-of-year market value
(1) Financial derivatives		
(2) Closely-held equity interests		
Other		
<b>Total.</b> (Column (b) must equal Form 990, Part X, col (B) line 12.)		

**Part VIII Investments—Program Related.** See Form 990, Part X, line 13.

(a) Description of investment type	(b) Book value	(c) Method of valuation Cost or end-of-year market value
<b>Total.</b> (Column (b) must equal Form 990, Part X, col (B) line 13.)		

**Part IX Other Assets.** See Form 990, Part X, line 15.

(a) Description	(b) Book value
<b>Total.</b> (Column (b) must equal Form 990, Part X, col.(B) line 15.)	

**Part X Other Liabilities.** See Form 990, Part X, line 25.

1 (a) Description of liability	(b) Book value
Federal income taxes	
SWAP CONTRACT	59,356,111
<b>Total.</b> (Column (b) must equal Form 990, Part X, col (B) line 25.)	59,356,111

**2.** Fin 48 (ASC 740) Footnote In Part XIII, provide the text of the footnote to the organization's financial statements that reports the organization's liability for uncertain tax positions under FIN 48 (ASC 740) Check here if the text of the footnote has been provided in Part XIII

**Part XI Reconciliation of Revenue per Audited Financial Statements With Revenue per Return**

<b>1</b>	Total revenue, gains, and other support per audited financial statements . . . . .		<b>1</b>	
<b>2</b>	Amounts included on line 1 but not on Form 990, Part VIII, line 12			
<b>a</b>	Net unrealized gains on investments . . . . .	<b>2a</b>		
<b>b</b>	Donated services and use of facilities . . . . .	<b>2b</b>		
<b>c</b>	Recoveries of prior year grants . . . . .	<b>2c</b>		
<b>d</b>	Other (Describe in Part XIII ) . . . . .	<b>2d</b>		
<b>e</b>	Add lines <b>2a</b> through <b>2d</b> . . . . .		<b>2e</b>	
<b>3</b>	Subtract line <b>2e</b> from line <b>1</b> . . . . .		<b>3</b>	
<b>4</b>	Amounts included on Form 990, Part VIII, line 12, but not on line <b>1</b>			
<b>a</b>	Investment expenses not included on Form 990, Part VIII, line 7b . . . . .	<b>4a</b>		
<b>b</b>	Other (Describe in Part XIII ) . . . . .	<b>4b</b>		
<b>c</b>	Add lines <b>4a</b> and <b>4b</b> . . . . .		<b>4c</b>	
<b>5</b>	Total revenue Add lines <b>3</b> and <b>4c</b> . (This must equal Form 990, Part I, line 12 ) . . . . .		<b>5</b>	

**Part XII Reconciliation of Expenses per Audited Financial Statements With Expenses per Return**

<b>1</b>	Total expenses and losses per audited financial statements . . . . .		<b>1</b>	
<b>2</b>	Amounts included on line 1 but not on Form 990, Part IX, line 25			
<b>a</b>	Donated services and use of facilities . . . . .	<b>2a</b>		
<b>b</b>	Prior year adjustments . . . . .	<b>2b</b>		
<b>c</b>	Other losses . . . . .	<b>2c</b>		
<b>d</b>	Other (Describe in Part XIII ) . . . . .	<b>2d</b>		
<b>e</b>	Add lines <b>2a</b> through <b>2d</b> . . . . .		<b>2e</b>	
<b>3</b>	Subtract line <b>2e</b> from line <b>1</b> . . . . .		<b>3</b>	
<b>4</b>	Amounts included on Form 990, Part IX, line 25, but not on line <b>1</b> :			
<b>a</b>	Investment expenses not included on Form 990, Part VIII, line 7b . . . . .	<b>4a</b>		
<b>b</b>	Other (Describe in Part XIII ) . . . . .	<b>4b</b>		
<b>c</b>	Add lines <b>4a</b> and <b>4b</b> . . . . .		<b>4c</b>	
<b>5</b>	Total expenses Add lines <b>3</b> and <b>4c</b> . (This must equal Form 990, Part I, line 18 ) . . . . .		<b>5</b>	

**Part XIII Supplemental Information**

Complete this part to provide the descriptions required for Part II, lines 3, 5, and 9, Part III, lines 1a and 4, Part IV, lines 1b and 2b, Part V, line 4, Part X, line 2, Part XI, lines 2d and 4b, and Part XII, lines 2d and 4b Also complete this part to provide any additional information

Identifier	Return Reference	Explanation
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**Schedule J**  
(Form 990)

**Compensation Information**

OMB No 1545-0047

**2012**

**Open to Public Inspection**

For certain Officers, Directors, Trustees, Key Employees, and Highest Compensated Employees

▶ Complete if the organization answered "Yes" to Form 990, Part IV, question 23.

▶ Attach to Form 990. ▶ See separate instructions.

Department of the Treasury  
Internal Revenue Service

Name of the organization  
READING HEALTH SYSTEM

Employer identification number

23-2201344

**Part I Questions Regarding Compensation**

	Yes	No								
<p><b>1a</b> Check the appropriate box(es) if the organization provided any of the following to or for a person listed in Form 990, Part VII, Section A, line 1a Complete Part III to provide any relevant information regarding these items</p> <table border="0"> <tr> <td><input type="checkbox"/> First-class or charter travel</td> <td><input type="checkbox"/> Housing allowance or residence for personal use</td> </tr> <tr> <td><input type="checkbox"/> Travel for companions</td> <td><input type="checkbox"/> Payments for business use of personal residence</td> </tr> <tr> <td><input type="checkbox"/> Tax indemnification and gross-up payments</td> <td><input type="checkbox"/> Health or social club dues or initiation fees</td> </tr> <tr> <td><input type="checkbox"/> Discretionary spending account</td> <td><input type="checkbox"/> Personal services (e g , maid, chauffeur, chef)</td> </tr> </table>	<input type="checkbox"/> First-class or charter travel	<input type="checkbox"/> Housing allowance or residence for personal use	<input type="checkbox"/> Travel for companions	<input type="checkbox"/> Payments for business use of personal residence	<input type="checkbox"/> Tax indemnification and gross-up payments	<input type="checkbox"/> Health or social club dues or initiation fees	<input type="checkbox"/> Discretionary spending account	<input type="checkbox"/> Personal services (e g , maid, chauffeur, chef)		
<input type="checkbox"/> First-class or charter travel	<input type="checkbox"/> Housing allowance or residence for personal use									
<input type="checkbox"/> Travel for companions	<input type="checkbox"/> Payments for business use of personal residence									
<input type="checkbox"/> Tax indemnification and gross-up payments	<input type="checkbox"/> Health or social club dues or initiation fees									
<input type="checkbox"/> Discretionary spending account	<input type="checkbox"/> Personal services (e g , maid, chauffeur, chef)									
<p><b>b</b> If any of the boxes in line 1a are checked, did the organization follow a written policy regarding payment or reimbursement or provision of all of the expenses described above? If "No," complete Part III to explain</p>	<b>1b</b>									
<p><b>2</b> Did the organization require substantiation prior to reimbursing or allowing expenses incurred by all officers, directors, trustees, and the CEO/Executive Director, regarding the items checked in line 1a?</p>	<b>2</b>									
<p><b>3</b> Indicate which, if any, of the following the filing organization used to establish the compensation of the organization's CEO/Executive Director Check all that apply Do not check any boxes for methods used by a related organization to establish compensation of the CEO/Executive Director, but explain in Part III</p> <table border="0"> <tr> <td><input checked="" type="checkbox"/> Compensation committee</td> <td><input checked="" type="checkbox"/> Written employment contract</td> </tr> <tr> <td><input checked="" type="checkbox"/> Independent compensation consultant</td> <td><input checked="" type="checkbox"/> Compensation survey or study</td> </tr> <tr> <td><input checked="" type="checkbox"/> Form 990 of other organizations</td> <td><input checked="" type="checkbox"/> Approval by the board or compensation committee</td> </tr> </table>	<input checked="" type="checkbox"/> Compensation committee	<input checked="" type="checkbox"/> Written employment contract	<input checked="" type="checkbox"/> Independent compensation consultant	<input checked="" type="checkbox"/> Compensation survey or study	<input checked="" type="checkbox"/> Form 990 of other organizations	<input checked="" type="checkbox"/> Approval by the board or compensation committee				
<input checked="" type="checkbox"/> Compensation committee	<input checked="" type="checkbox"/> Written employment contract									
<input checked="" type="checkbox"/> Independent compensation consultant	<input checked="" type="checkbox"/> Compensation survey or study									
<input checked="" type="checkbox"/> Form 990 of other organizations	<input checked="" type="checkbox"/> Approval by the board or compensation committee									
<p><b>4</b> During the year, did any person listed in Form 990, Part VII, Section A, line 1a with respect to the filing organization or a related organization</p>										
<p><b>a</b> Receive a severance payment or change-of-control payment?</p>	<b>4a</b> Yes									
<p><b>b</b> Participate in, or receive payment from, a supplemental nonqualified retirement plan?</p>	<b>4b</b> Yes									
<p><b>c</b> Participate in, or receive payment from, an equity-based compensation arrangement? If "Yes" to any of lines 4a-c, list the persons and provide the applicable amounts for each item in Part III</p>	<b>4c</b>	No								
<p><b>Only 501(c)(3) and 501(c)(4) organizations only must complete lines 5-9.</b></p>										
<p><b>5</b> For persons listed in Form 990, Part VII, Section A, line 1a, did the organization pay or accrue any compensation contingent on the revenues of</p>										
<p><b>a</b> The organization?</p>	<b>5a</b>	No								
<p><b>b</b> Any related organization? If "Yes," to line 5a or 5b, describe in Part III</p>	<b>5b</b>	No								
<p><b>6</b> For persons listed in Form 990, Part VII, Section A, line 1a, did the organization pay or accrue any compensation contingent on the net earnings of</p>										
<p><b>a</b> The organization?</p>	<b>6a</b>	No								
<p><b>b</b> Any related organization? If "Yes," to line 6a or 6b, describe in Part III</p>	<b>6b</b>	No								
<p><b>7</b> For persons listed in Form 990, Part VII, Section A, line 1a, did the organization provide any non-fixed payments not described in lines 5 and 6? If "Yes," describe in Part III</p>	<b>7</b> Yes									
<p><b>8</b> Were any amounts reported in Form 990, Part VII, paid or accrued pursuant to a contract that was subject to the initial contract exception described in Regulations section 53.4958-4(a)(3)? If "Yes," describe in Part III</p>	<b>8</b>	No								
<p><b>9</b> If "Yes" to line 8, did the organization also follow the rebuttable presumption procedure described in Regulations section 53.4958-6(c)?</p>	<b>9</b>									

**Part II Officers, Directors, Trustees, Key Employees, and Highest Compensated Employees.** Use duplicate copies if additional space is needed.

For each individual whose compensation must be reported in Schedule J, report compensation from the organization on row (i) and from related organizations, described in the instructions, on row (ii) Do not list any individuals that are not listed on Form 990, Part VII

**Note.** The sum of columns (B)(i)-(iii) for each listed individual must equal the total amount of Form 990, Part VII, Section A, line 1a, applicable column (D) and (E) amounts for that individual

(A) Name and Title		(B) Breakdown of W-2 and/or 1099-MISC compensation			(C) Retirement and other deferred compensation	(D) Nontaxable benefits	(E) Total of columns (B)(i)-(D)	(F) Compensation reported as deferred in prior Form 990
		(i) Base compensation	(ii) Bonus & incentive compensation	(iii) Other reportable compensation				
(1) CLINT MATTHEWS PRESIDENT	(i) (ii)	860,788	110,000	47,880	270,000	17,948	1,306,616	
(2) ROBERT BRIGHAM DIR OF SURGERY	(i) (ii)	713,061	70,000	3,740		15,722	802,523	
(3) THERESE SUCHER COO	(i) (ii)	494,095	107,500	39,312	130,000	17,948	788,855	
(4) RICHARD W JONES CFO	(i) (ii)	453,450	50,000	15,595	118,750	23,708	661,503	
(5) RICHARD J MABLE SENIOR VP PLANNING	(i) (ii)	218,876	50,192	41,847	34,894	15,654	361,463	
(6) CARL J SEIDL VICE PRESIDENT	(i) (ii)	203,113	33,462	1,181	29,248	15,642	282,646	
(7) MARGARET M BLIGH VICE PRESIDENT	(i) (ii)	199,034	32,559	2,150		15,637	249,380	
(8) DONNA F WEBER VP NURSING	(i) (ii)	123,806	17,878	346,278	27,623	666	516,251	
(9) SCOTT R WOLFE FORMER PRESIDENT	(i) (ii)			334,198			334,198	

**Part III Supplemental Information**

Complete this part to provide the information, explanation, or descriptions required for Part I, lines 1a, 1b, 3, 4a, 4b, 4c, 5a, 5b, 6a, 6b, 7, and 8, and for Part II. Also complete this part for any additional information.

Identifier	Return Reference	Explanation
SEVERANCE, NONQUALIFIED, AND EQUITY-BASED PAYMENTS	SCHEDULE J, PAGE 1, PART I, LINE 4	CLINT MATTHEWS 0 270,000 0 THERESE SUCHER 0 130,000 0 RICHARD W JONES 0 118,750 0 DONNA F WEBER 346,278 0 0 SCOTT R WOLFE 334,198 0 0
NON-FIXED PAYMENTS PROVIDED	SCHEDULE J, PAGE 1, PART I, LINE 7	CERTAIN EMPLOYEES ARE ABLE TO ACHIEVE BONUSES BASED UPON PRE-ESTABLISHED TARGETS THAT CAN INVOLVE PATIENT SATISFACTION SCORES, QUALITY INITIATIVES, IMPLEMENTATION OF NEW PROGRAMS AND SERVICES AND FINANCIAL METRICS
OTHER ADDITIONAL INFORMATION	SCHEDULE J, PART III	THIS ORGANIZATION DOES NOT PAY THE COMPENSATION REPORTED FROM RELATED ENTITIES. THE COMPENSATION OF EXECUTIVES IS DETERMINED BY THE READING HEALTH SYSTEM'S BOARD OF DIRECTORS, WHICH HAS DULY APPOINTED AN EXECUTIVE COMPENSATION COMMITTEE (THE "COMMITTEE"), WHICH IS RESPONSIBLE FOR THE REVIEW AND APPROVAL OF ALL COMPENSATION AND BENEFITS PROVIDED TO THE HOSPITAL'S EXECUTIVE MANAGEMENT. THE COMMITTEE HAS ADOPTED A WRITTEN EXECUTIVE COMPENSATION PHILOSOPHY STATEMENT AND AN EXECUTIVE COMPENSATION COMMITTEE CHARTER GOVERNING THE WORK AND REVIEW PROCESS OF THE COMMITTEE. THE COMMITTEE FOLLOWS THE PROCEDURES DESCRIBED IN THE PHILOSOPHY STATEMENT AND THE CHARTER WHEN IT REVIEWS AND APPROVES THE COMPENSATION AND EMPLOYEE BENEFITS PROVIDED TO THE HOSPITAL'S SENIOR MANAGEMENT, INCLUDING THE CHIEF EXECUTIVE OFFICER AND THE CHIEF FINANCIAL OFFICER. THE COMMITTEE'S REVIEW ANALYZES EVERY ELEMENT OF COMPENSATION, INCLUDING CURRENT AND DEFERRED COMPENSATION, AND BENEFITS, INCLUDING QUALIFIED AND NON-QUALIFIED BENEFITS. THE COMMITTEE CONDUCTS ITS REVIEW AND APPROVAL PROCESS AT LEAST ANNUALLY, AND APPROVES COMPENSATION AND BENEFITS ONLY TO THE EXTENT THAT THE COMMITTEE HAS CONCLUDED THAT THE COMPENSATION AND BENEFITS CONSTITUTE NO MORE THAN REASONABLE COMPENSATION FOR EACH EXECUTIVE. THE COMMITTEE CONSISTS ENTIRELY OF DISINTERESTED MEMBERS OF THE BOARD, AND THE COMMITTEE WORKS WITH AN INDEPENDENT COMPENSATION CONSULTANT TO PREPARE AND REVIEW IN ADVANCE COMPREHENSIVE DATA SHOWING THE COMPENSATION PROVIDED BY SIMILARLY SITUATED ORGANIZATIONS FOR FUNCTIONALLY SIMILAR POSITIONS. THE COMMITTEE ALSO PREPARES A TIMELY AND THOROUGH WRITTEN RECORD OF ITS DELIBERATIONS AND CONCLUSIONS. AS A RESULT, THE COMMITTEE'S REVIEW PROCESS IS DESIGNED TO SATISFY THE PROCEDURAL CRITERIA NECESSARY TO QUALIFY FOR THE REBUTTABLE PRESUMPTION OF REASONABLENESS UNDER THE FEDERAL INCOME TAX LAW INTERMEDIATE SANCTIONS RULES.

**Software ID:**  
**Software Version:**  
**EIN:** 23-2201344  
**Name:** READING HEALTH SYSTEM

**Form 990, Schedule J, Part II - Officers, Directors, Trustees, Key Employees, and Highest Compensated Employees**

(A) Name		(B) Breakdown of W-2 and/or 1099-MISC compensation			(C) Deferred compensation	(D) Nontaxable benefits	(E) Total of columns (B)(i)-(D)	(F) Compensation reported in prior Form 990 or Form 990-EZ
		(i) Base Compensation	(ii) Bonus & incentive compensation	(iii) Other compensation				
CLINT MATTHEWS	(i) (ii)	860,788	110,000	47,880	270,000	17,948	1,306,616	
ROBERT BRIGHAM	(i) (ii)	713,061	70,000	3,740		15,722	802,523	
THERESE SUCHER	(i) (ii)	494,095	107,500	39,312	130,000	17,948	788,855	
RICHARD W JONES	(i) (ii)	453,450	50,000	15,595	118,750	23,708	661,503	
RICHARD J MABLE	(i) (ii)	218,876	50,192	41,847	34,894	15,654	361,463	
CARL J SEIDL	(i) (ii)	203,113	33,462	1,181	29,248	15,642	282,646	
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DONNA F WEBER	(i) (ii)	123,806	17,878	346,278	27,623	666	516,251	
SCOTT R WOLFE	(i) (ii)			334,198			334,198	

**Schedule K  
(Form 990)**

OMB No 1545-0047

**Supplemental Information on Tax Exempt Bonds**

▶ **Complete if the organization answered "Yes" to Form 990, Part IV, line 24a. Provide descriptions, explanations, and any additional information in Part VI.**

▶ **Attach to Form 990.** ▶ **See separate instructions.**

**2012**

**Open to Public  
Inspection**

Department of the Treasury  
Internal Revenue Service

Name of the organization  
READING HEALTH SYSTEM

Employer identification number

23-2201344

**Part I Bond Issues**

	(a) Issuer name	(b) Issuer EIN	(c) CUSIP #	(d) Date issued	(e) Issue price	(f) Description of purpose	(g) Defeased		(h) On behalf of issuer		(i) Pool financing	
							Yes	No	Yes	No	Yes	No
<b>A</b>	BERKS COUNTY MUNICIPAL AUTHORITY SERIES 2009A-3	23-6647630	084538GG6	07-15-2009	132,197,073	SEE PART VI		X		X		X
<b>B</b>	BERKS COUNTY MUNICIPAL AUTHORITY SERIES 2012	23-6647630	084538GX9	06-28-2012	479,354,940	SEE PART VI		X		X		X

**Part II Proceeds**

		A		B		C		D	
<b>1</b>	Amount of bonds retired	14,440,000		458,333					
<b>2</b>	Amount of bonds legally defeased								
<b>3</b>	Total proceeds of issue	132,199,246		479,394,377					
<b>4</b>	Gross proceeds in reserve funds								
<b>5</b>	Capitalized interest from proceeds								
<b>6</b>	Proceeds in refunding escrows								
<b>7</b>	Issuance costs from proceeds	1,712,132		3,523,736					
<b>8</b>	Credit enhancement from proceeds								
<b>9</b>	Working capital expenditures from proceeds	24,697		24,697					
<b>10</b>	Capital expenditures from proceeds	14,967,250							
<b>11</b>	Other spent proceeds	115,519,864		475,845,944					
<b>12</b>	Other unspent proceeds								
<b>13</b>	Year of substantial completion	2010		2005					
		Yes	No	Yes	No	Yes	No	Yes	No
<b>14</b>	Were the bonds issued as part of a current refunding issue?	X		X					
<b>15</b>	Were the bonds issued as part of an advance refunding issue?		X	X					
<b>16</b>	Has the final allocation of proceeds been made?	X		X					
<b>17</b>	Does the organization maintain adequate books and records to support the final allocation of proceeds?	X		X					

**Part III Private Business Use**

		A		B		C		D	
		Yes	No	Yes	No	Yes	No	Yes	No
<b>1</b>	Was the organization a partner in a partnership, or a member of an LLC, which owned property financed by tax-exempt bonds?		X		X				
<b>2</b>	Are there any lease arrangements that may result in private business use of bond-financed property?	X			X				

**Part III Private Business Use (Continued)**

	A		B		C		D	
	Yes	No	Yes	No	Yes	No	Yes	No
<b>3a</b> Are there any management or service contracts that may result in private business use of bond-financed property?		X		X				
<b>b</b> If "Yes" to line 3a, does the organization routinely engage bond counsel or other outside counsel to review any management or service contracts relating to the financed property?								
<b>c</b> Are there any research agreements that may result in private business use of bond-financed property?		X		X				
<b>d</b> If "Yes" to line 3c, does the organization routinely engage bond counsel or other outside counsel to review any research agreements relating to the financed property?								
<b>4</b> Enter the percentage of financed property used in a private business use by entities other than a section 501(c)(3) organization or a state or local government		0%		%		%		%
<b>5</b> Enter the percentage of financed property used in a private business use as a result of unrelated trade or business activity carried on by your organization, another section 501(c)(3) organization, or a state or local government		%		%		%		%
<b>6</b> Total of lines 4 and 5		0%		%		%		%
<b>7</b> Does the bond issue meet the private security or payment test?		X		X				
<b>8a</b> Has there been a sale or disposition of any of the bond financed property to a nongovernmental person other than a 501(c)(3) organization since the bonds were issued?		X		X				
<b>b</b> If "Yes" to line 8a, enter the percentage of bond-financed property sold or disposed of		%		%		%		%
<b>c</b> If "Yes" to line 8a, was any remedial action taken pursuant to Regulations sections 1.141-12 and 1.145-2?		X		X				
<b>9</b> Has the organization established written procedures to ensure that all nonqualified bonds of the issue are remediated in accordance with the requirements under Regulations sections 1.141-12 and 1.145-2?	X		X					

**Part IV Arbitrage**

	A		B		C		D	
	Yes	No	Yes	No	Yes	No	Yes	No
<b>1</b> Has the issuer filed Form 8038-T?		X		X				
<b>2</b> If "No" to line 1, did the following apply?								
<b>a</b> Rebate not due yet?		X		X				
<b>b</b> Exception to rebate?	X		X					
<b>c</b> No rebate due?	X		X					
If you checked "No rebate due" in line 2c, provide in Part VI the date the rebate computation was performed								
<b>3</b> Is the bond issue a variable rate issue?		X	X					
<b>4a</b> Has the organization or the governmental issuer entered into a qualified hedge with respect to the bond issue?		X		X				
<b>b</b> Name of provider								
<b>c</b> Term of hedge								
<b>d</b> Was the hedge superintegrated?								
<b>e</b> Was a hedge terminated?								

**Part IV Arbitrage (Continued)**

	A		B		C		D	
	Yes	No	Yes	No	Yes	No	Yes	No
<b>5a</b> Were gross proceeds invested in a guaranteed investment contract (GIC)?		X		X				
<b>b</b> Name of provider								
<b>c</b> Term of GIC								
<b>d</b> Was the regulatory safe harbor for establishing the fair market value of the GIC satisfied?								
<b>6</b> Were any gross proceeds invested beyond an available temporary period?		X		X				
<b>7</b> Has the organization established written procedures to monitor the requirements of section 148?	X		X					

**Part V Procedures To Undertake Corrective Action**

	A		B		C		D	
	Yes	No	Yes	No	Yes	No	Yes	No
<b>1</b> Has the organization established written procedures to ensure that violations of federal tax requirements are timely identified and corrected through the voluntary closing agreement program if self-remediation is not available under applicable regulations?	X							

**Part VI Supplemental Information.** Complete this part to provide additional information for responses to questions on Schedule K (see instructions).

Identifier	Return Reference	Explanation
DATE REBATE COMPUTATION PERFORMED	SCHEDULE K	BERKS COUNTY MUNICIPAL AUTHORITY 083110 BERKS COUNTY MUNICIPAL AUTHORITY 122812
ADDITIONAL INFORMATION	SCHEDULE K	BERKS COUNTY MUNICIPAL AUTHORITY NOTE REGARDING THE REBATE COMPUTATION THE GROSS PROCEEDS OF THE BOND ISSUES WERE ALLOCATED TO EXPENDITURES OR QUALIFIED PURPOSES WITHIN THE PRESCRIBED PERIOD TO QUALIFY FOR THE SPENDING EXCEPTION TO ARBITRAGE REBATE IN ADDITION THE PROCEEDS WERE HELD IN A BONA FIDE DEBT SERVICE FUND DURING THE INITIAL TEMPORARY PERIOD AS SUCH NO FURTHER REBATE CALCULATIONS ARE NECESSARY PART I ROW B COLUMN F CONSTRUCTION OF FACILITY AND REFUNDING OF PRIOR ISSUE 3292001 PART I ROW C COLUMN F REFUNDING PRIOR ISSUES 5261994 9101998 1242008 7152009 222010 PART II COLUMN C LINE 3 THE TOTAL PROCEEDS DO NOT AGREE TO THE ISSUE PRICE IN PART I COLUMN E DUE TO INVESTMENT EARNINGS

**SCHEDULE O**  
**(Form 990 or 990-EZ)**

Department of the Treasury  
Internal Revenue Service

**Supplemental Information to Form 990 or 990-EZ**

**Complete to provide information for responses to specific questions on  
Form 990 or to provide any additional information.  
▶ Attach to Form 990 or 990-EZ.**

OMB No 1545-0047

**2012**

**Open to Public  
Inspection**

Name of the organization  
READING HEALTH SYSTEM

**Employer identification number**

23-2201344

Identifier	Return Reference	Explanation
FIRST ACCOMPLISHMENT DESCRIPTION	FORM 990, PAGE 2, PART III, LINE 4A	<p>OUR CAREGIVERS AND SUPPORT STAFF PARTICIPATE IN HEALTH EDUCATION, FREE SCREENINGS, AND IMMUNIZATIONS. THEY SUPPORT ACTIVITIES FOR INDIVIDUALS WITH SERIOUS OR CHRONIC HEALTH CONDITIONS, ADVANCE SELF-CARE BY INCREASING HEALTHCARE KNOWLEDGE, AND ADDRESS SPECIFIC COMMUNITY NEEDS THROUGH AN ARRAY OF OTHER EDUCATIONAL, SERVICE AND OUTREACH ACTIVITIES. HERE ARE A FEW EXAMPLES OF WHY THESE PROGRAMS REPRESENT THE BEST OF ALL OF US, WORKING TOGETHER FOR THE HEALTH OF OUR COMMUNITY. MAKING BERKS COUNTY EVEN MORE HEARTSAFE.</p> <p>HEARTSAFE BERKS COUNTY IS AN INNOVATIVE PROGRAM THAT PLACES AUTOMATIC EXTERNAL DEFIBRILLATORS (AEDS) IN KEY INSTITUTIONS THROUGHOUT THE COUNTY. AN AED CAN HELP REVIVE A PERSON WHOSE HEART HAS STOPPED BEFORE EMERGENCY MEDICAL PERSONNEL ARRIVE. THROUGH THE NEW EMPLOYEE ENGAGEMENT INITIATIVE, READING HEALTH EMPLOYEES GET THE OPPORTUNITY TO TAKE PAID TIME TO PARTICIPATE IN ONE COMMUNITY VOLUNTEER ACTIVITY EACH YEAR. SCREENINGS FOR BETTER HEALTH SCREENING TESTS CAN HELP FIND CANCER AT AN EARLY STAGE, BEFORE SYMPTOMS APPEAR. AS THE NATIONAL CANCER INSTITUTE EXPLAINS, WHEN ABNORMAL TISSUE OR CANCER IS FOUND EARLY, IT MAY BE EASIER TO TREAT OR CURE. EACH YEAR, WE OFFER POTENTIALLY LIFE-SAVING FREE CANCER SCREENINGS. THEY INCLUDE BREAST, CERVICAL, PROSTATE, SKIN, AND ORAL CANCERS. NOW IN ITS SEVENTH YEAR, OUR INJURY PREVENTION PROGRAM REACHES THOUSANDS OF AREA RESIDENTS, EDUCATING THEM IN SAFETY AS A WAY OF LIFE. THE GOAL IS TO PREVENT THOSE ACCIDENTS AND INJURIES THAT RESULT IN THE HIGHEST PATIENT VOLUME IN OUR TRAUMA CENTER. OUR TRAUMA CENTER'S EDUCATION COORDINATOR PARTICIPATES IN AND RECRUITS STAFF TO HELP WITH PROGRAMS SUCH AS "DARE TO PREPARE," A PROGRAM IN PARTNERSHIP WITH AAA AND THE PENNSYLVANIA DEPARTMENT OF TRANSPORTATION, WHICH ASSISTS PARENTS IN PREPARING TEENS FOR DRIVING BY REVIEWING RISKS AND DISTRACTIONS FOR NEW DRIVERS. VISITS TO ELEMENTARY SCHOOLS TO REVIEW SAFETY ISSUES ON THE PLAYGROUND AND SCHOOL BUSES, AS WELL AS TO PROMOTE THE USE OF BIKE HELMETS. "CARFIT" EDUCATIONAL EVENTS FOR OLDER DRIVERS, WHICH REVIEW A SENIOR'S DRIVING SKILLS AND DISTRACTIONS ON THE ROAD. AGING BODIES ARE MORE FRAGILE AND VULNERABLE IN A CAR CRASH, SO MAKING SURE A CAR IS PROPERLY "FITTED" FOR A SENIOR DRIVER GREATLY INCREASES THE DRIVER'S SAFETY. FIRST AID STATIONS AT MAJOR COMMUNITY EVENTS, SUCH AS THE READING FAIR, MAPLE GROVE RACEWAY EVENTS, AND MID-ATLANTIC AIR MUSEUM'S WORLD WAR II WEEKEND. CREATING GREATER ACCESS IN PARTNERSHIP WITH LEADING COMMUNITY ORGANIZATIONS, READING HEALTH SYSTEM HELPED CREATE A FEDERALLY QUALIFIED HEALTH CENTER IN DOWNTOWN READING. THE NEW BERKS COMMUNITY HEALTH CENTER, LOCATED AT THE SITE OF THE FORMER READING HEALTH DISPENSARY, OPENED IN JUNE. A FORMAL MEMORANDUM OF AGREEMENT TRANSFERRED THE OPERATIONS OF THE DISPENSARY FROM READING HOSPITAL TO THE BOARD OF BCHC. BECAUSE FEDERALLY QUALIFIED HEALTH CENTERS RECEIVE HIGHER REIMBURSEMENT AND GRANTS FROM THE FEDERAL GOVERNMENT, THIS MOVE SHOULD RESULT IN GREATER ACCESS IN TERMS OF BOTH NUMBER OF PATIENTS SERVED AND TYPES OF SERVICES OFFERED TO UNDERSERVED MEMBERS OF THE COMMUNITY. ASKING THE QUESTIONS READING HEALTH SYSTEM JOINED WITH ST. JOSEPH MEDICAL CENTER, UNITED WAY OF BERKS COUNTY, AND BERKS COMMUNITY FOUNDATION TO CONDUCT A QUANTITATIVE SURVEY OF COMMUNITY NEEDS. UNDER THE GUIDANCE OF A COMMUNITY HEALTH NEEDS ASSESSMENT ADVISORY BOARD, THESE ORGANIZATIONS ENGAGED PUBLIC HEALTH MANAGEMENT COMPANY TO CONDUCT A HEALTH SURVEY OF BERKS COUNTY RESIDENTS THIS SUMMER. READING HOSPITAL ALSO CONDUCTED A SEPARATE RESEARCH PROJECT TARGETING INDIVIDUALS WHO LIVE IN THE CITY OF READING. RESULTS FROM BOTH INITIATIVES, ALONG WITH ANECDOTAL INFORMATION ON SERVICE UTILIZATION AND GAPS, WILL DRIVE FUTURE COMMUNITY BENEFIT ACTIVITIES.</p> <p>COMMUNITY BENEFIT TOTAL 152,526,230 (FISCAL YEAR 2013) DIRECT PATIENT CARE UNREIMBURSED MEDICARE 66.3 MILLION (ESTIMATED 49,000 INDIVIDUALS) THE DIFFERENCE BETWEEN MEDICARE CHARGES AND MEDICARE PAYMENTS AND THE ACTUAL COST OF PROVIDING PATIENT CARE UNREIMBURSED MEDICAID 35.3 MILLION (ESTIMATED 37,400 INDIVIDUALS) THE DIFFERENCE BETWEEN MEDICAL ASSISTANCE CHARGES AND MEDICAID PAYMENTS AND THE ACTUAL COST OF PROVIDING PATIENT CARE BAD DEBT 10.7 MILLION (ESTIMATED 29,600 INDIVIDUALS) THE COST OF PROVIDING CARE TO PATIENTS WHOM WE BELIEVE WOULD QUALIFY FOR FINANCIAL ASSISTANCE UNDER OUR CHARITY CARE POLICY UNCOMPENSATED CHARITY CARE 17.4 MILLION (ESTIMATED 4,000 INDIVIDUALS) FREE HEALTH SERVICES PROVIDED TO PERSONS WHO MEET OUR CRITERIA FOR FINANCIAL ASSISTANCE. THIS AMOUNT REFLECTS THE ACTUAL COST OF PROVIDING CARE. COMMUNITY HEALTH IMPROVEMENT SERVICES PATIENT CARE COMMUNITY SERVICES 3.2 MILLION INCLUDES FREE FLU SHOTS, CANCER SCREENINGS, MEDICATIONS, MEDICAL EQUIPMENT AND TRANSPORTATION FOR COMMUNITY MEMBERS, FREE INTERPRETING SERVICES, AND FREE COMMUNITY HELPLINE. COMMUNITY HEALTH EDUCATION 0.5 MILLION INCLUDES HEALTH EDUCATION PROGRAMS, CPR CLASSES, SUPPORT GROUPS AND FREE WORKSITE HEALTH EDUCATION.</p>

Identifier	Return Reference	Explanation
FIRST ACCOMPLISHMENT DESCRIPTION	FORM 990, PAGE 2, PART III, LINE 4A	<p>ION PROGRAMS THAT IMPROVE COMMUNITY HEALTH FINANCIAL AND IN-KIND DONATIONS 2 5 MILLION C ONTRIBUTIONS MADE BY TRHMC AND ITS EMPLOYERS TO COMMUNITY NON-PROFIT ORGANIZATIONS PROFES SIONAL EDUCATION AND CLINICAL RESEARCH MEDICAL EDUCATION FOR PHYSICIANS/MEDICAL STUDENTS 13 0 MILLION INCLUDES SALARIES AND BENEFITS FOR MEDICAL RESIDENTS, MEDICAL LIBRARY , AND CO NTINUING MEDICAL EDUCATION PROGRAMS AVAILABLE TO ALL PHY SICIANS WITHIN THE COMMUNITY ALSO INCLUDES NURSING, PARA MEDIC AND PASTORAL CARE EDUCATION THAT RESULT IN A DEGREE, CERTIFIC ATE OR TRAINING NECESSARY TO BE LICENSED TO PRACTICE AS A HEALTH PROFESSIONAL INCLUDES CO NTINUING MEDICAL EDUCATION PROGRAMS OFFERED TO ALL NURSES IN THE COMMUNITY CANCER CLINICA L RESEARCH AND TUMOR REGISTRY 3 1 MILLION INCLUDES RESEARCH AND CLINICAL TRIALS IN THE AR EAS OF CANCER, AND TUMOR REGISTRY EXPENSES</p>

Identifier	Return Reference	Explanation
RELATED PARTY INFORMATION AMONG OFFICERS	FORM 990, PAGE 6, PART VI, LINE 2	TERRENCE MCGLINN THEODORE AUMAN FAMILY RELATIONSHIP

Identifier	Return Reference	Explanation
CLASSES OF MEMBERS OR STOCKHOLDERS	FORM 990, PAGE 6, PART VI, LINE 6	THE SOLE MEMBER OF THE CORPORATION SHALL CONSIST OF THE MEMBERS OF THE BOARD OF DIRECTORS OF THE CORPORATION

Identifier	Return Reference	Explanation
ELECTION OF MEMBERS AND THEIR RIGHTS	FORM 990, PAGE 6, PART VI, LINE 7A	THE MANAGEMENT OF THE CORPORATION SHALL BE VESTED IN THE BOARD OF DIRECTORS WHO SERVES AS THE SOLE MEMBER

Identifier	Return Reference	Explanation
DECISIONS SUBJECT TO APPROVAL OF MEMBERS	FORM 990, PAGE 6, PART VI, LINE 7B	THE MANAGEMENT OF THE CORPORATION SHALL BE VESTED IN THE BOARD OF DIRECTORS WHO SERVE AS THE SOLE MEMBER

Identifier	Return Reference	Explanation
ORGANIZATION'S PROCESS USED TO REVIEW FORM 990	FORM 990, PAGE 6, PART VI, LINE 11B	THE FORM 990 IS PREPARED BY HOSPITAL STAFF AND REVIEWED BY PWC ACCOUNTING FIRM TAX PERSONNEL BEFORE POSTING IT ON A WEBSITE FOR BOARD MEMBERS PRIOR TO FILING. MEMBERS ARE ALERTED TO INFORMATION AND NOTICES. A COPY OF THE 990 IS MAILED TO ANY BOARD MEMBER UNABLE TO VIEW THIS SITE.

Identifier	Return Reference	Explanation
ENFORCEMENT OF CONFLICTS POLICY	FORM 990, PAGE 6, PART VI, LINE 12C	IT SHALL BE THE POLICY OF THE HOSPITAL TO REQUIRE EACH BOARD MEMBER TO SUBMIT IN WRITING TO THE CHIEF EXECUTIVE OFFICER A LIST OF BUSINESS OR OTHER ORGANIZATIONS OF WHICH THE MEMBER OR MEMBER'S SPOUSE IS AN OFFICER, DIRECTOR, MEMBER EMPLOYEE OR OWNER (10% OR GREATER SHARE) WITH WHICH THE COMPANY MIGHT REASONABLY ENTER INTO A RELATIONSHIP OR A TRANSACTION IN WHICH THE BOARD MEMBER WOULD HAVE CONFLICTING INTERESTS EACH YEAR A COPY OF THE WRITTEN STATEMENT WILL BE SENT TO THE BOARD MEMBER FOR UPDATING AND RESUBMISSION AND BY WHICH THE BOARD MEMBER SHALL CONFIRM HIS AWARENESS OF THIS POLICY

Identifier	Return Reference	Explanation
COMPENSATION PROCESS FOR TOP OFFICIAL	FORM 990, PAGE 6, PART VI, LINE 15A	<p>THE READING HEALTH SYSTEM'S BOARD OF DIRECTORS HAS DULY APPOINTED AN EXECUTIVE COMPENSATION COMMITTEE (THE "COMMITTEE"), WHICH IS RESPONSIBLE FOR THE REVIEW AND APPROVAL OF ALL COMPENSATION AND BENEFITS PROVIDED TO THE HOSPITAL'S EXECUTIVE MANAGEMENT. THE COMMITTEE HAS ADOPTED A WRITTEN EXECUTIVE COMPENSATION PHILOSOPHY STATEMENT AND AN EXECUTIVE COMPENSATION COMMITTEE CHARTER GOVERNING THE WORK AND REVIEW PROCESS OF THE COMMITTEE. THE COMMITTEE FOLLOWS THE PROCEDURES DESCRIBED IN THE PHILOSOPHY STATEMENT AND THE CHARTER WHEN IT REVIEWS AND APPROVES THE COMPENSATION AND EMPLOYEE BENEFITS PROVIDED TO THE HOSPITAL'S SENIOR MANAGEMENT, INCLUDING THE CHIEF EXECUTIVE OFFICER AND THE CHIEF FINANCIAL OFFICER. THE COMMITTEE'S REVIEW ANALYZES EVERY ELEMENT OF COMPENSATION, INCLUDING CURRENT AND DEFERRED COMPENSATION, AND BENEFITS, INCLUDING QUALIFIED AND NON-QUALIFIED BENEFITS. THE COMMITTEE CONDUCTS ITS REVIEW AND APPROVAL PROCESS AT LEAST ANNUALLY, AND APPROVES COMPENSATION AND BENEFITS ONLY TO THE EXTENT THAT THE COMMITTEE HAS CONCLUDED THAT THE COMPENSATION AND BENEFITS CONSTITUTE NO MORE THAN REASONABLE COMPENSATION FOR EACH EXECUTIVE. THE COMMITTEE CONSISTS ENTIRELY OF DISINTERESTED MEMBERS OF THE BOARD, AND THE COMMITTEE WORKS WITH AN INDEPENDENT COMPENSATION CONSULTANT TO PREPARE AND REVIEW IN ADVANCE COMPREHENSIVE DATA SHOWING THE COMPENSATION PROVIDED BY SIMILARLY SITUATED ORGANIZATIONS FOR FUNCTIONALLY SIMILAR POSITIONS. THE COMMITTEE ALSO PREPARES A TIMELY AND THOROUGH WRITTEN RECORD OF ITS DELIBERATIONS AND CONCLUSIONS. AS A RESULT, THE COMMITTEE'S REVIEW PROCESS IS DESIGNED TO SATISFY THE PROCEDURAL CRITERIA NECESSARY TO QUALIFY FOR THE REBUTTABLE PRESUMPTION OF REASONABLENESS UNDER THE FEDERAL INCOME TAX LAW INTERMEDIATE SANCTIONS RULES.</p>

**Identifier**

**Return Reference**

**Explanation**

COMPENSATION PROCESS FOR OFFICERS

FORM 990, PAGE 6, PART VI, LINE 15B

SAME RESPONSE AS LINE 15A

Identifier	Return Reference	Explanation
GOVERNING DOCUMENTS DISCLOSURE EXPLANATION	FORM 990, PAGE 6, PART VI, LINE 19	THE ORGANIZATION DOES NOT MAKE ITS GOVERNING DOCUMENTS, CONFLICTS OF INTEREST POLICY AND FINANCIAL STATEMENTS AVAILABLE TO THE PUBLIC

Identifier	Return Reference	Explanation
OTHER CHANGES IN NET ASSETS EXPLANATION	FORM 990, PART XI, LINE 9	TRANSFERS FROM AFFILIATES 35,024,846 UN REALIZED SWAP INCOME 14,098,501 TRANSFER TO AFFILIATE THAW HIGHLANDS -5,853,454 UNREALIZED LOSSES -3,340,632 EACH YEAR THE INTERCOMPANY TRANSACTIONS WITH THE RELATED ORGANIZATIONS ARE ELIMINATED THRU THE NET ASSET ACCOUNTS

**SCHEDULE R  
(Form 990)**

**Related Organizations and Unrelated Partnerships**

OMB No 1545-0047

**2012**

**Open to Public  
Inspection**

▶ **Complete if the organization answered "Yes" to Form 990, Part IV, line 33, 34, 35, 36, or 37.**  
▶ **Attach to Form 990.** ▶ **See separate instructions.**

Department of the Treasury  
Internal Revenue Service

Name of the organization  
READING HEALTH SYSTEM

**Employer identification number**

23-2201344

**Part I Identification of Disregarded Entities** (Complete if the organization answered "Yes" to Form 990, Part IV, line 33.)

(a) Name, address, and EIN (if applicable) of disregarded entity	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Total income	(e) End-of-year assets	(f) Direct controlling entity

**Part II Identification of Related Tax-Exempt Organizations** (Complete if the organization answered "Yes" to Form 990, Part IV, line 34 because it had one or more related tax-exempt organizations during the tax year.)

(a) Name, address, and EIN of related organization	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Exempt Code section	(e) Public charity status (if section 501(c)(3))	(f) Direct controlling entity	(g) Section 512(b)(13) controlled entity?	
						Yes	No
<b>(1)</b> READING HOSPITAL SIXTH AVE SPRUCE ST WEST READING, PA 19611 23-1352204	HEALTHCARE	PA	501 C3	3	RHS	Yes	
<b>(2)</b> THE FRIENDS OF THE READING HOSPITAL SIXTH AVE SPRUCE ST WEST READING, PA 19611 23-6026108	SUPPORTING	PA	501 C3	11B	RHS	Yes	
<b>(3)</b> THE RDG HOSPITAL & MED CENTER SELF- SIXTH AVE SPRUCE ST WEST READING, PA 19611 23-2087514	TRUST FUND	PA	501 C3	11B	RHS	Yes	
<b>(4)</b> THE RDG HOSPITAL & MED CENTER WORKE SIXTH AVE SPRUCE ST WEST READING, PA 19611 22-3054717	TRUST FUND	PA	501 C3	11B	RHS	Yes	
<b>(5)</b> READING PROFESSIONAL SERVICES SIXTH AVE SPRUCE ST WEST READING, PA 19611 23-2266054	HEALTHCARE	PA	501 C3	3	RHS	Yes	
<b>(6)</b> THE RDG HOSPITAL MEDICAL GROUP SIXTH AVE SPRUCE ST WEST READING, PA 19611 20-5095905	HEALTHCARE	PA	501 C3	3	RHS	Yes	
<b>(7)</b> THE HIGHLANDS AT WYOMISSING 2000 CAMBRIDGE AVE WYOMISSING, PA 19610 22-2790840	RETIREMENT	PA	501 C3	9	RHS	Yes	

**Part III Identification of Related Organizations Taxable as a Partnership** (Complete if the organization answered "Yes" to Form 990, Part IV, line 34 because it had one or more related organizations treated as a partnership during the tax year.)

(a) Name, address, and EIN of related organization	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Direct controlling entity	(e) Predominant income (related, unrelated, excluded from tax under sections 512-514)	(f) Share of total income	(g) Share of end-of-year assets	(h) Disproportionate allocations?		(i) Code V—UBI amount in box 20 of Schedule K-1 (Form 1065)	(j) General or managing partner?		(k) Percentage ownership
							Yes	No		Yes	No	
(1) THE READING HOSPITAL SURGICENTER AT  2603 KEISER BLVD WYOMISSING, PA 19610 58-2682467	SURGERY	PA	N/A					No			No	

**Part IV Identification of Related Organizations Taxable as a Corporation or Trust** (Complete if the organization answered "Yes" to Form 990, Part IV, line 34 because it had one or more related organizations treated as a corporation or trust during the tax year.)

(a) Name, address, and EIN of related organization	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Direct controlling entity	(e) Type of entity (C corp, S corp, or trust)	(f) Share of total income	(g) Share of end-of-year assets	(h) Percentage ownership	(i) Section 512 (b)(13) controlled entity?	
								Yes	No
(1) MC REALTY CORP  627 NORTH FOURTH STREET READING, PA 19601 23-2607292	REALESTATE	PA	N/A						No

**Part V Transactions With Related Organizations** (Complete if the organization answered "Yes" to Form 990, Part IV, line 34, 35b, or 36.)

**Note.** Complete line 1 if any entity is listed in Parts II, III, or IV of this schedule

**1** During the tax year, did the organization engage in any of the following transactions with one or more related organizations listed in Parts II-IV?

- a** Receipt of **(i)** interest **(ii)** annuities **(iii)** royalties or **(iv)** rent from a controlled entity
- b** Gift, grant, or capital contribution to related organization(s)
- c** Gift, grant, or capital contribution from related organization(s)
- d** Loans or loan guarantees to or for related organization(s)
- e** Loans or loan guarantees by related organization(s)

- f** Dividends from related organization(s)
- g** Sale of assets to related organization(s)
- h** Purchase of assets from related organization(s)
- i** Exchange of assets with related organization(s)
- j** Lease of facilities, equipment, or other assets to related organization(s)

- k** Lease of facilities, equipment, or other assets from related organization(s)
- l** Performance of services or membership or fundraising solicitations for related organization(s)
- m** Performance of services or membership or fundraising solicitations by related organization(s)
- n** Sharing of facilities, equipment, mailing lists, or other assets with related organization(s)
- o** Sharing of paid employees with related organization(s)

- p** Reimbursement paid to related organization(s) for expenses
- q** Reimbursement paid by related organization(s) for expenses

- r** Other transfer of cash or property to related organization(s)
- s** Other transfer of cash or property from related organization(s)

	Yes	No
<b>1a</b>		No
<b>1b</b>		No
<b>1c</b>		No
<b>1d</b>	Yes	
<b>1e</b>		No
<b>1f</b>		No
<b>1g</b>		No
<b>1h</b>		No
<b>1i</b>		No
<b>1j</b>		No
<b>1k</b>		No
<b>1l</b>		No
<b>1m</b>		No
<b>1n</b>		No
<b>1o</b>		No
<b>1p</b>		No
<b>1q</b>		No
<b>1r</b>		No
<b>1s</b>		No

**2** If the answer to any of the above is "Yes," see the instructions for information on who must complete this line, including covered relationships and transaction thresholds

(a) Name of other organization	(b) Transaction type (a-s)	(c) Amount involved	(d) Method of determining amount involved
<b>(1)</b> READING HOSPITAL	D	16,524,437	GL TRANSACTIONS



**Software ID:**  
**Software Version:**  
**EIN:** 23-2201344  
**Name:** READING HEALTH SYSTEM

**Part VII Supplemental Information**

Complete this part to provide additional information for responses to questions on Schedule R (see instructions)

Identifier	Return Reference	Explanation
ADDITIONAL INFORMATION	SCHEDULE R	IN CONNECTION WITH PART III THE READING HOSPITAL SURGICENTER AT SPRING RIDGE LLC IS A JOINT VENTURE WITH READING HOSPITAL AND AS SUCH ALL ALL INFORMATION IS REPORTED ON ITS FORM 990 SCHEDULE R THE READING HEALTH SYSTEM PAYS THE BOND PAYMENTS WHICH ARE ALLOCATED BACK TO THE HOSPITAL

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**Reading Health System**  
**Consolidated Financial Statements and**  
**Supplementary Consolidating Information**  
**June 30, 2013 and 2012**

**Reading Health System**  
**Index**  
**June 30, 2013 and 2012**

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## Independent Auditor's Report

To the Board of Directors of  
Reading Health System

We have audited the accompanying consolidated financial statements of Reading Health System (the "System"), which comprise the consolidated balance sheets as of June 30, 2013 and 2012, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended

### ***Management's Responsibility for the Consolidated Financial Statements***

Management is responsible for the preparation and fair presentation of the consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

### ***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Reading Health System at June 30, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in cursive script that reads "PricewaterhouseCoopers LLP".

October 21, 2013

**Reading Health System**  
**Consolidated Balance Sheets**  
**June 30, 2013 and 2012**

	2013	2012
<b>Assets</b>		
Current		
Cash and cash equivalents	\$ 64,194,346	\$ 191,713,225
Patient accounts receivable, less allowance for uncollectible accounts of \$52,456,860 and \$41,451,392 in 2013 and 2012, respectively	179,935,902	110,747,136
Other receivables	13,227,984	5,914,466
Receivable from affiliates	677,836	1,454,833
Inventories	14,821,977	12,175,915
Estimated third-party payor receivables	8,198,991	2,408,590
Prepaid expenses and other current assets	14,823,188	12,072,896
Assets whose use is limited - required for current liabilities		
Self-insurance funding arrangements	7,812,332	10,782,507
Revenue bond indentures - debt service requirements	2,878,958	7,252,138
Total current assets	<u>306,571,514</u>	<u>354,521,706</u>
Assets whose use is limited		
Self-insurance funding arrangements	20,032,628	19,640,559
Under regulatory requirements	2,912,455	2,912,455
By board for capital improvements	940,950,458	856,481,130
Total assets whose use is limited, net of current portion	<u>963,895,541</u>	<u>879,034,144</u>
Investments	20,115,778	17,741,189
Temporarily restricted funds	660,370	654,010
Property, plant and equipment, net	681,697,895	615,065,637
Deferred financing expense, net	4,815,161	4,996,857
Deferred compensation fund	2,873,977	3,023,129
Other assets	14,443,615	13,747,873
Total assets	<u>\$ 1,995,073,851</u>	<u>\$ 1,888,784,545</u>

The accompanying notes are an integral part of these consolidated financial statements

**Reading Health System**  
**Consolidated Balance Sheets**  
**June 30, 2013 and 2012**

	<b>2013</b>	<b>2012</b>
<b>Liabilities and Net Assets</b>		
Current		
Current installments of long-term debt	\$ 6,733,536	\$ 7,680,255
Accounts payable	48,395,821	43,085,133
Estimated third-party payor settlements	4,555,158	8,068,145
Current portion of estimated self-insurance costs	10,791,791	10,877,737
Accrued expenses	31,374,720	29,276,477
Accrued vacation	21,784,242	20,537,858
Advance from third-party payor	3,832,000	3,832,000
Other current liabilities	16,014,939	7,985,863
Total current liabilities	<u>143,482,207</u>	<u>131,343,468</u>
Long-term debt, net of current portion and unamortized discount	596,948,921	603,758,661
Accrued pension liabilities	112,951,705	200,514,393
Deferred revenue	34,959,665	34,903,416
Deferred compensation	3,203,918	2,999,484
Gift annuities	579,100	586,343
Estimated self-insurance costs, net of current portion	43,781,001	40,574,001
Swap contracts	59,859,380	82,635,153
Total liabilities	<u>995,765,897</u>	<u>1,097,314,919</u>
<b>Net assets</b>		
Unrestricted	979,817,008	774,002,732
Temporarily restricted	660,886	654,010
Permanently restricted	18,830,060	16,812,884
Total net assets	<u>999,307,954</u>	<u>791,469,626</u>
Total liabilities and net assets	<u>\$ 1,995,073,851</u>	<u>\$ 1,888,784,545</u>

The accompanying notes are an integral part of these consolidated financial statements

**Reading Health System**  
**Consolidated Statements of Operations**  
**Years Ended June 30, 2013 and 2012**

	2013	2012
<b>Unrestricted revenues and other support</b>		
Net patient service revenue	\$ 914,062,738	\$ 874,307,259
Provision for uncollectible accounts	(53,362,307)	(49,489,385)
Net patient service revenue less provision for uncollectible accounts	860,700,431	824,817,874
Residential revenue	19,941,623	19,875,080
Other revenue	32,402,118	28,536,854
Total revenues and other support	<u>913,044,172</u>	<u>873,229,808</u>
<b>Expenses</b>		
Salaries and benefits	515,466,808	480,444,099
Supplies	117,757,926	111,362,303
Utilities	12,215,580	12,853,524
Interest	15,715,462	20,443,050
Depreciation and amortization	75,024,450	64,965,124
Purchased services	79,528,886	70,323,048
Repairs and maintenance	22,743,187	19,421,008
Other	53,768,423	58,947,523
Total expenses	<u>892,220,722</u>	<u>838,759,679</u>
Income from operations	<u>20,823,450</u>	<u>34,470,129</u>
<b>Nonoperating gains/(losses)</b>		
Investment income	76,027,384	20,829,827
Loss on extinguishment of debt	-	(5,302,466)
Realized and unrealized (losses)/gains on swap contracts	14,200,002	(36,240,771)
Other losses	(1,509,780)	(727,167)
Nonoperating gains/(losses), net	<u>88,717,606</u>	<u>(21,440,577)</u>
Excess of revenue, gains and other support over expenses	<u>\$ 109,541,056</u>	<u>\$ 13,029,552</u>

The accompanying notes are an integral part of these consolidated financial statements

**Reading Health System**  
**Consolidated Statements of Changes in Net Assets**  
**Years Ended June 30, 2013 and 2012**

	2013	2012
<b>Unrestricted net assets</b>		
Excess of revenues, gains and other support over expenses	\$ 109,541,056	\$ 13,029,552
Change in unrealized gains/(losses) on investments	(1,075,841)	(19,373,757)
Change in pension liability	98,966,619	(96,257,226)
Other net assets	(1,617,558)	404,072
Increase/(Decrease) in unrestricted net assets	<u>205,814,276</u>	<u>(102,197,359)</u>
<b>Temporarily restricted net assets</b>		
Contributions	9,065	-
Net assets released from restrictions - for operations	(2,189)	(18,461)
Increase/(Decrease) in temporarily restricted net assets	<u>6,876</u>	<u>(18,461)</u>
<b>Permanently restricted net assets</b>		
Contributions	1,271,841	29,254
Change in unrealized gains/(losses) on investments	598,300	-
Change in beneficial interest in trusts	147,035	(585,204)
Increase/(Decrease) in permanently restricted net assets	<u>2,017,176</u>	<u>(555,950)</u>
Change in net assets	207,838,328	(102,771,770)
<b>Net assets</b>		
Beginning of year	<u>791,469,626</u>	<u>894,241,396</u>
End of year	<u>\$ 999,307,954</u>	<u>\$ 791,469,626</u>

The accompanying notes are an integral part of these consolidated financial statements

**Reading Health System**  
**Consolidated Statements of Cash Flows**  
**Years Ended June 30, 2013 and 2012**

	2013	2012
<b>Cash flows from operating activities</b>		
Change in net assets	\$ 207,838,328	\$ (102,771,770)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Change in unrealized (losses)/gains on investments	477,541	19,373,757
Change in fair value of swap contracts	(22,775,773)	30,302,796
Loss on extinguishment of debt	-	5,302,466
Premium on issuance of bonds	-	6,882,971
Amortization of bond discount	77,683	136,815
Amortization of bond premium	(212,328)	-
Amortization of deferred financing expense	181,696	353,318
Change in pension liability, net	(87,562,688)	100,658,432
Depreciation	75,024,450	64,965,124
(Gain) Loss on disposal of fixed assets	(3,200)	605,118
Provision for uncollectible accounts	53,362,307	49,489,385
Realized gains on investments	(60,889,148)	(7,440,377)
Equity income of affiliates	(5,269,424)	(185,740)
Distribution from equity investees	4,471,325	-
Restricted contributions and investment income received	(1,280,906)	(29,254)
Change in cash due to changes in operating assets and liabilities		
Receivable from patients and others	(129,864,591)	(55,449,650)
Receivable from affiliates	776,998	(194,507)
Inventories	(2,646,062)	762,708
Prepaid expenses and other assets	(2,647,935)	(8,110,770)
Accounts payable and other expenses	(3,441,352)	26,889,819
Deferred compensation	353,586	(23,645)
Gift annuities	(7,243)	(65,738)
Deferred revenue	56,249	(749,264)
Net cash provided by operating activities	<u>26,019,513</u>	<u>130,701,994</u>
<b>Cash flows from investing activities</b>		
Acquisition of property, plant and equipment	(127,961,335)	(64,282,208)
Proceeds from sale of fixed assets	3,200	913
Return of capital from equity investee	-	1,773,740
Purchases and sales of investments and assets whose use is limited, net	(19,234,095)	(12,959,628)
Net cash used in investing activities	<u>(147,192,230)</u>	<u>(75,467,183)</u>
<b>Cash flows from financing activities</b>		
Restricted contributions and investment income received	1,280,906	29,254
Proceeds from issuance of new debt, net of bond discount	-	472,471,969
Repayment of bonds	-	(470,215,013)
Increase in deferred financing expense	-	(3,548,378)
Payments of long-term debt	(7,627,068)	(15,970,553)
Net cash used in financing activities	<u>(6,346,162)</u>	<u>(17,232,721)</u>
Net increase in cash and cash equivalents	(127,518,879)	38,002,090
<b>Cash and cash equivalents</b>		
Beginning of year	191,713,225	153,711,135
End of year	<u>\$ 64,194,346</u>	<u>\$ 191,713,225</u>
<b>Supplemental cash flow information</b>		
Cash paid during the year for interest	\$ 15,519,042	\$ 21,208,003
Fixed asset additions included in accounts payable	13,688,973	12,627,200

The accompanying notes are an integral part of these consolidated financial statements

# Reading Health System

## Notes to Consolidated Financial Statements

### June 30, 2013 and 2012

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#### 1. Organizational Structure and Nature of Operations

Reading Health System (“Parent”) is a tax-exempt not-for-profit corporation under Section 501(c)(3) of the Internal Revenue Code. The Parent is located in West Reading, Pennsylvania and provides inpatient, outpatient and emergency care for residents of the greater Berks County area. Admitting physicians are primarily practitioners in the local area.

#### **Controlled Entities and Subsidiaries of the Parent Include:**

Reading Hospital (“Hospital”), a tax-exempt not-for-profit acute and post-acute care hospital,

Reading Professional Services (“RPS”), a tax-exempt entity established for charitable, educational and scientific purposes. RPS recruits physicians, provides physician billing and administrative services for the Hospital, including supervision and instruction for medical students completing their residency training,

MC Realty, Inc (“MC Realty”), a wholly owned subsidiary, established to strategically acquire real estate in Berks County and the surrounding areas. MC Realty is consolidated into the Parent,

The Reading Hospital Medical Group (“TRHMG”), a not-for-profit entity, established on January 1, 2007 to assure access to high quality primary care physicians and specialty physicians in sufficient numbers to meet the community need, and

The Highlands at Wyomissing (“Highlands”), a not-for-profit corporation is a fully controlled entity of The Reading Hospital. The purpose of the Highlands is to operate a continuing care retirement community including residential, recreational, and health care facilities and services specially designed to meet the physical, social, and psychological needs of elderly persons. The Highlands facility is located in Wyomissing, Pennsylvania and its residents are principally from the Wyomissing, and Reading, Pennsylvania area. The facility contains 290 residential living units, an 80-bed skilled nursing unit and 66 personal care units. Certain members of the board of directors from the Hospital are also members of the board of directors of the Highlands.

#### **Other Noncontrolled Related Entities Include:**

Berkshire Health Partners (“BHP”) is licensed by the Commonwealth of PA as a fully integrated, non-risk bearing preferred provider organization. A nonprofit corporation in PA, BHP was established by hospitals and physicians, and offers a provider network of physicians, hospitals, and ancillary providers and services. Certain members of the Hospital’s Board of Directors are directors of BHP. In September 2011, BHP entered into a Membership Repurchase Agreement giving the Parent full ownership of the hospital side of BHP. The other 50% is owned by Reading Physicians Organization.

Medicus Resource Management (“MRM”), a wholly owned subsidiary of BHP, is a for-profit company for PA tax purposes that coordinates the utilization management process and provides precertification, case management, concurrent reviews, and short term disability reviews.

Reading Berks Physical Therapy LLC (“RBPT”), a limited liability corporation established to provide physical therapies at eight locations within the greater Berks County area. The Hospital maintains a 40% interest in RBPT under the equity method of accounting. This interest is included in other assets on the accompanying Balance Sheets,

# Reading Health System

## Notes to Consolidated Financial Statements

### June 30, 2013 and 2012

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The Reading Hospital Surgicenter at Springridge, LLC (“Springridge LLC”), a limited liability company, was established to provide ambulatory surgery services to the surrounding community. The Hospital maintains a 50% ownership under the equity method of accounting. In FY 2013, Reading Hospital received a distribution of \$3,692,000. This interest is included in other assets on the accompanying Balance Sheets,

The Parent, along with several other acute care service hospitals throughout the central Pennsylvania area, contributed capital to form Central Pennsylvania Alliance Laboratories (“CPAL”), a joint venture to combine laboratory operations. The Parent maintains a 20% ownership interest in CPAL. This interest is recorded under the equity method of accounting and is included in other assets on the accompanying Balance Sheet,

The Parent’s ownership of Central Pennsylvania Homecare, Inc. (d b a Visiting Nurse Association, “VNA”) is 44.1%. Additional owners include Lancaster General with 44.1% and Pinnacle with 11.8% shares. VNA provides visiting home nursing services to outpatients of the Hospital, and other healthcare providers in the surrounding community. This investment is recorded under the equity method of accounting and is included in other assets on the accompanying Balance Sheets,

The Parent is a 20% owner, along with Central Pennsylvania Healthcare Alliance (“CPHA”) members Ephrata Community Hospital, Lancaster General, Pinnacle Health System, Summit Health Alliance and WellSpan Health, of Quest Behavioral Health, Inc. (“Quest”). Quest is a not-for-profit corporation providing full service managed behavioral healthcare. This investment is recorded under the equity method of accounting and is included in other assets on the accompanying Balance Sheets, and

Horizon is a for-profit limited liability partnership which provides in-home infusion drug therapy to customers in central Pennsylvania. The ownership structure equals 25% ownership shares for each of four parties, including Lancaster General, Reading Hospital, Pinnacle Health, and Hershey Medical Center. In FY 2013, RH received a distribution of \$775,000. The investment is recorded under the equity method of accounting and is included in other assets on the accompanying Balance Sheets.

## 2. Summary of Significant Accounting Policies

### Basis of Accounting

These Financial Statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (“US GAAP”). The significant accounting policies followed by Reading Health System (the “System”) are as follows:

### Principles of Consolidation

The Consolidated Financial Statements of the System include the accounts of the Parent, the Hospital, RPS, TRHMG, Highlands and MC Realty. All significant intercompany balances and transactions have been eliminated.

### Use of Estimates

The preparation of Financial Statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the Financial Statements and the reported amounts of revenues and expenses during the reporting period. These significant estimates include the accounts

**Reading Health System**  
**Notes to Consolidated Financial Statements**  
**June 30, 2013 and 2012**

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receivable allowance for doubtful accounts, contractual allowances, estimated third-party payor settlements, investments, accrued pension liabilities, accrued retirement costs and accrued insurance costs. Actual results could differ from those estimates.

**Cash and Cash Equivalents**

Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less. At June 30, 2013 and 2012, the System had cash balances in financial institutions that exceeded federal depository insurance limits. Management believes that the credit risk related to these deposits is minimal.

**Net Patient Service Revenue and Patient Accounts Receivable**

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per-diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered and include estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

The Hospital 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 who do not qualify for charity care, The Hospital recognizes revenue based on established rates, subject to certain discounts as determined by The Hospital. An estimated provision for bad debts is recorded that results in net patient service revenue being reported at the net amount expected to be received. The Hospital has determined that patient service revenue is primarily recorded prior to assessing the patient's ability to pay and as such, the entire provision for bad debts related to patient revenue is recorded as a deduction from patient service revenue in the accompanying Statements of Operations and changes in net assets. Patient service revenue, net of contractual allowances and discounts (but before the provision for bad debts), for the year ended June 30, 2013 from these two payor sources are as follows:

	<b>Third-party Payors</b>	<b>Self-Pay</b>	<b>Total</b>
Patient service revenue (net of contractual allowances and discounts)	95.5 %	4.5 %	100.0 %

Revenue from the Medicare and Medicaid programs accounted for approximately 33% and 7%, respectively, of Reading Hospital's net patient service revenue for the year ended June 30, 2013 and 30% and 7%, respectively, for the year ended June 30, 2012. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The 2013 and 2012 net patient service revenue increased approximately \$39,755,000 and \$47,470,000, respectively, because of tentative settlements and final settlements for years that are no longer subject to audits, reviews, and investigations, as well as other changes in estimates.

Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, the System 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

# Reading Health System

## Notes to Consolidated Financial Statements

### June 30, 2013 and 2012

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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, the System analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), The System records a significant 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 (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

#### **Residential Revenue**

The Highlands' entrance fees are refundable for a period of time up to 50 months. During this time, for refund purposes only, a resident's entrance fee is amortized at the rate of 2% per month for 50 months beginning on the date of occupancy. Entrance fees which are no longer refundable are recorded as deferred entrance fee revenue. Entrance fees are amortized to income using the straight-line method over the estimated remaining life expectancy of the resident. For all contracts entered into prior to January 1, 2005, a portion of the entrance fee, referred to as the health fund, equal to 30% of the total entrance fee, is reserved to be accounted for individually for each resident/couple. All health funds are refundable to the extent not amortized. Amortization of the health fund occurs when a resident utilizes health services (Nursing or Personal Care). The amortization rate is the incremental difference between the daily rate for health services and the monthly fee prorated on a daily basis.

#### **Other Revenue**

Significant components of other revenue include rental income on leased properties, tuition revenue for The Reading Hospital School of Health Sciences and cafeteria revenues.

#### **Charity Care**

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

#### **Donor Restricted Gifts**

Unconditional promises to give cash and other assets to the Hospital are reported at estimated fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at estimated fair value at the date the gift is received.

Contributions are reported as either temporarily or permanently restricted if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the Consolidated 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 Consolidated Financial Statements.

**Reading Health System**  
**Notes to Consolidated Financial Statements**  
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**Compensated Paid Leave**

The System records a liability for amounts due to employees for future paid leave which are attributable to services performed in the current and prior periods

**Excess of Revenues, Gains and Other Support Over Expenses**

The Consolidated Statements of Operations include the excess of revenues, gains and other support over expenses. Changes in unrestricted net assets that are excluded from the excess of revenues, gains and other support over expenses, consistent with industry practice, include changes in unrealized gains and losses on investments other than certain not readily marketable investments, adjustments for defined benefit and other post-retirement benefits and contributions of long-lived assets (including assets acquired using contributions which by donor-restriction were to be used for the purposes of acquiring such assets)

**Assets Whose Use is Limited**

Assets whose use is limited includes designated assets set aside by the Board of Directors for future capital improvements, assets held by trustees under indenture agreements and self insurance trust arrangements. The Board retains control over Board-restricted assets and may at its discretion subsequently use these assets for other purposes.

Assets whose use is limited includes cash and cash equivalents, marketable debt securities (including U S government and government agencies, corporate, state and local government), marketable equity securities (including common, preferred and foreign stock), exchange traded/listed mutual funds (including fixed income funds), hedge funds, private equity funds and limited partnerships. The Pennsylvania Continuing Care Provide Registration and Disclosure Act requires a statutory reserve equivalent to the greater of the total of debt service payments due during the next 12 months on account of any loan or 10% of the projected annual operating expenses of the facilities exclusive of depreciation, computed only on the proportional share of financing or operating expenses that is applicable to residents under entrance agreement contracts. For the System, this statutory requirement applies only to The Highlands at Wyomissing. This statutory reserve requirement is considered to be fulfilled from board-designated funds included within assets limited as to use.

The calculation of the 10% of the annual operating expenses for 2014 is as follows

Budgeted operating expenses for 2014	\$ 24,362,959
Less Budgeted depreciation and amortization expense	<u>(3,092,503)</u>
Net budgeted operating expenses for 2013	<u>21,270,456</u>
Required reserve as of July 1, 2013 (10%)	<u>\$ 2,127,046</u>

The principal and interest due in the next 12 month period for the long-term financing of the Highlands is the greater of the two options and is calculated as follows

Principal due	\$ 1,521,724
Interest due	<u>1,549,741</u>
Required reserve as of July 1, 2013	<u>\$ 3,071,465</u>

# Reading Health System

## Notes to Consolidated Financial Statements

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#### Property, Plant and Equipment

Property, plant and equipment are carried at cost, less accumulated depreciation. Expenditures which substantially increase the useful lives of existing assets are capitalized. Routine maintenance and repairs are expensed as incurred. Depreciation is computed using the straight-line method over the estimated useful lives of each class of depreciable asset. Useful lives range as follows:

Land improvements	5-25 years
Buildings and building improvements	10-40 years
Fixed equipment	5-10 years
Movable equipment	3-7 years

Gains and losses resulting from the retirement or sale of property, plant and equipment are included in the Consolidated 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. Gifts of long-lived operating assets such as land, buildings or equipment are reported as unrestricted contributions and are, excluded from the excess of revenues, gains and other support over expenses, unless explicit donor stipulations specify how the donated asset must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

#### Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the System 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 the System in perpetuity.

#### Inventories

Inventories are stated at lower of cost determined by the (first-in, first-out method) or market. Physical inventory counts were conducted in February and May 2013 and adjustments recorded. In January 2013, \$859,000 of inventory was recorded upon acquisition of Berks Hematology Oncology Associates.

#### Investments and Investment Income

Investment income earned on securities (interest and dividends) is reported in the non-operating income section of the Consolidated Statements of Operations within Investment income. Realized gains or losses related to the sale of investments, other than temporary impairments on other than trading investments and unrealized gains or losses on alternative investments, are included in the non-operating section of the Consolidated Statements of Operations in Investment income unless the income or loss is restricted by donor or law.

Investments in equity securities with readily determinable fair values and all investments in debt securities are recorded at fair value in the Consolidated Balance Sheets. These securities have been classified as other than trading, and net changes in unrealized gains (losses) on these instruments are included in the Consolidated Statements of Changes in Net Assets.

The fair value option for financial assets and liabilities permits the System to elect to measure eligible items at fair value on an instrument by instrument basis. If elected, this option requires the System to report the unrealized gains and losses on these instruments as part of the performance indicator. Once elected, the fair value option is irrevocable for that instrument. Alternative

# Reading Health System

## Notes to Consolidated Financial Statements

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investments include investments in managed funds, which include hedge funds, private partnerships and other investments that do not have readily determinable fair values and may be subject to withdrawal restrictions. Investments in hedge funds, private partnerships, and other investments in managed funds (collectively "alternative investments") are accounted for using the fair value option. The unrealized gains or losses from these alternative investments are included in the Consolidated Statements of Operations as part of non-operating gains/ (losses) within Investment income.

#### **Fair Value Measurements**

The System follows the provisions of Financial Accounting Standards Board ("FASB") ASC 820, Fair Value Measurement ("ASC 820"), which defines fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the measurement date. ASC 820 also establishes a framework for measuring fair value using valuation techniques such as the market approach, cost approach and income approach, and making disclosures about fair value measurements.

ASC 820 emphasizes that fair value is a market-based measurement, not an entity specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing an asset or liability. As a basis for considering market participant assumption in fair value measurements, ASC 820 defines a three-Level fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity and the reporting entity's own assumptions about market participants. The fair value hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

Level 1 – Inputs utilized quoted market prices in active markets for identical assets or liabilities that the System has the ability to access.

Level 2 – Inputs may include quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the asset and liability (other than quoted prices) such as interest rates, foreign exchange rates and yield curves that are observable at commonly quoted intervals.

Level 3 – Inputs are unobservable inputs for the asset or liability, which is typically based on an entity's own assumptions, as there is little, if any, related market activity.

In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the Level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest Level input that is significant to the fair value measurement in its entirety. The System's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

Where quoted prices are available in an active market, investments are classified in Level 1 of the valuation hierarchy. Investments in Level 1 include cash, exchange-traded equity securities and mutual funds with a published daily net asset value or its equivalent ("NAV"). Investments in Level 2 include financial instruments valued based on quoted market prices for identical securities in markets that are not active, quoted prices for similar securities in markets that are active, broker or dealer quotations or alternative pricing sources with reasonable levels of price transparency. If quoted prices are not available, other accepted valuation methodologies, such as interest rates,

# Reading Health System

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### June 30, 2013 and 2012

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observable yield curves and spreads may be used to determine fair value. This Level includes investments in marketable corporate debt securities, U S government and agency debt securities, and certain mutual funds that permit daily redemptions but whose NAV is not published. Level 2 also includes investments in certain private entities that calculate NAV per share, or its equivalent, if the System has the ability to redeem its investment with the investee at the stated NAV at the measurement date or shortly thereafter. Investments in Level 3 include investments in auction rate securities and other nonreadily marketable alternative investments, such as investments in private equity funds and hedge funds where the System's investments are subject to lock up periods and other longer-term liquidity restrictions and are reported at fair value based on the use of inputs that are unobservable in the public market.

The fair values of Level 3 investments have been estimated by management based on all available data, including information provided by third-party pricing vendors, fund managers and general partners. Auction rate securities are estimated using the income approach. This approach uses estimation techniques to determine the estimated future cash flows of the respective asset or liability expected by a market participant and discounts those cash flows back to present value. Alternative investments are recorded at fair value based on the NAV as a practical expedient, as provided by the respective general partner or fund administrator of the individual alternative investment funds. The System believes the fair value of alternative investments in the Consolidated Balance Sheets is a reasonable estimate of its ownership interest in the alternative investment funds. As part of the System's overall valuation process, management evaluates these third-party methodologies to ensure that they are representative of exit prices in the security's principal markets.

These valuation methods may produce a fair value estimate that may not be reflective of future fair values. Furthermore, while the System believes that its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value could result in a materially different estimate of fair value at the reporting date. See Note 5 for additional details related to the System's investments.

The System uses investment advisors to assist in managing their investment portfolios. One advisor is authorized to execute transactions to the Pension Fund. For the System's Long Term Capital Funds, the System has engaged an investment consultant and four new investment advisors who assist in managing the Long Term Capital funds. This full discretionary investment mandate, guided by the System's Board adopted Investment Policy Statement, was transitioned to the new advisors in October 2012. System Treasury staff coordinate with the investment consultant and advisors and a Board Committee, the Capital Resources Committee meet regularly with Advisors to discuss operations and performance of the investment portfolios.

#### **Deferred Financing Expense**

Deferred financing expense is amortized over the period the debt is outstanding using the straight-line method, which approximates the effective interest method. Amortization of deferred financing costs totaled \$181,696 and \$353,318 at June 30, 2013 and 2012, respectively.

#### **Bond Premiums / (Discounts)**

Bond premiums/(discounts) are reported as direct additions/(reductions) of the carrying values of the related debt instruments from which the discounts arose. Bond premiums/(discounts) are amortized over the period during which the debt is outstanding using the straight-line method, which approximates the effective interest method, with current period adjustments included as a component of interest expense.

# Reading Health System

## Notes to Consolidated Financial Statements

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#### **Estimated Self-Insurance Costs**

The provision for estimated self-insured claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported. The System self-insures its medical malpractice, general liability, and workers' compensation risks. Reserve estimates are subject to the impact of changes in claim trends as well as prevailing social, economic, and legal conditions. The ultimate net cost of settling these liabilities may vary from the estimated amounts. Accordingly, reserve estimates are continually reviewed and updated and any resulting adjustments are reflected in the current Financial Statements. Insurance recoveries are recognized at the same time as related claims liabilities.

#### **Derivative Instruments**

The System follows accounting guidance on derivative financial instruments that is based on whether the derivative instrument meets the criteria for designation as cash flow or fair value hedges. The criteria for designating a derivative as a hedge includes the assessments of the instruments effectiveness in risk reduction, matching the derivative instrument to its underlying transactions, and the assessment of the probability that the underlying transaction will occur. All of the System's derivative financial instruments are interest rate swap agreements without hedge accounting designation.

Entering into interest rate swap agreements involves, to varying degrees, elements of credit, default, prepayments, and market risk in excess of the amounts recognized on the Consolidated Balance Sheets. Such risks involved the possibility that there will be no liquid market for these arrangements, the counterpart to these arrangements may default on its obligations to perform and there may be unfavorable changes in interest rates. The System does not hold derivative instruments for the purpose of managing credit risk and enters into derivative transactions with high quality counterparties.

The fair value interest rate swap agreements entered into by the System is adjusted to market value quarterly at the close of the accounting period based upon quotations from market makers. The change in market value is recorded in the Statement of Operations within excess of revenues, gain and other support over expenses.

#### **Income Taxes**

The System is a not-for-profit corporation as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes on related income pursuant to Section 501(a) of the Code. On such a basis, the exempt entities do not incur liability for federal income taxes, except in the case of unrelated business income.

The Company evaluates uncertain tax positions using a two-step approach for recognizing and measuring tax benefits taken or expected to be taken in an unrelated business activity tax return and disclosures regarding uncertainties in tax positions. No adjustments to the Financial Statements were required as a result of this evaluation.

#### **Deferred Revenue**

The Highlands has deferred revenue pertaining to refundable entrance fees of \$15,798,000 and \$17,078,000 at June 30, 2013 and 2012, respectively, and deferred entrance fee revenue of \$17,634,000 and \$16,821,000 at June 30, 2013 and 2012, respectively. Entrance fees are refundable for a period of time up to 50 months before they are transferred to deferred entrance fee revenue. The deferred entrance fee revenue is amortized to income using the straight-line method over the estimated remaining life expectancy of the resident.

# Reading Health System

## Notes to Consolidated Financial Statements

### June 30, 2013 and 2012

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#### **Deferred Compensation**

The System was a party to a deferred compensation plan that provided retirement benefits to certain individuals employed by the System. Assets were deposited pursuant to this agreement such that the market value of the assets approximates the related accrued deferred compensation liability. The plan is no longer active. No new participants or any additional contributions are allowed. The original contributions were funded entirely by the participating employees through payroll deferral.

#### **Recently Issued Accounting Pronouncements**

In July 2011, the FASB issued Accounting Standards Update ("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," which requires health care entities to change the presentation in their Statement 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 (net of contractual allowances and discounts). For nonpublic entities, the amendments are effective for Fiscal Years ("FY") and interim periods within those FY's beginning after December 15, 2012, with early adoption permitted. While this standard will have no impact on the Hospital's financial position or results of operations, it will require reclassification of the provision for doubtful accounts from operating expenses to a component of net revenues beginning with the first quarter of 2013, with retrospective application required.

The FASB has issued ASU No. 2011-04, Fair Value Measurements (Topic 820), "Amendments to Achieve Common Fair Value measurement and Disclosures Requirements in U.S. GAAP and IFRSs" (ASU 2011-04). The amendments in ASU 2011-04 change the wording used to describe many of the requirements in U.S. generally accepted accounting principles for measuring fair value and for disclosing information about fair value measurements. ASU 2011-04 is effective for FY's, and interim periods within those FY's, beginning after December 15, 2011. The System has adopted the provisions of ASU 2011-04 and made all required disclosures in the Consolidated Financial Statements.

#### **Reclassifications**

Certain reclassifications to amounts previously reported have been made to conform with the current period presentation.

#### **Uncompensated Care and Community Service**

The System provides services to patients who meet the criteria of its charity service policy without charge or at amounts less than the established rates. Criteria for charity care consider the patient's family income, family size, and ability to pay. Individuals who qualify for charity care do not have insurance or other coverage. In addition, accounts that remain unpaid after all attempts of collections have been exhausted are written off to uncompensated care.

The System maintains records to identify and monitor the level of charity care and community service it provides. These records include the amount of charges foregone based on established rates for services, and supplies furnished under its charity care, community service policies, and the estimated cost of those services.

Charges foregone for uncompensated care as determined in accordance with the System's policies were approximately \$73,776,000 and \$70,657,000 in 2013 and 2012, respectively. Direct and indirect costs to provide these services were approximately \$24,383,000 and \$23,352,000 for the years ended 2013 and 2012, respectively. The estimated costs were based on a calculation which

# Reading Health System

## Notes to Consolidated Financial Statements

### June 30, 2013 and 2012

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multiplied the cost to charge ratio by the gross charges associated with providing uncompensated care to patients. The cost to charge ratio was obtained from our most recently filed Medicare Cost report.

Additionally, the System sponsors certain other service programs and charity services, which provide substantial benefit to the broader community. Such programs include services to needy populations requiring special services and support, community service programs and charity services, as well as, health promotion and education.

The System's community service includes the Medical Assistance program which makes payment for services provided to families with dependent children, the aged, the blind, and the permanently and totally disabled, whose income and resources are insufficient to meet the costs of necessary medical services. Payments from the Medical Assistance program are generally less than the System's charge of providing the service.

In addition, community service represents the cost to deliver services to the community, net of any payment received for those services. Included in these services are the System's subsidies of outpatient clinics, education of medical professionals who work with various health care providers in the community upon graduation, and community mental health programs. The System also sponsors health fairs and other wellness programs throughout the community.

### 3. Net Patient Service Revenue

The System has agreements with third-party payors that provide for payments at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows.

#### Medicare

Inpatient acute care and rehabilitation services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Outpatient services are reimbursed by Medicare under the Ambulatory Payment Classification System. The Hospital is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary. The Hospital's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with Medicare. The Hospital's Medicare cost reports have been closed and settled by the Medicare fiscal intermediary through June 30, 2007.

#### Medicaid

Historically, inpatient and outpatient services rendered to Medicaid program beneficiaries were paid at prospectively determined rates with inpatient services being reimbursed on a rate-per-discharge basis and outpatient services on a predetermined fee schedule basis.

On December 29, 2010, the Pennsylvania Department of Public Welfare ("DPW") received approval from the Centers for Medicare & Medicaid Services for the state plan amendments pursuant to Act 49 of 2010, passed by the Pennsylvania General Assembly on July 3, 2010, that established a new inpatient hospital fee for service payment system, new supplemental payments and the waiver to establish the statewide Quality Care Assessment. DPW also received approval

# Reading Health System

## Notes to Consolidated Financial Statements

### June 30, 2013 and 2012

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on final language for the DPW contracts with managed care organizations. The estimated net impact on the Hospital for the year ended June 30, 2013 was \$8,239,000 (based on total payment adjustments of \$19,148,000 offset by assessments of \$10,909,000)

#### **Capital Blue Cross**

Beginning July 1, 2010, inpatient services rendered to Capital Blue Cross subscribers are reimbursed at negotiated case rates and per diem rates. Previously, inpatient services had been reimbursed on a negotiated percentage of covered charges. The prospectively determined rates are not subject to retroactive adjustment. The Hospital continues to be reimbursed for outpatient services at a negotiated percentage of covered charges.

#### **Workers' Compensation**

The payment method by which all employers and/or insurers of workers' compensation policies will pay for the services provided by health care providers to employees covered by workers' compensation is a percentage of the Medicare payment for these services.

#### **Other Contractual Arrangements**

The System has various payment agreements with preferred provider organizations and health maintenance organizations. The basis for payment under these agreements includes discounts from established charges.

Revenue received under agreements with third-party payors is subject to audit and retroactive adjustment. Adjustments related to tentative and final settlements with third-party payors are included in the determination of the excess of revenues, gains and other support over expenses in the year in which such adjustments become known. Such adjustments relating to prior years increased net patient service revenues by approximately \$13,703,000 in 2013 and 2012 by \$7,446,000.

The health care industry is subject to numerous laws and regulations of federal, state and local governments. Compliance with these laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at the time. Recently, government activity has increased with respect to investigations and allegations concerning possible violations by health care providers of fraud and abuse statutes and regulations, which could result in the imposition of significant fines and penalties as well as significant repayments for patient services previously billed.

**Reading Health System**  
**Notes to Consolidated Financial Statements**  
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**4. Investments**

	<b>2013</b>	<b>2012</b>
<b>Deferred compensation</b>		
Cash and cash equivalents	\$ 452	\$ 469
Mutual funds	<u>2,873,525</u>	<u>3,022,660</u>
Total deferred compensation	<u>\$ 2,873,977</u>	<u>\$ 3,023,129</u>

Assets whose uses are limited and that are required for obligations classified as current liabilities are reported as current assets. The composition of assets, whose uses are limited at June 30, 2013 and 2012, is set forth in the following tables

	<b>2013</b>	<b>2012</b>
<b>Under self-insurance funding arrangements</b>		
Professional liability		
Cash and cash equivalents	\$ 7,459,976	\$ 9,066,781
U S Government securities	4,781,009	7,625,681
Corporate bonds	5,940,652	4,221,267
Mutual funds	<u>91,242</u>	<u>78,752</u>
	<u>18,272,879</u>	<u>20,992,481</u>
Workers' compensation		
Cash and cash equivalents	469,987	742,031
U S Government securities	3,870,122	4,015,106
Corporate bonds	3,442,871	2,995,656
Mutual funds	<u>1,789,101</u>	<u>1,677,792</u>
	<u>9,572,081</u>	<u>9,430,585</u>
Total assets whose use is limited under self-insurance funding arrangements	<u>\$ 27,844,960</u>	<u>\$ 30,423,066</u>

**Reading Health System**  
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	2013	2012
<b>Under revenue bond indenture agreements - held by trustee</b>		
Cash and cash equivalents	\$ 2,878,958	\$ 7,252,138
Total assets whose use is limited under revenue bond indenture agreements	<u>\$ 2,878,958</u>	<u>\$ 7,252,138</u>
<b>By board for capital improvement</b>		
Cash and cash equivalents	\$ 26,774,873	\$ 190,763,607
U S , State and Muni Government securities	9,717,067	40,404,646
Corporate and foreign bonds	5,174,213	-
Common, preferred and foreign stocks	4,514,752	1,092,580
Mutual funds	365,941,617	133,339,800
Fixed income funds	341,575,138	281,138,349
Hedge, Private Equity, Common Trust Funds	<u>190,165,252</u>	<u>222,097,808</u>
Total assets whose use is limited by the board for capital improvements	<u>\$ 943,862,912</u>	<u>\$ 868,836,790</u>
<b>Temporarily restricted funds</b>		
Cash and cash equivalents	\$ 660,370	\$ 654,010
<b>Investments</b>		
Beneficial interest in trusts	\$ 13,288,593	\$ 12,671,566
Cash and equivalents	103,364	152,048
Common, foreign and preferred stock	3,185,599	3,038,983
Mutual funds	891,025	-
Corporate and foreign bonds	877,760	563,550
U S Government securities	<u>1,769,437</u>	<u>1,315,042</u>
Total assets whose use is permanently restricted as to use	<u>\$ 20,115,778</u>	<u>\$ 17,741,189</u>

A summary of the System's total investment return for the years ended June 30, 2013 and 2012 as reflected in the Consolidated Statements of Operations and Changes in Net Assets are as follows

	2013	2012
Investment income	\$ 76,027,384	\$ 20,829,827
Change in unrealized gains/(losses) on investments	(477,541)	(19,373,757)

The System's investments are managed by institutional investment advisors, fund managers and bank trust departments. Because the System's investments include a variety of financial instruments, the related values as presented in the Consolidated Financial Statements are subject to various market fluctuations which include changes in the equity markets, interest rate environment and general economic conditions.

In mid FY2012, the Capital Resources Committee, which is responsible for the oversight of the Investments and Debt of the System, began a process to outsource discretionary investment management of the Long Range Capital portfolio. This was started after deliberate process to develop a comprehensive Investment Policy Statement (IPS) that was approved early in FY2012 and later refreshed in mid FY2013. The Committee and System staff met, and interviewed, multiple investment banks and institutional managers as well as investment consultants.

## Reading Health System

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#### June 30, 2013 and 2012

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At the end of FY2012, the Committee engaged an Investment Consultant and four investment Advisors to manage the Long Range Capital investment portfolio under the guidance of the IPS. The four investment managers were all selected based on their specific investment expertise and strengths. Each was assigned a specific investment mandate based on these criteria. In October 2012, once Advisor Investment Management Agreements (IMAs) were finalized, new investment allocations were calculated and preparations with the Investment Custodian finalized. The daily liquidity investments were liquidated and transferred to each of the respective new Advisors for deployment under each respective IMA.

During FY2013, \$810.5 million of original Long Range Capital legacy investments were deployed under the new investment mandates, with \$40.6 million remaining to be liquidated. On June 30, 2013, the total of all Long Term Capital portfolio and the legacy Long Range Capital portfolio are fully invested and are valued at \$900.8 million.

The System performs an annual impairment analysis, no impairments were identified in Fiscal Year 2013 and 2012. There were 109 investments with a fair value of \$301.1 million that were in an unrealized loss position totaling \$19.6 million as of June 30, 2013. The unrealized losses on these investments were caused by interest rate increases and general market conditions. For investments in an unrealized loss position, the System does not have the intent or requirement to sell them, therefore, the System does not consider these investments to be other-than-temporarily impaired as of June 30, 2013.

The following table presents cost and fair value of investments for June 30, 2013 and June 30, 2012.

	Fair Value	Cost	Fair Value	Cost
Cash and Equiv	\$ 38,347,980	\$ 38,347,980	\$ 208,631,105	\$ 208,631,105
State and Local Govt Sec	9,717,067	9,711,764	9,639,052	9,997,656
US Government Securities	10,420,568	10,283,813	43,721,423	41,079,255
Mutual Funds	371,586,510	353,263,428	138,119,003	130,643,211
Equities - Common Stock	7,700,351	6,450,034	4,131,563	3,498,856
Corporate and Foreign Bonds	15,435,495	15,540,603	7,780,474	7,451,332
Fixed Income Funds	341,575,141	344,051,702	281,138,349	276,192,389
Hedge Funds and PE Funds	190,165,252	176,707,121	222,097,807	206,185,628
Beneficial Interest in Trusts	13,288,592	11,985,975	12,671,566	11,876,337
<b>Total</b>	<b>\$ 998,236,956</b>	<b>\$ 966,342,420</b>	<b>\$ 927,930,342</b>	<b>\$ 895,555,769</b>

**Reading Health System**  
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The following tables represent the fair value measurement levels for all assets and liabilities, which the System has recorded at fair value

	June 30, 2013	Fair Value Measurement Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
<b>Assets</b>				
Cash and cash equivalents	\$ 38,347,980	\$ 38,347,980	\$ -	\$ -
State and Local Govt Sec	9,717,067	-	-	9,717,067
Corporate and foreign bonds	15,435,495	-	15,435,495	-
Common, preferred and foreign stock	7,700,351	7,700,351	-	-
U S Government securities	10,420,568	-	10,420,568	-
Mutual funds	371,586,510	335,472,405	36,114,105	-
Fixed income funds	341,575,141	335,353,344	6,221,797	-
Beneficial interests in trusts	13,288,592	-	-	13,288,592
Hedge, Private Equity, Common Trust Funds	190,165,252	-	6,676,991	183,488,261
Total investments	<u>\$ 998,236,956</u>	<u>\$ 716,874,080</u>	<u>\$ 74,868,956</u>	<u>\$ 206,493,920</u>
<b>Liabilities</b>				
Swap contracts	\$ 59,859,380	\$ -	\$ 59,859,380	\$ -

	June 30, 2012	Fair Value Measurement Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
<b>Assets</b>				
Cash and cash equivalents	\$ 208,631,105	\$ 208,631,105	\$ -	\$ -
State and Local Govt Sec	9,639,052	-	-	9,639,052
Corporate and foreign bonds	7,780,474	-	7,780,474	-
Common, preferred and foreign stock	4,131,563	4,131,563	-	-
U S Government securities	43,721,423	-	43,721,423	-
Mutual funds	138,119,003	138,119,003	-	-
Fixed income funds	281,138,349	281,138,349	-	-
Beneficial interests in trusts	12,671,566	-	-	12,671,566
Hedge, Private Equity, Common Trust Funds	222,097,807	-	77,248,808	144,848,999
Total investments	<u>\$ 927,930,342</u>	<u>\$ 632,020,020</u>	<u>\$ 128,750,705</u>	<u>\$ 167,159,617</u>
<b>Liabilities</b>				
Swap contracts	\$ 82,635,153	\$ -	\$ 82,635,153	\$ -

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Following is the summary of the inputs and valuation techniques as of June 30, 2013 and 2012 for valuing Level 2 and Level 3 financial instruments

<u>Financial Instrument</u>	<u>Input</u>	<u>Valuation Technique</u>
Cash Equivalents	Broker/Dealer	Market
U S Government Agencies	Broker/Dealer	Market
Corporate	Broker/Dealer	Market
Interest Rate Swaps agreements	Broker/Dealer	Market
Exchange traded/mutual funds	NAV	Market/Income
Auction Rate Securities	Broker/Dealer	Income
Hedge Funds	NAV	Market/Income
Limited Partnership/companies	NAV	Market/Income

The following table represents the non-readily marketable investments and auction rate securities for which fair value was measured under Level 3

	<b>Hedge Funds</b>	<b>Interests in Trusts</b>	<b>Government Securities</b>	<b>Equity Securities</b>
<b>Fair value at July 1, 2012</b>	\$ 110,376,934	\$ 12,671,566	\$ 9,639,052	\$ 34,472,065
Purchases	97,252,579	-	-	8,688,990
Sales	(81,123,771)	-	(285,000)	(6,674,668)
Realized gains/(losses)	16,543,643	-	-	-
Net change in unrealized gains/(losses)	288,721	617,026	363,015	3,663,768
<b>Fair value at June 30, 2013</b>	<b>\$ 143,338,106</b>	<b>\$ 13,288,592</b>	<b>\$ 9,717,067</b>	<b>\$ 40,150,155</b>

  

	<b>Hedge Funds</b>	<b>Beneficial Interests in Trusts</b>	<b>State and Local Government Securities</b>	<b>State and Local Government Securities</b>
<b>Fair value at July 1, 2011</b>	\$ 123,372,469	\$ 13,248,119	\$ 10,295,179	\$ 29,252,340
Purchases	-	-	-	8,016,687
Sales	(11,774,209)	-	(100,000)	(4,796,321)
Realized gains/(losses)	2,872,165	-	-	1,999,359
Net change in unrealized gains/(losses)	(4,093,491)	(576,553)	(556,127)	-
<b>Fair value at June 30, 2012</b>	<b>\$ 110,376,934</b>	<b>\$ 12,671,566</b>	<b>\$ 9,639,052</b>	<b>\$ 34,472,065</b>

As shown above, the System's significant Level 3 measurements which employ unobservable inputs that are readily quantifiable pertain to auction rate securities. At June 30, 2013, the System held investments in auction rate securities from four different issuers having an original principal amount of \$10,215,000. The following table presents the significant assumptions used to determine the fair values of the System's auction rate securities at June 30, 2013 and 2012

<b>Financial Instrument</b>	<b>Valuation Technique</b>	<b>Input</b>	<b>Range</b>
Auction Rate Securities	Discounted Cash Flow	Discount rates Maximum rate Workout period	5.59%-7.19% L+200%-205% 6-11 years

L - one-month LIBOR (The London InterBank Offered Rate)

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Disclosure - Fair Value Measurements of Investments in Certain Entities that Calculate Net Asset Value per Share (or its Equivalent)

	<u>Fair Value (\$Millions)</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency (If Eligible)</u>	<u>Redemption Notice Period</u>
Equity Long/Short Hedge Funds - a	\$ 15.0	\$ -	Quarterly, Annually	30-90 Days
Event Driven Hedge Funds - b	9.9	-	Quarterly, Annual Rolling	60 Days
Global Opportunities Hedge Funds - c	2.9	-	Quarterly	45 Days
Multi Strategy Hedge Funds - d	89.7	-	Quarterly, Semi- Annually, Annually, Bi Annually on Anniversary	60 - 120 Days
Real Assets - e	6.3	-	Annually	90 Days
Real Estate Funds - f	27.2	13.5	N/A	N/A
Private Equity Funds - g	32.5	15.1	N/A	N/A
<b>Total</b>	<b>\$ 183.5</b>	<b>\$ 28.6</b>		

- a This class includes investments in hedge funds that invest both long and short in U S and foreign common stocks. Management of the hedge funds has the ability to shift investments from value to growth strategies, from small to large capitalization stocks, and from a net long position to a net short position. The fair values of the investments in this class have been estimated using the net asset value per share of the investments as a practical expedient.
- b This class includes investments in hedge funds that invest in equities and bonds to profit from economic, political, and government driven events. A majority of the investments are targeted at economic policy decisions. The fair values of the investments in this class have been estimated using the net asset value per share of the investments as a practical expedient.
- c This class includes investments in hedge funds that hold investments in U S and non-U S common stocks in the healthcare, energy, information technology, utilities, and telecommunications sectors. The fair values of the investments in this class have been estimated using the net asset value per share of the investments as a practical expedient.
- d This class invests in hedge funds that pursue multiple strategies to diversify risks and reduce volatility. The fair values of the investments in this class have been estimated using the net asset value per share of the investments as a practical expedient. Investments representing approximately 17 percent of the value of the investments in this class are biannually redeemed and sell orders have been placed. These will be redeemed in Sept 2014 and May 2015. The remaining restriction period for these investments ranges from quarterly to annually.
- e This class includes funds with direct investments in base and precious metals and investment securities of miners, and associated mining equipment. This fund has a 90 day redemption notice period, which 1/3 of the fund will pay out with the remaining 2/3 paying out in the second and third year respectively.

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- f This class includes real estate funds that invest in U S and non-U S residential and commercial as well as distressed real estate The fair values of the investments in this class have been estimated using the net asset value of the System's ownership interest in partners' capital as a practical expedient \$15 million of these funds have a 90 day redemption notice, but the fund manager can only accommodate redemption requests as liquid assets allow The remaining funds will receive distributions from each fund as the underlying investments of the funds are liquidated It is estimated that the underlying assets of these funds will be liquidated over the next 7 to 10 years, although these funds may liquidate early in the event of purchase by a third party, or initial public offering
- g This class includes private equity funds These investments cannot be redeemed with the funds Instead, the nature of the investments in this class is that distributions are received through the liquidation of the underlying assets of the fund These funds are managed by one of the System's advisors with particular private equity experience in secondary market dealing These funds could be subject to redemption to a third party buyer, but at June 30, 2013, no funds were currently being evaluated this way The fair values of the investments in this class have been estimated using the net asset value of the System's ownership interest in partners' capital as a practical expedient

**5. Property, Plant and Equipment**

Property, plant and equipment and related accumulated depreciation at June 30, 2013 and 2012 consist of

	<b>2013</b>	<b>2012</b>
Land and land improvements	\$ 65,272,375	\$ 62,907,873
Buildings and improvements	537,217,113	524,663,808
Fixed equipment	267,538,143	266,202,182
Movable equipment	<u>403,795,604</u>	<u>279,426,761</u>
Property, plant, equipment before depreciation and AIP	1,273,823,235	1,133,200,624
Less Accumulated depreciation	<u>\$ (646,293,982)</u>	<u>(570,689,459)</u>
Property, plant, equipment before AIP, net of depreciation	627,529,253	562,511,165
AIP Non Equipment (EPIC & Construction Projects)	\$ 54,168,642	52,554,472
Net property, plant and equipment	<u>\$ 681,697,895</u>	<u>\$ 615,065,637</u>

Depreciation expense was approximately \$75,024,000 and \$64,965,000 for the years ended June 30, 2013 and 2012, respectively

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**6. Long-Term Debt**

Long-term debt at June 30, 2013 and 2012 consist of

	2013		2012	
	Carrying Value	Fair Value (Level 2)	Carrying Value	Fair Value (Level 2)
Berks County Municipal Authority Hospital Revenue Bond Series of 2012, net of unamortized discount and premium	\$ 478,725,089	\$ 475,014,687	\$ 479,354,940	\$ 480,768,793
Berks County Municipal Authority Hospital Revenue Bond Series of 2009, net of unamortized discount	117,946,613	134,321,792	121,438,220	140,138,046
Berks County Municipal Authority Hospital Revenue Bond Series of 1999, net of unamortized discount	-	-	1,204,746	1,226,344
Berks County Municipal Authority Hospital Revenue Bond Series of 1993, Term loans	4,770,000 2,240,755	4,963,431 2,240,755	6,965,000 2,476,010	7,355,191 2,476,010
Total long-term debt	<u>603,682,457</u>	<u>616,540,665</u>	<u>611,438,916</u>	<u>631,964,384</u>
Less Amounts due within one year	<u>6,733,536</u>		<u>7,680,255</u>	
Long-term debt, net of current portion	<u>\$ 596,948,921</u>		<u>\$ 603,758,661</u>	

Under the terms of the various debt agreements, the System is required to maintain certain deposits with a trustee. Such deposits are included with assets whose use is limited in the Consolidated Financial Statements. The various agreements also place limits on the incurrence of additional borrowings and require that the System satisfy certain measures of financial performance as long as the debt is outstanding. The System was in compliance with these covenants at June 30, 2013 and 2012.

Scheduled principal repayments on long-term debt are as follows for the years ending June 30, 2013

2014	\$ 6,733,536
2015	7,074,468
2016	5,274,162
2017	5,528,648
2018	5,751,432
Thereafter	<u>568,648,509</u>
Total long-term debt	599,010,755
Plus Unamortized Net Premium	<u>4,618,515</u>
Long term-debt, net of unamortized discount	<u>\$ 603,629,270</u>

**Berks County Municipal Authority Hospital Revenue Bond Series of 2012**

On June 28, 2012, The Berks County Municipal Authority ("Authority") issued \$473,275,000 (notional) of Revenue Bonds in four series, 2012 A, B, C and D.

The Authority issued \$160,065,000 of Fixed Rate Serial Revenue Bonds ("2012 A") for the purpose of refunding the Dauphin Country General Authority Hospital Revenue Bond Series 1994A, Berks County Bond Series 1998 and 2008.

# Reading Health System

## Notes to Consolidated Financial Statements

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Mandatory annual principal redemptions by the System for the 2012 A bonds due November 1, 2039 through November 1, 2044 range from \$7,590,000 to \$33,555,000 with final maturity on November 1, 2044 Effective interest rate of the bonds range from 4.23% to 4.50%

The Authority issued \$91,775,000 of Variable Rate Serial Revenue bonds ("2012 B") for the purpose of refunding the Authority Series 2009 A-5

Mandatory annual principal redemptions by the System for the 2012 B bonds due November 1, 2035 through November 1, 2039 range from \$3,225,000 to \$24,955,000 with final maturity on November 1, 2039 Interest on these bonds is calculated on a SIFMA Municipal Index rate plus a fixed spread of 1.50% The SIFMA rate at June 30, 2013 was .06%

The Authority issued a \$47,235,000 Floating Rate Bond ("2012 C") used to refund the Series 2009 A-4 and a \$174,000,000 Floating Rate Bond ("2012 D") used to Refund the Series 2009 A-1 and A-2 Both Series 2012 C and 2012 D were privately placed with commercial banks

Mandatory monthly principal redemptions by the System for the 2012 C bonds commence August 1, 2012 through July 1, 2022 and range from \$39,363 to \$128,823 with final maturity date on July 1, 2022 Interest on these bonds is calculated using a one month London Interbank Offered Rate Index rate (LIBOR) plus a fixed spread of 1.20% times an Applicable Factor of 70.0% The one month LIBOR rate at June 30, 2013 was .19%

Mandatory annual principal redemptions by the System for the 2012 D bonds due November 1, 2022 through November 1, 2035 range from \$8,625,000 to \$21,120,000 with final maturity on November 1, 2035 Interest on these bonds is calculated on a SIFMA Municipal Index rate plus a fixed spread of .70% The SIFMA rate at June 30, 2013 was .06%

#### **Berks County Municipal Authority Hospital Revenue Bond Series of 2009**

Series 2009 A-1, A-2, A-4 and A-5 were refunded on June 28, 2012 with the aforementioned Bond Series 2012 The 2009 A-3 bond remains outstanding

The 2009 A-3 bonds were issued on July 15, 2009 The Authority issued \$133,665,000 of Fixed Rate Revenue Bonds, Series 2009 A-3 for the primary purpose of redeeming \$115,520,000 of 2001 Bonds and \$14,965,000 for major renovation projects

The 2009 A-3 bonds are comprised of \$44,285,000 of serial bonds and \$89,380,000 of term bonds The serial bonds are due in installments payable November 1, 2009 through 2019, with payments ranging from \$120,000 to \$4,895,000 The term bonds are due on November 1 of 2024, 2031 and 2039, with payments ranging from \$820,000 to \$9,380,000 The effective interest rate on the serial bonds ranges from 3% to 5% and 5.25% to 5.75% for the term bonds

#### **Berks County Municipal Authority Hospital Revenue Bond Series of 1999**

On November 1, 1999, the Authority issued \$45,805,000 of Hospital Revenue Bonds, Series 1999 ("1999 Bonds") for the primary purpose of providing funds for the cost of certain capital projects relating to the facilities, buildings, and equipment of the Hospital (the "project"), and to include payment of costs incurred with the issuance of the 1999 Bonds The project consists of certain improvements to the Hospital's campus, the construction of new facilities, the renovation of existing facilities, and the acquisition of certain medical equipment The System granted to the Authority a security interest in certain assets and substantially all revenues as collateral for its obligation under the indenture The Series 1999 Bond matured in November 2012 with the final payment of \$1,210,000 plus accrued interest

# Reading Health System

## Notes to Consolidated Financial Statements

### June 30, 2013 and 2012

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#### **Berks County Municipal Authority Hospital Revenue Bond Series of 1993**

On June 1, 1993, the Authority issued Hospital Revenue Bonds, Series of 1993 ("1993 Bonds") for the primary purpose of providing funds for the advance refunding of the Berks County Municipal Authority Hospital Revenue Bonds Series of 1986 ("1986 Bonds"), the retirement of certain other indebtedness, and the funding of certain medical and computer equipment to be located on Hospital premises

Remaining mandatory annual principal redemptions by the Hospital for the 1993 Bonds are \$2,320,000 in FY2013 and \$2,450,000 in FY2014 when the Bond matures. All mandatory redemptions are at par value. The Hospital granted to the Authority a security interest in certain assets and substantially all revenues as collateral for its obligation under the indenture.

The stated interest rates of the 1993 Bonds at June 30, 2013 are 5.70%.

#### **Term Loans**

Effective retroactive to January 1, 2004, the Hospital replaced NMG Limited Partnership as the borrower on three promissory notes. The Hospital was previously the guarantor for the notes. The original notes were issued as follows: \$2,100,000 due March 31, 2020, \$2,000,000 due December 31, 2019 and \$165,000 due March 31, 2006. In conjunction with the assumption of debt, the Hospital received assets which have been purchased with the proceeds from the debt.

Mandatory annual principal redemptions by the Hospital for the notes for the 2012-2019 period range from \$219,000 to \$411,000 in 2019. The interest rate is calculated based upon the one month LIBOR plus a spread of 1.70%. This LIBOR rate was 1.9% at June 30, 2013.

#### **Line of Credit**

At June 30, 2013, the System had available a line of credit of \$10,500,000 with M&T Bank. The amounts outstanding on the available letters of credit at June 30, 2013 and 2012, equaled \$3,992,500 for both periods.

## **7. Interest Rate Swaps**

The System has, in the past used derivative instruments, such as interest rate swaps, to manage certain interest rate exposures. Derivative instruments are viewed as risk management tools by the System and are not used for trading and speculative purposes.

When quoted market prices are not available, the valuation of derivative instruments is determined using widely accepted valuation techniques, including discounted cash flow analysis on the expected cash flows of each leg of the derivative. This analysis reflects the contractual terms of the derivatives, including interest rate curves and implied volatilities. The estimates of fair value valuation are made by swap counterparties using a standardized methodology based on observable market inputs. As part of the System's overall valuation process, management evaluates this counterparty valuation methodology to ensure that it is representative of exit prices in the principal markets. These future net cash flows, however, are susceptible to change primarily due to fluctuations in interest rates. As a result, the estimated values of these derivatives will change over time as cash is received and paid, and as interest rates change. As these changes occur, they may have a positive or negative impact on estimated valuations.

The System has classified its interest rate swap in Level 2 of the fair value hierarchy, as the significant inputs to the overall valuations are based on market-observable data or information derived from or corroborated by market-observable data. For over-the-counter derivatives that

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trade in liquid markets such as interest rate swaps, model inputs (i.e. contractual terms, market prices, yield curves, credit curves, and measures of volatility) can generally be verified, and model selection does not involve significant management judgment

The fair market value of the swap contracts and the related realized and unrealized gains/(losses) were as follows, as of June 30, 2013 and 2012

<b>Classification of derivatives in Balance Sheets</b>	<b>Fair market value</b>	
	<b>2013</b>	<b>2012</b>
Derivatives not designated as hedging instrument		
2008 Bond Issuance	\$ 147,064	\$ 191,717
2005 Bond Issuance	(5,006,891)	(7,149,360)
2002 Bond Issuance	(22,950,621)	(31,355,502)
2001 Bond Issuance	(30,041,409)	(41,389,318)
1997 Bond Issuance	(421,865)	(623,313)
1992 Bond Issuance	(1,082,389)	(1,620,320)
Term loans	(503,269)	(689,057)
<b>Total swap contracts</b>	<b>\$ (59,859,380)</b>	<b>\$ (82,635,153)</b>

<b>Classification of derivatives gain/(loss) in Statements of Operations</b>	<b>Amount of gain/(loss) recognized in excess of revenue over expenses</b>	
	<b>2013</b>	<b>2012</b>
Derivatives not designated as hedging instrument		
Unrealized gain/(loss) on swap contracts	\$ 22,775,774	\$ (30,302,796)
Realized gain/(loss) on swap contracts	(8,575,772)	(5,937,975)
<b>Realized and unrealized gains (losses) on swap contracts</b>	<b>\$ 14,200,002</b>	<b>\$ (36,240,771)</b>

In connection with the 2008 bond issuance, the System entered into an interest rate swap agreement with a third party. The swap economically converted the fixed rate obligation of the 2008 bonds from a fixed rate of 7.5% to variable rates. Notional amount of the swap is \$100 million and this swap matured in November 2012.

In connection with the 2008 bond issuance, the System entered into two basis swaps by which the System pays SIFMA and receives an average of .85% of three month LIBOR. Notional amount of these basis swaps is \$175.4 million and the three month LIBOR rate at June 30, 2013 was 2.7%.

In connection with the 2005 bond issuance, the System entered into an interest rate swap agreement with a third party. The swap economically converts the variable rate obligation of the 2005 bonds to a fixed rate of 3.584%. Notional amount of the swap is \$39 million.

In connection with the 2001 and 2002 bonds issuances, the System entered into two interest rate swap agreements with a third party. The swaps economically convert the variable rate obligations of the 2001 and 2002 bonds to a fixed rate of 4.30% and 4.69%, respectively. Notional amounts of the swaps are \$143.6 million and \$75.1 million.

# Reading Health System

## Notes to Consolidated Financial Statements

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On June 26, 2006, the System entered into an interest rate swap agreement on the 2001, 2002 and 2005 bond issuances which were effective as of August 4, 2006. The swap has a variable effective interest rate at 68% of the LIBOR.

In connection with the 2002 bond issuance, the System entered into two interest rate swap agreements. The swaps effectively convert the variable rate obligation of the Series A and B Bonds to fixed rates of 4.69% and 6.28%, respectively. Notional amounts of the swaps are \$4.6 million and \$8.2 million.

In connection with the 1997 bond issuance, the System entered into an interest rate swap agreement which was effective as of May 26, 2005. The swap effectively converts the variable rate obligation of the Bonds to a fixed rate of 3.397%. Notional amount of the swap is \$5.9 million.

In connection with the 1992 bond issuance, the System entered into an interest rate swap agreement which was effective as of May 26, 2005. The swap effectively converts the variable rate obligation of the Bonds to a fixed rate of 3.607%. Notional amount of the swap is \$8.1 million.

In connection with the term loans, the System assumed two interest rate swap agreements with a third party. The swaps effectively convert the variable obligations to fixed rates of 9.13% for the \$2,100,000 note and 9.06% for the \$2,000,000 note. The fair value of the interest rate swap agreements is the amount at which they would be settled based on estimates of market rates, which was a liability of \$503,000 at June 30, 2013 and \$689,000 at June 30, 2012.

The change in the value of the interest rate swap agreements and the interest expense associated with these swaps are recorded in other non-operating gains/(losses) on the Statements of Operations.

#### **8. Accounting for Defined Benefit Plan**

Substantially all employees of the System are covered under a qualified noncontributory defined benefit pension plan. Pension costs are funded as accrued except when not permitted by regulations, such as full funding limitations. Unfunded prior service costs are amortized over an initial term of thirty years.

The System follows the FASB standards over employer's accounting for defined benefit pension and other post-retirement plans. Included in these standards is a requirement for an entity to recognize in its Balance Sheet, the overfunded or underfunded status of its defined benefit postretirement plans measured as the difference between the fair value of the plan assets, and the benefit obligation. For a pension plan, this would be the projected benefit obligation, for any other post-retirement plan, the benefit obligation would be the accumulated post-retirement benefit obligation. These standards also require measurement dates for the pension plan obligation to be measured as of the date of the entity's Balance Sheet.

The System will be transitioning for the current defined benefit plan structure. Employees hired on or after July 1, 2013 will be enrolled in a defined contribution plan. Current employees will continue to accrue benefits in the existing defined plan until June 30, 2016. On July 1, 2016 the benefits will remain accrued and employees will begin to accumulate dollars under a defined contribution plan.

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**Obligations and Funded Status at June 30 for the Plan**

	<b>2013</b>	<b>2012</b>
<b>Change in projected benefit obligation</b>		
Benefit obligation at beginning of year	\$ 478,052,596	\$ 378,415,249
Service cost	20,221,748	15,919,894
Interest cost	23,509,010	21,595,137
Actuarial loss/(gain)	(9,184,898)	73,636,234
Benefits paid	(11,789,340)	(11,513,918)
Curtailment	(70,273,670)	-
Benefit obligation at end of year	<u>\$ 430,535,446</u>	<u>\$ 478,052,596</u>
<b>Change in plan assets</b>		
Fair value of plan assets at beginning of year	\$ 277,861,737	\$ 278,882,822
Actual return on assets	32,764,023	(3,907,167)
Employer contributions	19,070,855	14,400,000
Benefits paid	(11,789,340)	(11,513,918)
Fair value of plan assets at end of year	<u>\$ 317,907,275</u>	<u>\$ 277,861,737</u>

The accrued liability of the plan at June 30, 2013 and 2012 consists of the following components

	<b>2013</b>	<b>2012</b>
Funded status	\$ (112,628,174)	\$ (200,190,859)

The accumulated benefit obligations totaled \$423,957,000 and \$408,166,000 at June 30, 2013 and 2012, respectively, for the Plan

Amounts recognized in the Balance Sheet consist of

	<b>2013</b>	<b>2012</b>
Accrued pension	<u>\$ 112,628,171</u>	<u>\$ 200,190,859</u>
Total accrued liability	<u>\$ 112,628,171</u>	<u>\$ 200,190,859</u>
Amounts recognized in net assets consist of		
Net actuarial loss	\$ 81,869,184	\$ 179,386,937
Prior service cost	-	1,448,866
Pension cost charged to net assets	<u>\$ 81,869,184</u>	<u>\$ 180,835,803</u>

**Reading Health System**  
**Notes to Consolidated Financial Statements**  
**June 30, 2013 and 2012**

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Net periodic benefit cost components include the following

	<b>2013</b>	<b>2012</b>
Service cost - benefits earned during the period	\$ 20,221,748	\$ 15,919,894
Interest cost on projected benefit obligation	23,509,010	21,595,137
Expected return on plan assets	(23,199,274)	(22,446,051)
Amortization of prior service cost	161,972	215,963
Amortization of net gain	8,494,436	3,516,263
Effect of curtailment	1,286,894	-
Net periodic pension cost	<u>30,474,786</u>	<u>18,801,206</u>
Charged to operations	<u>\$ 30,474,786</u>	<u>\$ 18,801,206</u>

Other changes in plan assets and benefit obligations recognized in unrestricted net assets

	<b>2013</b>	<b>2012</b>
Net loss (gain)	\$ (18,749,647)	\$ 99,989,452
Amortization of prior service cost	(161,972)	(215,963)
Amortization of net loss	(8,494,436)	(3,516,263)
Effect of curtailment	(71,560,564)	-
Total recognized in unrestricted net assets	<u>\$ (98,966,619)</u>	<u>\$ 96,257,226</u>
Total recognized in net periodic benefit cost and unrestricted net assets	<u>\$ (68,491,833)</u>	<u>\$ 115,058,432</u>

The amounts expected to be amortized from unrestricted net asset to net periodic pension costs during fiscal year 2014 are a net loss of \$1,176,000 and a prior service cost of \$0

Weighted-average assumptions used to determine benefit obligations at June 30

	<b>2013</b>	<b>2012</b>
Discount rate	5.32 %	5.00 %
Rate of compensation increase	3.00 %	3.00 %
Measurement date	6/30/2013	6/30/2012

Weighted-average assumptions used to determine net periodic benefit cost for years ended June 30

	<b>2013</b>	<b>2012</b>
Discount rate	5.00%/4.75%	5.78 %
Expected long-term return on plan assets	8.00 %	8.00 %
Rate of compensation increase	3.00 %	3.00 %

**Reading Health System**  
**Notes to Consolidated Financial Statements**  
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To develop the expected long-term rate of return on assets assumption, the Hospital considered the historical returns and the future expectations for returns for each asset class, as well as the target asset allocation of the pension portfolio

**Plan Assets**

Reading Hospital Pension Plan weighted-average asset allocations at June 30, 2013 and 2012, by asset category are as follows

	<b>Plan Assets at June 30</b>	
	<b>2013</b>	<b>2012</b>
<b>Asset category</b>		
Cash and cash equivalents	8.2 %	1.7 %
Mutual funds	19.0	19.8
Fixed income	13.5	20.4
Equity investments	3.8	3.6
Alternate investments	55.5	54.5
	<u>100.0 %</u>	<u>100.0 %</u>

The overall investment objective of the Plan is to provide a return on investment consistent with the Plan's spending needs and to prevent erosion of purchasing power by inflation. Achievement of the return will be sought from an investment strategy that provides an opportunity for superior returns within acceptable levels of risk and volatility of returns.

**Reading Health System**  
**Notes to Consolidated Financial Statements**  
**June 30, 2013 and 2012**

The following tables represent the fair value measurement levels for all assets and liabilities, which the Hospital has recorded at fair value

	June 30, 2013	Fair Value Measurement Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
<b>Assets</b>				
Cash and cash equivalents	\$ 25,940,319	\$ 25,940,319	\$ -	\$ -
State and local government securities	8,875,000	-	-	8,875,000
Mutual funds	60,121,164	60,121,164	-	-
Equities	12,213,662	12,213,662	-	-
Fixed income funds	34,146,523	34,146,523	-	-
Hedge funds	176,610,607	-	45,081,258	131,529,349
Total investments	<u>\$ 317,907,275</u>	<u>\$ 132,421,668</u>	<u>\$ 45,081,258</u>	<u>\$ 140,404,349</u>

	June 30, 2012	Fair Value Measurement Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
<b>Assets</b>				
Cash and cash equivalents	\$ 4,592,602	\$ 4,592,602	\$ -	\$ -
State and local government securities	9,175,000	-	-	9,175,000
Mutual funds	55,052,978	55,052,978	-	-
Equities	9,941,823	9,941,823	-	-
Fixed income funds	47,585,136	47,585,136	-	-
Hedge funds	151,514,197	-	31,725,966	119,788,231
Total investments	<u>\$ 277,861,736</u>	<u>\$ 117,172,539</u>	<u>\$ 31,725,966</u>	<u>\$ 128,963,231</u>

**Reading Health System**  
**Notes to Consolidated Financial Statements**  
**June 30, 2013 and 2012**

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The following table represents the nonreadily marketable investments and auction rate securities for which fair value was measured under Level 3

	<b>Hedge Funds</b>	<b>State and Local Government Securities</b>
<b>Fair value at July 1, 2012</b>	\$ 119,788,232	\$ 9,175,000
Purchases	17,670,006	-
Sales	(20,537,938)	(300,000)
Realized gains/(losses)	1,158,266	-
Net change in unrealized gains/(losses)	13,450,783	-
<b>Fair value at June 30, 2013</b>	<u>\$ 131,529,349</u>	<u>\$ 8,875,000</u>
	<b>Hedge Funds</b>	<b>State and Local Government Securities</b>
<b>Fair value at July 1, 2011</b>	\$ 127,862,288	\$ 9,450,000
Purchases	25,427,940	-
Sales	(33,959,960)	(275,000)
Realized gains/(losses)	1,001,636	-
Net change in unrealized gains/(losses)	(543,672)	-
<b>Fair value at June 30, 2012</b>	<u>\$ 119,788,232</u>	<u>\$ 9,175,000</u>

**Cash Flows**

Contributions (Unaudited)

The Reading Hospital expects to contribute the minimum required contribution during the 2014 fiscal year to the Plan, which is estimated to be \$19,000,000

**Estimated Future Benefit Payments (Unaudited)**

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid

<b>Years Ending June 30,</b>	
2014	\$ 13,050,670
2015	14,155,110
2016	15,967,127
2017	18,591,094
2018	20,549,088
2019–2023	130,342,149

**Reading Health System**  
**Notes to Consolidated Financial Statements**  
**June 30, 2013 and 2012**

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**9. Related Party Transactions**

Other receivables from affiliated organizations at June 30, 2013 and 2012 consist of

	<b>2013</b>	<b>2012</b>
Springridge, LLC	\$ 589,168	\$ 1,302,269
Berkshire Health Partners	108,745	144,255
Central Pennsylvania Homecare Inc	5,350	8,309
Total receivables from affiliated organizations	<u>\$ 703,263</u>	<u>\$ 1,454,833</u>

These amounts are all noninterest bearing with no stated repayment terms

Included in other assets are the following investments in affiliates at June 30, 2013 and 2012

	<b>2013</b>	<b>2012</b>
CPAL	\$ 350,373	\$ 350,373
Quest	19,717	13,594
Springridge, LLC	1,851,041	1,728,372
RBPT	237,864	332,774
Horizon	655,569	803,319
VNA Community Care Services	6,444,261	5,653,051
BHP	1,044,782	920,400
Total investments in affiliated organizations	<u>\$ 10,603,607</u>	<u>\$ 9,801,883</u>

**10. Temporarily and Permanently Restricted Net Assets**

Temporarily restricted net assets at fair value are available for the following purposes at June 30, 2013 and 2012

	<b>2013</b>	<b>2012</b>
Various health care services	<u>\$ 660,370</u>	<u>\$ 654,010</u>

Permanently restricted net assets at fair value at June 30, 2013 and 2012 are restricted to

	<b>2013</b>	<b>2012</b>
Permanent endowment funds, the interest and dividend income from which is expendable to support health care services	\$ 5,541,468	\$ 4,127,781
Funds held in trust by others	13,288,592	12,685,103
Total permanently restricted net assets	<u>\$ 18,830,060</u>	<u>\$ 16,812,884</u>

**11. Insurance Arrangements**

The System participates in the Pennsylvania Medical Care Availability and Reduction of Error Fund or Mcare Fund established under the Commonwealth of Pennsylvania. The Mcare Fund presently provides coverage excess of up to \$500,000 to the System's primary per occurrence retention (which is currently \$500,000) with annual aggregate coverage of \$1,500,000.

**Reading Health System**  
**Notes to Consolidated Financial Statements**  
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The System established a self-insurance trust fund to provide protection against professional liability claims. The trust is actuarially funded on an annual basis to provide single limit professional liability coverage of \$500,000 per occurrence and \$2,500,000 in the annual aggregate for the Hospital and certain employees. For incidents occurring since April 30, 2009, the System purchased commercial insurance to provide coverage on a claims-made basis in an amount up to \$25,000,000 in excess of a total retention of \$3,000,000 (\$500,000 primary, \$500,000 Mcare excess and a \$2,000,000 self-insured buffer). The adoption of the ASU 2010-24 Pronouncement had no impact on the System's financial performance or cash flows. Claim liabilities are no longer netted by insurance recoveries. For the years ended June 30, 2013 and 2012, the insurance recoverable amounts were \$4,500,000, and \$5,600,000, respectively, which is included in other assets on the Consolidated Balance Sheets. Funding requirements of the plan are subject to increase depending on the plan's claim experience. Premium payments for the Mcare Fund are based upon each individually licensed healthcare provider's rating with the Joint Underwriters Association and the amount of the surcharge to be assessed is determined by the Mcare Fund on an annual basis. The System's annual surcharge premiums for participation in the Mcare Fund were \$1,706,000 and \$1,445,000 for the years ended June 30, 2013 and 2012, respectively.

Additionally, the System self-insures its workers' compensation and minor general liability risks. The System's self-insurance plan has been reviewed and approved by the Commissioner of Insurance of Pennsylvania.

The System purchases excess workers' compensation insurance for all controlled entities of the hospital with statutory limits over a self-retention of \$1,000,000 per occurrence subject to a policy maximum of \$1,000,000 for the policy period. The System has established a trust fund for the payment of workers' compensation benefits.

Reserves for self-insurance claims at June 30, 2013 and 2012 are summarized as follows:

	<b>2013</b>	<b>2012</b>
Professional liability claims payable	\$ 40,602,000	\$ 37,489,000
Workers' compensation	13,970,751	13,962,738
Total self-insurance claims reserve	<u>54,572,751</u>	<u>51,451,738</u>
Less: Current portion	<u>10,791,751</u>	<u>10,877,737</u>
Self-insurance claims reserve, net of current portion	<u>\$ 43,781,000</u>	<u>\$ 40,574,001</u>

**12. Commitment and Contingencies**

**Operating Leases**

The System leases equipment and facilities under operating leases expiring at various dates through May 2026. Total rental expense under all operating leases was \$12,271,000 and \$12,187,000 for the years ended June 30, 2013 and 2012, respectively.

**Reading Health System**  
**Notes to Consolidated Financial Statements**  
**June 30, 2013 and 2012**

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The following table summarizes future minimum rental commitments under noncancellable operating leases with initial or remaining terms of more than one year

Years Ending June 30,	
2014	\$ 7,570,500
2015	6,178,521
2016	4,383,520
2017	3,433,824
2018 and thereafter	17,882,598

**EPIC**

On September 9, 2011, Reading Hospital entered into a sale and purchase agreement (“SPA”) with EPIC Systems Corporation to purchase, install, and implement EPIC software for a consideration of \$22 million of which \$8,579,000 in payments (“Meaningful Use Funds”) have been received. As of June 30, 2013, Reading Hospital has paid a sum of \$16.0 million to EPIC Systems Corporation. Additional services and costs will be incurred toward the entire project scope, expecting to total \$130 million in additional capital costs and \$23 million in operating costs.

**Obligation to Provide Future Services**

The Highlands annually calculates the present value of the estimated net cost of future services and use of facilities to be provided to current residents and compares that amount with the balance of deferred entrance fee revenue. If the present value of the net cost of future services and use of facilities exceeds the deferred revenue, a liability is recorded with the corresponding charge to income. As of June 30, 2013 and 2012, the estimated present value of the net cost of future services and use of facilities is less than the deferred entrance fee revenue, thus, no liability has been recorded.

**Litigation**

The System and its controlled entities are involved in certain litigation which involves professional and general liability. In the opinion of management and legal counsel, the ultimate liability, if any, will not have a material effect on the consolidated financial condition of the Parent and its controlled entities.

**Regulatory Compliance**

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. The System believes that it is in compliance with all applicable laws and regulations through the years ended June 30, 2013 and 2012. Compliance with such laws and regulations can be subject to government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs.

**13. Functional Expenses**

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

	2013	2012
Health care services	\$ 674,531,174	\$ 686,010,429
General and administrative	217,689,548	152,749,250
Total functional expenses	<u>\$ 892,220,722</u>	<u>\$ 838,759,679</u>

**Reading Health System**  
**Notes to Consolidated Financial Statements**  
**June 30, 2013 and 2012**

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**14. Concentrations of Credit Risk**

Financial instruments which potentially subject the System to concentrations of credit risk consist primarily of cash, cash equivalents, investments, and accounts receivable

Management periodically evaluates the credit standing of the financial institutions with which they maintain their cash, cash equivalents, and investments. Amounts held in its accounts often exceed the federally insured levels.

The fair value of the System's investments is subject to various market fluctuations which include changes in the interest rate environment and general economic conditions.

The System grants credit to its patients and other third-party payors, primarily Medicare, Medical Assistance, Blue Cross and various commercial insurance companies. The System maintains reserves for potential credit losses and such losses have historically been within management's expectations. The mix of receivables from patients and third-party payors at June 30, 2013 and 2012, was as follows:

	<b>2013</b>	<b>2012</b>
Medicare	32%	29%
Medical Assistance	14%	18%
Blue Cross	14%	17%
Commercial insurance	28%	17%
Self-pay	10%	17%
Other	<u>2%</u>	<u>2%</u>
	<u>100%</u>	<u>100%</u>

**15. Subsequent Events**

The Company has evaluated subsequent events through October 21, 2013. Management reviews and identifies subsequent events through participation at meetings of the Board of Directors and their subcommittees.

In July 2013, after two years of work on design and infrastructure, the Board of Trustees of the Reading Health System approved the 7th Avenue Project for a total cost of \$354,000,000. The project includes a state of the art perioperative center, five all-private room nursing units and additional space for the Emergency Department and Trauma Center. There is no expansion of licensed beds included in this project.

## **Supplementary Consolidating Information**



**Report of Independent Auditors on  
Supplementary Consolidating Information**

To The Board of Directors of  
Reading Health System

We have audited the consolidated financial statements of Reading Health System as of June 30, 2013 and for the year then ended and our report thereon appears on page 1 of this document. That audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The supplementary consolidating information is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. The information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole.

A handwritten signature in cursive script that reads "PricewaterhouseCoopers LLP".

October 21, 2013

**Reading Health System  
Consolidating Balance Sheet  
Year Ended June 30, 2013**

**Schedule I**

	Parent	Hospital	RPS	TRHMG	Highlands	Consolidating and Eliminating Entries	Reading Health System
<b>Current assets</b>							
Cash and cash equivalents	\$ -	\$ 61,781,109	\$ 23,424	\$ 72,745	\$ 2,317,068	\$ -	\$ 64,194,346
Patient accounts receivable, less allowance for uncollectible accounts of \$52,456,860	-	171,175,301	4,231,911	1,944,218	2,584,472	-	179,935,902
Other receivables	1,788,580	10,830,652	550,108	57,940	704	-	13,227,984
Receivable from affiliates	8,145,493	2,613,524	(11,610)	43,565	-	(10,113,136)	677,836
Inventories	-	14,442,833	-	-	379,144	-	14,821,977
Estimated third-party payor receivables	-	8,198,991	-	-	-	-	8,198,991
Prepaid expenses and other current assets	-	14,164,667	-	413,091	245,430	-	14,823,188
Assets whose use is limited - required for current liabilities							
Self-insurance funding arrangements	-	7,812,332	-	-	-	-	7,812,332
Revenue bond indentures - debt service	-	2,878,958	-	-	-	-	2,878,958
Total current assets	<u>9,934,073</u>	<u>293,898,367</u>	<u>4,793,833</u>	<u>2,531,559</u>	<u>5,526,818</u>	<u>(10,113,136)</u>	<u>306,571,514</u>
<b>Assets whose use is limited</b>							
Self-insurance funding arrangements	-	20,032,628	-	-	-	-	20,032,628
Under regulatory requirements	-	-	-	-	2,912,455	-	2,912,455
By board for capital improvements	900,699,219	133,563	-	-	40,117,676	-	940,950,458
Total assets whose use is limited, net of current portion	<u>900,699,219</u>	<u>20,166,191</u>	<u>-</u>	<u>-</u>	<u>43,030,131</u>	<u>-</u>	<u>963,895,541</u>
Investments	-	20,115,778	-	-	-	-	20,115,778
Temporarily restricted funds	-	627,847	(258)	-	32,781	-	660,370
Long-term receivables from affiliates	523,014,508	-	-	-	-	(523,014,508)	-
Property, plant and equipment, net	40,194,230	582,640,305	-	7,110,415	51,752,945	-	681,697,895
Deferred financing expense, net	4,815,161	-	-	-	-	-	4,815,161
Deferred compensation fund	-	2,873,977	-	-	-	-	2,873,977
Other assets	8,514,701	5,961,437	258	-	(32,781)	-	14,443,615
Total assets	<u>\$ 1,487,171,892</u>	<u>\$ 926,283,902</u>	<u>\$ 4,793,833</u>	<u>\$ 9,641,974</u>	<u>\$ 100,309,894</u>	<u>\$ (533,127,644)</u>	<u>\$ 1,995,073,851</u>

**Reading Health System  
Consolidating Balance Sheet  
Year Ended June 30, 2013**

**Schedule I**

	Parent	Hospital	RPS	TRHMG	Highlands	Consolidating and Eliminating Entries	Reading Health System
<b>Current liabilities</b>							
Current installments of long-term debt	\$ 4,157,350	\$ 2,576,186	\$ -	\$ -	\$ -	\$ -	\$ 6,733,536
Current installments of long-term affiliated payables	-	4,157,350	-	-	5,955,786	(10,113,136)	-
Current portion of estimated self-insurance costs	-	10,596,040	-	-	195,751	-	10,791,791
Accounts payable	-	44,783,037	566,300	1,929,774	1,116,710	-	48,395,821
Estimated third-party settlements	-	4,555,158	-	-	-	-	4,555,158
Accrued expenses	2,981,259	18,132,199	6,438,002	3,032,730	790,530	-	31,374,720
Accrued vacation	-	17,039,602	3,201,890	1,099,952	442,798	-	21,784,242
Advance from third-party payor	-	3,832,000	-	-	-	-	3,832,000
Other current liabilities	-	15,293,996	-	3,411	717,532	-	16,014,939
Total current liabilities	7,138,609	120,965,568	10,206,192	6,065,867	9,219,107	(10,113,136)	143,482,207
Long-term debt, net of current portion and unamortized discount	592,514,352	4,434,569	-	-	-	-	596,948,921
Long-term affiliates payables, net of current portion	-	484,952,763	-	-	38,061,745	(523,014,508)	-
Accrued pension costs, net of current portion	-	112,628,171	-	-	323,534	-	112,951,705
Deferred revenue	-	3,203,918	-	-	-	-	3,203,918
Deferred compensation	-	1,527,412	-	-	33,432,253	-	34,959,665
Gift annuities	-	-	-	-	579,100	-	579,100
Estimated self-insurance costs, net of current portion	-	43,781,001	-	-	-	-	43,781,001
Swap contracts	59,356,111	503,269	-	-	-	-	59,859,380
Total liabilities	659,009,072	771,996,671	10,206,192	6,065,867	81,615,739	(533,127,644)	995,765,897
<b>Net assets</b>							
Unrestricted	828,162,820	134,829,325	(5,412,617)	3,576,107	18,661,373	-	979,817,008
Temporarily restricted	-	627,847	258	-	32,781	-	660,886
Permanently restricted	-	18,830,060	-	-	-	-	18,830,060
Total net assets	828,162,820	154,287,232	(5,412,359)	3,576,107	18,694,154	-	999,307,954
Total liabilities and net assets	\$ 1,487,171,892	\$ 926,283,903	\$ 4,793,833	\$ 9,641,974	\$ 100,309,893	\$ (533,127,644)	\$ 1,995,073,851

**Reading Health System  
Consolidating Statement of Operations  
Year Ended June 30, 2013**

**Schedule II**

	Parent	Hospital	RPS	TRHMG	Highlands	Consolidating and Eliminating Entries	Reading Health System
<b>Unrestricted revenues</b>							
Net patient service revenue	\$ -	\$ 826,106,667	\$ 40,133,209	\$ 43,785,756	\$ 4,037,106	\$ -	\$ 914,062,738
Provision for uncollectible accounts	-	(48,424,699)	(3,423,545)	(1,514,063)	-	-	(53,362,307)
Net patient service revenue less provision for uncollectible accounts	-	\$ 777,681,968	\$ 36,709,664	\$ 42,271,693	\$ 4,037,106	-	\$ 860,700,431
Residential revenue	-	-	-	-	19,941,623	-	19,941,623
Other revenue	1,548,965	26,932,872	3,125,033	1,941,159	629,997	(1,775,908)	32,402,118
Total revenues and other support	1,548,965	804,614,840	39,834,697	44,212,852	24,608,726	(1,775,908)	913,044,172
<b>Expenses</b>							
Salaries and benefits	-	391,388,510	58,943,836	53,228,280	11,906,182	-	515,466,808
Supplies	-	111,411,510	1,136,822	3,122,464	2,087,130	-	117,757,926
Utilities	-	10,054,052	83,077	1,020,904	1,057,547	-	12,215,580
Interest	-	14,295,289	-	-	1,420,173	-	15,715,462
Depreciation	-	69,798,968	343,788	1,847,111	3,034,583	-	75,024,450
Purchased services	2,004,000	63,806,204	7,604,903	4,015,326	2,098,453	-	79,528,886
Repairs and maintenance	-	21,576,515	123,321	618,859	424,492	-	22,743,187
Other	-	42,296,214	5,386,325	6,078,256	1,783,536	(1,775,908)	53,768,423
Total expenses	2,004,000	724,627,262	73,622,072	69,931,200	23,812,096	(1,775,908)	892,220,722
Income (loss) from operations	(455,035)	79,987,578	(33,787,375)	(25,718,348)	796,630	-	20,823,450
Meaningful Use Funds	-	7,586,912	-	-	-	-	7,586,912
EPIC expense offset	-	(7,586,912)	-	-	-	-	(7,586,912)
<b>Nonoperating gains/(losses)</b>							
Investment income	73,623,405	562,345	-	-	1,841,634	-	76,027,384
Other (losses)/gains	-	(2,123,821)	-	-	614,041	-	(1,509,780)
Loss on extinguishment of debt	-	-	-	-	-	-	-
Realized and unrealized loss on interest rate swaps	14,098,501	101,501	-	-	-	-	14,200,002
Nonoperating gains, net	87,721,906	(1,459,975)	-	-	2,455,675	-	88,717,606
Excess (deficiency) of revenue, gains and other support over expenses	\$ 87,266,871	\$ 78,527,603	\$ (33,787,375)	\$ (25,718,348)	\$ 3,252,305	\$ -	\$ 109,541,056