



Geisinger Health System

Consolidated Financial Statements
June 30, 2015 and 2014

Geisinger Health System

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KPMG LLP
1601 Market Street
Philadelphia, PA 19103-2499

Independent Auditors' Report

The Board of Directors
Geisinger Health System Foundation:

We have audited the accompanying consolidated financial statements of Geisinger Health System Foundation and its subsidiaries (collectively referred to as "Geisinger Health System"), which comprise the consolidated balance sheet as of June 30, 2015, and the related consolidated statements of operations and changes in net assets, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

Opinion

In our opinion, the 2015 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Geisinger Health System as of June 30, 2015, and the results of its operations and its cash flows for the year then ended in accordance with U.S. generally accepted accounting principles.



Other Matter

The accompanying consolidated financial statements of Geisinger Health System as of June 30, 2014 and for the year then ended were audited by other auditors whose report thereon dated September 18, 2014, expressed an unmodified opinion on those consolidated financial statements.

KPMG LLP

Philadelphia, Pennsylvania
September 16, 2015

Geisinger Health System
Consolidated Balance Sheets
June 30, 2015 and 2014

(dollars in thousands)

	2015	2014
Assets		
Current assets		
Cash and cash equivalents	\$ 116,531	\$ 78,512
Investments	807,046	658,653
Assets limited as to use	6,559	6,360
Accounts receivable, net of estimated uncollectibles of \$71,596 in 2015 and \$76,879 in 2014	541,827	391,382
Inventories and other	72,121	79,948
Total current assets	1,544,084	1,214,855
Long-term investments	1,982,664	1,972,766
Assets limited as to use, noncurrent	129,469	134,728
Property and equipment, net	1,348,268	1,128,094
Other assets, net	258,910	153,054
Assets held in trust	32,255	31,084
Total assets	<u>\$ 5,295,650</u>	<u>\$ 4,634,581</u>
Liabilities and Net Assets		
Current liabilities		
Current installments of long-term debt	\$ 9,957	\$ 5,103
Estimated third-party payor settlements	141,680	130,214
Accounts payable	114,352	85,112
Medical claims payable	176,512	112,892
Accrued expenses and other	495,551	403,845
Total current liabilities	938,052	737,166
Long-term debt, net of current installments	1,249,753	1,079,451
Other liabilities and contingencies	383,062	297,210
Total liabilities	<u>2,570,867</u>	<u>2,113,827</u>
Net assets		
Unrestricted	2,575,809	2,386,371
Unrestricted-noncontrolling interest	13,870	9,039
Temporarily restricted	50,117	45,770
Permanently restricted	84,987	79,574
Total net assets	<u>2,724,783</u>	<u>2,520,754</u>
Total liabilities and net assets	<u>\$ 5,295,650</u>	<u>\$ 4,634,581</u>

See accompanying notes to the consolidated financial statements.

Geisinger Health System
Consolidated Statements of Operations and Changes in Net Assets
Years Ended June 30, 2015 and 2014

(dollars in thousands)

	2015	2014
Unrestricted net assets		
Revenue		
Patient service revenue (net of contractual adjustments & discounts) \$	2,253,410	\$ 1,852,286
Provision for bad debts	<u>(50,066)</u>	<u>(53,703)</u>
Net patient service revenue less provision for bad debts	2,203,344	1,798,583
Premium revenue	2,196,059	2,036,813
Other revenue	<u>165,236</u>	<u>142,530</u>
	<u>4,564,639</u>	<u>3,977,926</u>
Expenses		
Salaries and benefits	1,802,867	1,598,115
Contracted services	1,559,419	1,394,335
Supplies and other expenses	891,881	726,066
Depreciation and amortization	<u>150,670</u>	<u>122,577</u>
	<u>4,404,837</u>	<u>3,841,093</u>
Operating income (carried forward)	<u>\$ 159,802</u>	<u>\$ 136,833</u>

See accompanying notes to the consolidated financial statements.

Geisinger Health System
Consolidated Statements of Operations and Changes in Net Assets
Years Ended June 30, 2015 and 2014

(dollars in thousands)

	2015	2014
Operating income (brought forward)	<u>\$ 159,802</u>	<u>\$ 136,833</u>
Investing and financing activities		
Net realized investment earnings	164,114	154,325
Net unrealized investment (losses) earnings	(170,134)	146,786
Interest expense	(32,748)	(26,304)
Unrealized (loss) gain on derivatives	(728)	869
Contribution from acquisitions	<u>74,704</u>	<u>16,026</u>
Gain from investing and financing activities	<u>35,208</u>	<u>291,702</u>
Nonoperating losses, net	<u>(212)</u>	<u>(18)</u>
Excess of revenue and gains over expenses and losses	194,798	428,517
Other changes in unrestricted net assets		
Consolidation of controlled entities	-	30,604
Unrealized loss on derivatives	(3,593)	(255)
Net assets released from restriction, capital purchases	2,183	2,554
Pension liability adjustment	(13,973)	3,681
Net asset transfers for underwater endowments	(1)	10
Contribution from noncontrolling interest, net of distributions	14,120	(1,072)
Changes in equity-based compensation	<u>735</u>	<u>-</u>
Increase in unrestricted net assets	<u>194,269</u>	<u>464,039</u>
Changes in temporarily restricted net assets		
Donor contributions, net of uncollectibles	8,355	6,580
Contribution from acquisitions	3,948	187
Net investment (losses) gains	(296)	9,706
Net asset transfers for underwater endowments	1	(10)
Net assets released from restriction, fund operations	(5,478)	(5,075)
Net assets released from restriction, capital purchases	<u>(2,183)</u>	<u>(2,554)</u>
Increase in temporarily restricted net assets	<u>4,347</u>	<u>8,834</u>
Changes in permanently restricted net assets		
Donor contributions	2,196	886
Contribution from acquisitions	3,307	539
Net investment (losses) gains in beneficial interest in perpetual trusts	<u>(90)</u>	<u>2,766</u>
Increase in permanently restricted net assets	<u>5,413</u>	<u>4,191</u>
Increase in net assets	204,029	477,064
Net assets		
Beginning of year	<u>2,520,754</u>	<u>2,043,690</u>
End of year	<u>\$ 2,724,783</u>	<u>\$ 2,520,754</u>

See accompanying notes to the consolidated financial statements.

Geisinger Health System
Consolidated Statements of Cash Flows
Years Ended June 30, 2015 and 2014

(dollars in thousands)

	2015	2014
Cash flows from operating activities		
Increase in net assets before attribution of noncontrolling interest	\$ 204,029	\$ 477,064
Change in net assets attributable to noncontrolling interest	(4,831)	(9,039)
Change in net assets attributable to GHS	199,198	468,025
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	150,670	122,577
Provision for bad debts	50,547	53,847
Unrealized loss (gain) on derivatives	4,321	(614)
Net realized gain on investments	(115,143)	(107,487)
Net unrealized (loss) gain on investments	175,553	(154,318)
Contributions from acquisition, net of cash received	(66,135)	(5,945)
Restricted contributions, investment gains, and other	(10,234)	(19,938)
Contributions from noncontrolling interest	(14,941)	-
Pension liability adjustment	13,973	(3,681)
Net change in		
Noncontrolling interest	5,652	10,111
Accounts receivable	(164,087)	(126,316)
Inventories and other	11,682	1,146
Estimated third-party payor settlements	1,276	11,643
Accounts payable	13,662	(4,307)
Accrued expenses and other	128,688	18,033
Other assets and liabilities	(3,587)	(28,434)
Net cash provided by operating activities	381,095	234,342
Cash flows from investing activities		
Additions to property and equipment, net	(228,026)	(272,236)
Purchases of investments	(1,349,320)	(1,566,088)
Purchases of assets limited as to use	(53,635)	(43,447)
Sales of investments	1,211,955	1,319,325
Sales of assets limited as to use	59,096	70,738
Cash paid for acquisitions	(61,500)	-
Net cash used in investing activities	(421,430)	(491,708)
Cash flows from financing activities		
Proceeds from issuance of debt	185,740	209,400
Repayment of debt	(131,740)	(66,318)
Contribution from noncontrolling interest, net of distributions	14,120	(1,072)
Proceeds from restricted contributions, investment gains, and other	10,234	19,938
Net cash provided by financing activities	78,354	161,948
Increase (decrease) in cash and cash equivalents	38,019	(95,418)
Cash and cash equivalents		
Beginning of year	78,512	173,930
End of year	\$ 116,531	\$ 78,512

See accompanying notes to the consolidated financial statements.

Geisinger Health System

Notes to Consolidated Financial Statements

June 30, 2015 and 2014 (dollars in thousands unless otherwise noted)

1. Organization

The Geisinger Health System¹ ("GHS") is a physician-led, integrated health services organization that has as its main components: (i) multispecialty physician group practices; (ii) an array of health services providers, including six acute care hospitals and a drug and alcohol treatment facility; and (iii) insurance operations, including a licensed health maintenance organization and a nonlicensed risk assuming Preferred Provider Organization. The System operates in 44 of Pennsylvania's 67 counties, with a significant presence in central and northeastern Pennsylvania, primarily outside the major metropolitan areas.

Geisinger Health System Foundation (the "Foundation") serves as the corporate parent and exercises control over all of GHS's affiliated entities subject to corporate, legal, and/or regulatory limitations. The Foundation and all subsidiary corporate entities comprising the System are tax-exempt pursuant to Section 501(c) (3) of the Internal Revenue Code, except for Foundation's for-profit subsidiaries and for Geisinger Health Plan ("GHP") and Holy Spirit Corporation ("HSC"). GHP and HSC are tax-exempt pursuant to Sections 501(c) (4) and 501(c) (2) of the Internal Revenue Code, respectively. The tax-exempt entities did not incur any liability for federal income taxes, except for unrelated business income.

All significant intercompany transactions have been eliminated.

2. Summary of Significant Accounting Policies

These consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP"). The following is a summary of the significant accounting and reporting policies used in preparing the consolidated financial statements.

Cash and Cash Equivalents

Cash and cash equivalents include investments in highly liquid debt instruments purchased with an initial maturity of three months or less, exclusive of long-term investments and assets limited as to use. The carrying amount reported approximates fair value.

Investments, Assets Limited as to Use, and Investment Income

Investments and assets limited as to use are measured at fair value. All of GHS's investments in debt and equity securities are classified as trading. This classification requires GHS to recognize unrealized gains and losses on substantially all of its investments in debt and equity securities as net unrealized investment earnings (losses) in the Consolidated Statements of Operations and Changes in Net Assets. Interest income, dividends, and realized and unrealized gains and losses on unrestricted investments are determined on the specific method of identification and are recorded as investment income within other revenue or within investing and financing activities in the Consolidated Statements of Operations and Changes in Net Assets (net of investment-related expenses). In the absence of donor specification that investment income on donated funds be restricted, interest income, dividends, and realized and unrealized gains and losses on investments are recorded within unrestricted investing and financing activities in the Consolidated Statements of Operations and Changes in Net Assets. Interest income, dividends, and realized and unrealized gains and losses on trusts held as temporarily restricted and permanently restricted endowment funds are recorded as net investment gains (losses) in changes in temporarily restricted net assets in the Consolidated Statements of Operations and Changes in Net Assets. Interest income, dividends, and realized and unrealized gains and losses on trusts held as permanently restricted

¹ Throughout this document, the acronym "GHS" or the term "System" shall refer to the entire healthcare system comprised of the Geisinger Health System Foundation (the "Foundation") as parent and all subsidiary corporate entities comprising the system.

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are recorded as net investment gains (losses) in changes in permanently restricted net assets in the Consolidated Statements of Operations and Changes in Net Assets.

Investments are exposed to various risks, such as interest rate, market, and credit. Due to the level of risk associated with investments and the level of uncertainty related to changes in their value, it is at least reasonably possible that changes in market valuations in the near term could materially affect account balances and the amounts reported in the Consolidated Balance Sheets, and the Consolidated Statements of Operations and Changes in Net Assets.

Amounts available to meet current liabilities have been reclassified to current investments in the Consolidated Balance Sheets.

Accounts Receivable and Allowances

GHS's health services providers have agreements with third-party payors that provide for payments at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, which vary according to a patient classification system that is based on clinical, diagnostic, and other factors; reimbursed costs; discounted charges; and per diem payments. Management regularly reviews accounts and contracts and provides appropriate contractual allowances and discounts that are netted against patient accounts receivable in the Consolidated Balance Sheets. Patient accounts receivable are further reduced by an allowance for uncollectible accounts.

GHS estimates an allowance for uncollectible accounts and provision for bad debts based upon past collection history and payment trends for its major payor sources of patient service revenue. For patient accounts receivable associated with patients without insurance coverage and patients with deductibles and coinsurance balances for which third-party coverage exists for a portion of the bill, GHS records a provision for bad debts for patients that are unable or unwilling to pay for a portion of the bill representing their financial responsibility. Accounts balances are charged off against the allowance for uncollectible accounts after all means of collection have been exhausted.

Insurance premiums that are past due greater than 60 days are written off as uncollectible and are subject to subsequent contract cancellation under terms of the insurance contract.

In March 2010, the President signed into law the Affordable Care Act ("ACA"), which transforms the U.S. healthcare system and increases regulations within the U.S. health insurance industry. This legislation is intended to expand the availability of health insurance coverage to millions of Americans. The ACA creates state health insurance exchanges, which provide individuals and small businesses with access to affordable and quality health insurance. GHP and Geisinger Quality Options ("GQO") participate in the Pennsylvania market. To address restrictions on premium setting and unpredictability of medical expenses, among other items, the ACA established three transitional risk sharing programs for insurers: reinsurance, risk adjustment, and risk corridor programs ("3R's"). These programs are complex and involve significant judgment and uncertainties with respect to both recorded amounts and timing of collections. Because these programs are new, the degree of estimation involved in recording amounts related to the programs is significant. Accounts receivable in the Consolidated Balance Sheets includes 3R's net receivables totaling \$48.9 million and \$13.2 million at June 30, 2015 and 2014, respectively. On June 30, 2015, the Centers for Medicare and Medicaid (CMS) issued a report on the calendar year 2014 reinsurance and risk adjustment programs, which provided GHP and GQO with each company's respective receivable or payable. CMS however has not issued its report on the calendar year 2014 risk corridor program. Therefore, the 2014 risk corridor receivables estimated by the companies have not been confirmed by CMS.

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Inventories

Inventories are stated at the lower of cost or market. Cost is determined primarily on a first-in, first-out basis.

Property and Equipment and Long-Lived Assets

Property and equipment and construction in progress are recorded at the lower of cost or fair value, if impaired or acquired as part of a business combination. Depreciation is recorded using the straight-line method over the estimated useful lives of the respective assets. Leasehold improvements are amortized over the shorter of their useful life or the term of the lease and renewal periods that are deemed to be reasonably assured at the date the leasehold improvements are purchased using the straight-line method. Capital leases and software licenses are amortized over the shorter of their useful life or the term of the lease using the straight-line method. The cost of assets and the related accumulated depreciation are removed from the Balance Sheet, upon retirement or disposition and any gain or loss is reported in supplies and other expenses in the Consolidated Statements of Operations and Changes in Net Assets.

GHS recognizes an impairment loss if the carrying amount of a long-lived asset is not recoverable from its future undiscounted cash flows and measures any impairment loss as the difference between the carrying amount and the fair value of the asset. Impairment losses on property and equipment during fiscal year 2015 were \$8.0 million. There were no significant impairment losses recognized during fiscal year 2014.

Pledges Receivable and Contributions

Unconditional donor promises to give cash, marketable securities, and other assets are reported at fair value and discounted to present value at the date the promise is received to the extent estimated to be collectible. Conditional donor promises to give and indications of intentions to give are not recognized until the condition is satisfied. Pledges received with donor restrictions that limit the use of the donated assets are reported as temporarily restricted net assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are transferred to unrestricted net assets and reported in the Consolidated Statements of Operations and Changes in Net Assets as net assets released from restriction. Pledges receivable are reported in other assets in the Consolidated Balance Sheets.

Goodwill

Goodwill represents the excess of the purchase price over the estimated fair value of the net assets of acquired entities.

GHS evaluates goodwill for impairment annually and as events or changes in circumstances indicate that the value of the asset may be impaired. Impairment testing consists of internal qualitative assessments and considers other publicly available market information. If the carrying amount of the goodwill exceeds the estimated fair value, an impairment charge to current operations is recorded to reduce the carrying amount to estimated fair value. As of June 30, 2015 and 2014, there was no indication of impairment of goodwill. Total goodwill recognized on acquisitions is included in other assets in the Consolidated Balance Sheets and was \$55.1 million and \$11.6 million as of June 30, 2015 and 2014, respectively. Goodwill increased \$43.5 million and \$.09 million during fiscal years 2015 and 2014, respectively, as a result of acquisitions, see Footnote 12.

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Accrued Medical Claims

GHP, GIIC (Indemnity Insurance Corporation), and GGO are at risk for certain medical costs of their members up to reinsurance limits. Accrued medical claims and related expenses (hospitalization and other outside medical services) are recorded in medical claims payable in the Consolidated Balance Sheets. This liability includes amounts billed from other medical providers and not yet paid and estimates of costs incurred for obligations to provide services under contracts as of the balance sheet dates.

GHP, GIIC, and GGO record a liability based on management's estimate for claims, which are expected to be paid after the end of the period for services provided to members during the policy period. The estimate of costs incurred for obligations to provide services is based on historical data, current membership, health service utilization statistics, and other related information. These accruals are continually monitored and reviewed and, as settlements are made or accruals adjusted, differences are reflected in current operations. Changes in assumptions for medical costs as well as changes in actual experience could cause these estimates to change in the near term.

Derivative Instruments

Interest rate swap agreements are used by GHS to manage interest rate exposures and to hedge the changes in cash flows on variable rate debt. Derivative financial instruments involve, to a varying degree, elements of market and credit risk. The market risk associated with these instruments resulting from interest rate movements is expected to offset the market risk of the liabilities being hedged. The counterparties to the agreements relating to the interest rate swaps and option are major financial institutions with high credit ratings. GHS continually monitors the credit ratings of the counterparties and does not believe that there is significant risk of nonperformance by these counterparties.

All derivatives are reported in the Consolidated Balance Sheets at fair value, including those that are designated and qualify as cash flow hedging instruments. The gain or loss on the effective portion of the derivative is reported as an unrealized gain or loss on derivative in other changes in unrestricted net assets in the Consolidated Statements of Operations and Changes in Net Assets. The gain or loss on the ineffective portion of the derivative and changes in value of derivatives not designated as hedging instruments are recognized as an unrealized gain or loss on derivatives under investing and financing activities in the Consolidated Statements of Operations and Changes in Net Assets.

Net Asset Classification

Unrestricted net assets are not restricted by donors, or the donor-imposed restrictions have been satisfied.

Temporarily restricted net assets are those whose use by GHS has been limited by donors to a specific time period or purpose, primarily to support operations or for capital purchases.

Permanently restricted net assets have been restricted by donors to be maintained by GHS, or a designated trustee, in perpetuity.

Permanently restricted net assets represent the original fair value of gifts donated to GHS through endowments. GHS's permanently restricted net assets consist of approximately 200 endowments and trusts. Unless otherwise directed by the donor, gifts received for endowments are invested in accordance with GHS's investment policy. From time to time, the fair value of investments associated with individual donor-restricted endowments may fall below the original gift amount. Deficiencies of this nature, which are referred to as underwater funding, are reported as changes in

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unrestricted and temporarily restricted net assets in the Consolidated Statements of Operations and Changes in Net Assets.

GHS annually appropriates five percent of each endowment for spending in accordance with the donor's intent. In order to preserve the real value of a donor's gift and to sustain funding consistent with donor intent, the annual appropriation rate is set to strike a reasonable balance between long-term objectives of preserving and growing each endowment for the future and providing stable, annual appropriations. The difference between the endowment original value and the market value of the endowment is recorded as temporarily restricted endowments.

The Board has designated certain Geisinger Clinic unrestricted investments as board designated-endowments to support research and other programs.

The composition of and changes in endowment net assets, excluding trusts, by type of fund, is as follows:

	Unrestricted (Board- designated)	Temporarily Restricted	Permanently Restricted (Excluding Trusts)	Total
Endowment net assets at June 30, 2013	\$ 23,485	\$ 9,326	\$ 61,851	\$ 94,662
Investment return				
Realized investment gains	1,765	4,456	58	6,279
Unrealized investment gains	1,933	4,621	170	6,724
Total investment return	3,698	9,077	228	13,003
Contributions received from acquisition	-	-	539	539
Contributions received	-	-	886	886
Underwater funding	-	(10)	-	(10)
Annual appropriations	(727)	(2,685)	-	(3,412)
Endowment net assets at June 30, 2014	26,456	15,708	63,504	105,668
Investment return				
Realized investment gains	1,734	3,960	392	6,086
Unrealized investment losses	(2,066)	(4,473)	(330)	(6,869)
Total investment return	(332)	(513)	62	(783)
Contributions received from acquisition	-	-	3,307	3,307
Contributions received	-	-	2,196	2,196
Underwater funding	-	1	-	1
Annual appropriations	(719)	(2,898)	-	(3,617)
Endowment net assets at June 30, 2015	\$ 25,405	\$ 12,298	\$ 69,069	\$ 106,772

Noncontrolling Interest

Noncontrolling interest represents the proportionate share of xG Health Solutions, Inc. ("xG") and Geisinger SCA Holdings, LLC ("GSCA") that are owned by third parties. xG is a for-profit, collaboration with Oak Investment Partners that provides consulting, healthcare analytics, and care management services. GSCA is a Delaware limited liability company and joint venture with SCA Pennsylvania Holdings, LLC that operates an ambulatory surgery center in Dickson City, Pennsylvania. The net income or loss of these ventures is allocated to the noncontrolling interest holders based on their percentage of ownership.

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For the years ended June 30, 2015 and 2014, components of the changes in consolidated net assets impacting the controlling financial interest and noncontrolling interest are as follows:

	Total	Controlling Interest	Noncontrolling Interest
Balance July 1, 2013	\$ 1,931,371	\$ 1,931,371	\$ -
Excess (deficiency) of revenue and gains over expenses and losses	428,517	435,665	(7,148)
Other changes in unrestricted net assets			
Consolidation of controlled entities	30,604	13,345	17,259
Unrealized loss on derivatives	(255)	(255)	-
Net assets released from restriction, capital purchases	2,554	2,554	-
Pension liability adjustment	3,681	3,681	-
Net asset transfers for underwater endowments	10	10	-
Distributions to noncontrolling interest	(1,072)	-	(1,072)
Balance June 30, 2014	\$ 2,395,410	\$ 2,386,371	\$ 9,039
Excess (deficiency) of revenue and gains over expenses and losses	194,798	197,988	(3,190)
Other changes in unrestricted net assets			
Unrealized loss on derivatives	(3,593)	(3,593)	-
Net assets released from restriction, capital purchases	2,183	2,183	-
Pension liability adjustment	(13,973)	(13,973)	-
Net asset transfers for underwater endowments	(1)	(1)	-
Contributions from noncontrolling interest, net of distributions	14,120	6,834	7,286
Changes in equity-based compensation	735	-	735
Balance June 30, 2015	\$ 2,589,679	\$ 2,575,809	\$ 13,870

Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including 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.

Premium Revenue

GHP, GIIC, and GQO recognize premiums from members as revenue in the period to which healthcare coverage relates. Premiums billed and collected in advance are recorded as unearned premiums.

Charity Care

GHS provides services to all patients regardless of ability to pay. In accordance with GHS's policy, a patient is classified as a charity patient based on income eligibility criteria. GHS also provides free care to patients that either do not pursue charity care eligibility or are otherwise determined to

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be in need. GHS uses the services of a vendor to identify such additional patients who are presumptively determined to qualify for charity care. Because GHS does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

Additionally, GHS sponsors other charitable programs that provide substantial benefit to the broader community. Such programs include services to the needy and elderly population requiring special support, various clinical outreach programs, and health education and promotion.

Bad Debt

In evaluating the collectibility 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 sources in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with self-pay patients, which include both patients without insurance and patients with deductible and copayment balances due after third-party coverage, the System records a provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between discounted rates charged to these patients and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

Nonoperating Losses

For purposes of display, transactions deemed by management to be ongoing, major, or central to the provision of healthcare services are reported as revenue and expenses. Other transactions are reported as nonoperating losses, net.

Operating Indicator

The excess of revenue and gains over expenses and losses, consistent with industry practice, includes all unrestricted revenue, expenses, and net gains and losses for the reporting period, except for net assets released from restriction to fund purchases of capital, consolidation of controlled entities, defined-benefit pension liability adjustment, net asset transfers for underwater endowments, unrealized gains (losses) on the effective portion of derivatives, contribution from noncontrolling interest, net of distributions, and changes in equity-based compensation.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include contractual allowances, estimated amounts due to third-party payors, bad debt reserves, depreciation, accrued medical claims, medical legal liabilities, workers' compensation liabilities, derivative valuations, alternative investment valuations, valuation of 3R's, and expected rate of return on investments used to value defined-benefit pension liabilities.

New Accounting Standard

In May 2015, the Financial Accounting Standards Board ("FASB") issued guidance relating to disclosures for investments that calculate net asset value ("NAV") per share or its equivalent. Accounting Standards Codification ("ASC") Topic 820, *Fair Value Measurements*, permits reporting entities, as a practical expedient to measure the fair value of certain investments using the NAV per share of the investment. This amendment removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the NAV per share practical

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expedient. The amendments in this update are effective for the fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. Early adoption is permitted. Reporting entities are required upon adoption to apply the amendments retrospectively to all periods presented. GHS has retrospectively adopted this guidance for all periods presented. This new guidance only amended disclosure requirements and did not have any impact on the Consolidated Balance Sheets or Consolidated Statements of Operations and Changes in Net Assets.

3. Cash, Investments, Assets Limited as to Use, and Assets Held in Trust

Cash (including cash equivalents), investments, assets limited as to use, and assets held in trust at June 30 are summarized as follows:

	2015	2014
Cash and cash equivalents	\$ 116,531	\$ 78,512
Investments – current	807,046	658,653
– long-term	1,982,664	1,972,766
Assets limited as to use:		
Internally by Board	25,405	26,456
Externally other – current	6,559	6,360
– long-term	7,095	16,385
Externally restricted by donors	96,969	91,887
Assets held in trust	32,255	31,084
	<u>\$ 3,074,524</u>	<u>\$ 2,882,103</u>

Assets limited as to use - internally by the Board are resources that have been designated by the Board of Directors (“the Board”) for specific purposes. The Board retains control over designated assets and may, at their discretion, subsequently use the assets for other purposes. Assets limited as to use – externally other are primarily investments held by a Trustee under debt agreements for tax-exempt bond proceeds. Assets limited as to use – externally restricted by donors are held to meet donor restrictions.

Cash and cash equivalents, investments, and amounts internally designated by the Board available for capital and operating expenditures total \$2.9 billion and \$2.7 billion at June 30, 2015 and 2014, respectively. GHS values certain financial and nonfinancial assets and liabilities by applying the generally accepted accounting principles in the United States of America (“GAAP”) related to fair value measurements. GAAP defines fair value and establishes a framework for measuring fair value. That framework includes a hierarchy that categorizes and prioritizes the sources used to measure and disclose fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price).

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The hierarchy is broken down into three levels based on inputs that market participants would use in valuing the asset based on market data obtained from sources independent of GHS as follows:

Level 1: Unadjusted quoted market prices in active markets for identical assets or liabilities.

Level 2: Unadjusted quoted prices in active markets for similar assets or liabilities, unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable.

Level 3: Unobservable inputs for the asset or liability.

Inputs broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, specific and broad credit data, liquidity statistics, and other factors. GHS's investment strategy is to maximize the use of observable inputs (Levels 1 and 2) and minimize the use of unobservable inputs (Level 3). GHS considers observable data to be that market data, which is readily available, regularly distributed or updated, reliable and verifiable, not proprietary and provided by independent sources that are actively involved in the relevant market. The categorization of a financial instrument within the hierarchy is based upon the pricing transparency of the instrument and does not necessarily correspond to GHS's perceived risk of that instrument.

Assets are disclosed within the hierarchy based on the lowest (or least observable) input that is significant to the measurement. GHS's assessment of the significance of an input requires judgment, which may affect the valuation and categorization within the fair value hierarchy. The fair value of assets and liabilities using Level 3 inputs are generally determined by using pricing models or discounted cash flow methods, which all require significant management judgment or estimation.

As a practical expedient, the fair value of an investment in hedge funds and private equities at the measurement date is reported using net asset value ("NAV"). Adjustment is required if GHS expects to sell the investment at a value other than NAV or if the NAV is not calculated in accordance with GAAP. GHS's investments in private equity and certain hedge funds are generally valued based on the most current NAV adjusted for cash flows when the reported NAV is not at the measurement date. This amount represents fair value of these investments at June 30, 2015. Investments that are measured at fair value using the NAV per share (or its equivalent) are not categorized in the fair value hierarchy.

GHS performs additional procedures including due diligence reviews on its investments in hedge funds and private equity and other procedures with respect to the capital account or NAV provided to ensure conformity with GAAP. GHS has assessed factors including, but not limited to, managers' compliance with the fair value measurement standard, price transparency and valuation procedures in place, the ability to redeem at NAV at the measurement date, and existence of certain redemption restrictions at the measurement date.

Fair values are provided by the custodian. Management believes that fair values provided by the custodian are a reasonable estimation of such fair values.

Cash and Cash Equivalents

Cash and cash equivalents include short-term investments and fixed income investments with initial maturities of less than three months. Cash and cash equivalents are valued using observable market data and are categorized as Level 1 based on quoted market prices in active markets. The majority of these investments are held in money market accounts.

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Equity Funds

Equity funds consist of mutual funds whose underlying securities are valued on quoted market prices in active markets obtained from exchange or dealer markets for identical assets and are accordingly categorized as Level 1 with no valuation adjustments applied. Certain equity mutual funds also include individual securities with Level 2 characteristics resulting in the funds categorized as Level 2.

Marketable Equity Securities

Marketable equity securities consist of individual securities that are generally valued based on quoted market prices in active markets obtained from exchange or dealer markets and are accordingly categorized as Level 1 with no valuation adjustments applied.

Corporate Obligations

Corporate obligations consist of individual securities that are valued based on quoted market prices or dealer or broker quotations and are categorized as Level 2 or in the cases where they trade infrequently as Level 3.

Fixed Income Funds

Fixed income funds consist of mutual funds whose underlying securities are valued on quoted market prices in active markets obtained from exchange or dealer markets and are categorized as Level 2.

U.S. Government and Agency Obligations

U.S. Government and agency obligations consist of individual securities and are valued based on quoted market prices or dealer/broker quotations and are categorized as Level 2 or in the cases where they trade infrequently as Level 3.

Absolute and Total Return Hedge Funds

Absolute and total return hedge funds consist of equity and fixed income managed funds consisting of limited partnership interests in hedge funds. The fund managers invest in a variety of securities based on the strategy of the fund, which may or may not be quoted in an active market. The hedge funds are valued at NAV. These investments are not categorized in the fair value hierarchy.

Private Equity

Private equity investments are in the form of limited partnership interests. The fund managers primarily invest in private investments for which there is no readily determinable market value. The fund manager may value the underlying private investments based on an appraised value, discounted cash flow, industry comparables, or some other method. These limited partnership investments are valued at NAV and are not categorized in the fair value hierarchy.

Assets Held in Trust

Assets held in trust represent GHS's beneficial interest in perpetual and other trusts that are maintained and administered by independent trustees and are valued based on the fair value of the assets held in trust. Trusts that are perpetual, whereby the original corpus cannot be expended, are reported as permanently restricted net assets. Other trusts are reported as temporarily restricted net assets until they are liquidated. Distributions from trusts are recorded as investment earnings if unrestricted or as net investment gains (losses) in temporarily restricted net assets if their use is restricted by the donor. These assets qualify as Level 3 investments.

Liquidity risk is the risk that GHS will not be able to meet its obligations associated with financial liabilities. GHS has made investments in various long-lived partnerships and, in other cases, has

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entered into contractual agreements that may limit its ability to initiate redemptions due to notice periods, lock-ups, and gates.

Details on remaining estimated life, current redemption terms, and restrictions by asset class and type of investment are provided below:

Investment Types	Remaining Life	Redemption Terms	Redemption Restrictions
Cash and cash equivalents	N/A	Daily	None
Equity funds	N/A	Daily	None
Marketable equity securities	N/A	Daily	None
Corporate obligations	N/A	Daily	None
Fixed income funds	N/A	Daily	None
U.S. Government and agency obligations	N/A	Daily	None
Absolute and total return funds	N/A	90% of NAV quarterly with 60 day notice	1 year restriction on new investment
Private equity	1 to 17 years	Redemptions not permitted. Distributions received as underlying investments are liquidated.	N/A

The following tables set forth GHS's cash, investments, assets limited as to use, and assets held in trust at June 30, 2015 and 2014 by level within the fair value hierarchy. As required by fair value accounting, investments are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

	2015				
	Level 1	Level 2	Level 3	NAV ²	Total
Equity funds	\$ 1,307,655	\$ 146,664	\$ -	\$ -	\$ 1,454,319
Cash and cash equivalents	394,852	6	-	-	394,858
Marketable equity securities	82,825	-	-	-	82,825
Corporate obligations	-	392,657	-	-	392,657
Fixed income funds	-	263,360	-	-	263,360
U.S. Government and agency obligations	-	184,203	-	-	184,203
Total return fund	-	-	-	140,339	140,339
Absolute return fund	-	-	-	72,447	72,447
Private equity	-	-	-	57,261	57,261
Assets held in trust	-	-	32,255	-	32,255
	<u>\$ 1,785,332</u>	<u>\$ 986,890</u>	<u>\$ 32,255</u>	<u>\$ 270,047</u>	<u>\$ 3,074,524</u>

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	2014				
	Level 1	Level 2	Level 3	NAV ²	Total
Equity funds	\$ 1,212,993	\$ 143,516	\$ -	\$ -	\$ 1,356,509
Cash and cash equivalents	316,651	11	-	-	316,662
Marketable equity securities	93,281	-	-	-	93,281
Corporate obligations	-	343,523	510	-	344,033
Fixed income funds	-	260,336	-	-	260,336
U.S. Government and agency obligations	-	216,349	-	-	216,349
Total return fund	-	-	-	134,155	134,155
Absolute return fund	-	-	-	72,813	72,813
Private equity	-	-	-	56,881	56,881
Assets held in trust	-	-	31,084	-	31,084
	<u>\$ 1,622,925</u>	<u>\$ 963,735</u>	<u>\$ 31,594</u>	<u>\$ 263,849</u>	<u>\$ 2,882,103</u>

² Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been categorized in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the Consolidated Balance Sheets.

The following table shows the changes in Level 3:

	Assets Held in Trust and Corporate Obligations
Level 3 balances at June 30, 2013	\$ 27,006
Net unrealized gains	2,530
Contributions, net of distributions	<u>2,058</u>
Level 3 balances at June 30, 2014	31,594
Net unrealized gains	271
Contributions, net of distributions	<u>390</u>
Level 3 balances at June 30, 2015	<u>\$ 32,255</u>

As of June 30, 2015 and 2014, there were no significant transfers between levels. GHS has committed to fund certain partnership investments, which were not yet drawn at June 30, 2015. These unfunded commitments totaled \$73.0 million at June 30, 2015. Such commitments have terms from one to seventeen years.

Market risk exists to the extent that the values of GHS's monetary assets fluctuate as a result of changes in market prices. Changes in market prices can arise from factors specific to individual securities or their respective issuers or factors affecting all securities traded in a particular market. Relevant factors for GHS are both volatility and liquidity of specific securities and markets in which GHS holds investments. GHS employs the services of professional investment managers and has established investment guidelines to ensure that the portfolio is diversified and exposure to market risk is managed.

Unrealized investment earnings represent the change in fair value of investments calculated where a security is still held at the end of the period. Realized gains or losses on the sale of investments are the difference between sale proceeds (net of any transaction costs) and original cost. Interest and dividend income is recorded on the accrual basis.

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Investment income and realized and unrealized gains and losses on cash and cash equivalents, investments, assets limited as to use, and assets held in trust consist of the following:

	2015	2014
Other revenue	<u>\$ 719</u>	<u>\$ 708</u>
Investment and financing activities		
Net realized investment earnings	\$ 164,114	\$ 154,325
Net unrealized investment (losses) earnings	<u>(170,134)</u>	<u>146,786</u>
	<u>\$ (6,020)</u>	<u>\$ 301,111</u>
Temporarily restricted net assets,		
Net investment (losses) gains	<u>\$ (296)</u>	<u>\$ 9,706</u>
Permanently restricted net assets,		
Net investment (losses) gains	<u>\$ (90)</u>	<u>\$ 2,766</u>

4. Property and Equipment

Property and equipment and accumulated depreciation and amortization consist of the following:

	Estimated Useful Lives	June 30 2015	2014
Land		\$ 47,702	\$ 41,378
Land improvements	(5–25 years)	60,481	57,480
Buildings and building improvements	(5–40 years)	711,688	601,973
Equipment	(3–20 years)	1,305,640	1,086,387
Computer software	(5 years)	<u>170,159</u>	<u>161,140</u>
		2,295,670	1,948,358
Less: Accumulated depreciation and amortization		<u>(1,019,176)</u>	<u>(937,180)</u>
		1,276,494	1,011,178
Construction in progress		<u>71,774</u>	<u>116,916</u>
		<u>\$ 1,348,268</u>	<u>\$ 1,128,094</u>

Depreciation and amortization expense related to property and equipment for the years ended June 30, 2015 and 2014 was \$148.6 million and \$121.6 million, respectively. At June 30, 2015 and 2014, \$19.8 million and \$21.2 million, respectively, of construction-related purchases had not been paid and accordingly, were accrued in accrued expenses and other liabilities on the Consolidated Balance Sheets.

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5. Long-Term Debt

Long-term debt consists of the following:

	June 30			
	2015		2014	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Series A of 2014 Bonds	\$ 48,040	\$ 48,544	\$ -	\$ -
Series B of 2014 Bonds	62,700	63,036	-	-
Series A of 2013 Bonds	65,000	65,000	65,000	65,000
Series B of 2013 Bonds	50,000	50,000	50,000	50,000
Series C of 2013 Bonds	84,700	84,700	51,265	51,265
Series D of 2013 Bonds	84,700	84,700	43,135	43,135
Series 2011 Bonds Holy Spirit Hospital	48,355	54,899	-	-
Series B of 2011 Bonds Holy Spirit Hospital	33,640	39,285	-	-
Series A-1 of 2011 Bonds	100,000	110,062	100,000	109,777
Series A-2 of 2011 Bonds	26,475	29,349	29,235	32,334
Series B of 2011 Bonds	50,000	50,000	50,000	50,000
Series C of 2011 Bonds	-	-	50,000	50,000
Series A of 2009 Bonds	157,000	171,708	157,000	170,330
Series B of 2009 Bonds	50,000	50,000	50,000	50,000
Series C of 2009 Bonds	65,000	65,000	65,000	65,000
Series 2007 Lewistown Bonds	18,480	19,451	19,215	20,011
Series 2007 Bonds	68,850	58,621	68,850	52,980
Series A of 2005 Bonds	65,000	65,000	65,000	65,000
Series B of 2005 Bonds	62,300	62,300	62,300	62,300
Series C of 2005 Bonds	-	-	62,700	62,700
Series 2002 Bonds	50,000	50,000	50,000	50,000
Series A of 1998 Bonds	27,700	32,187	27,700	33,201
Total tax-exempt revenue bonds	1,217,940	1,253,842	1,066,400	1,083,034
Other long-term debt				
Bank loans	3,538	3,538	-	-
Notes payable	14,228	14,228	15,191	15,191
Capital leases	11,181	11,181	1,465	1,465
Total debt	1,246,887	1,282,789	1,083,056	1,099,690
Less: current installments	(9,957)	(9,957)	(5,103)	(5,103)
Unamortized premium and fair market value adjustments	12,823	12,823	1,498	1,498
	<u>\$ 1,249,753</u>	<u>\$ 1,285,655</u>	<u>\$ 1,079,451</u>	<u>\$ 1,096,085</u>

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Maturities of long-term debt for the next five years and thereafter for the years ending June 30 are as follows:

2016	\$ 9,957
2017	7,455
2018	10,524
2019	15,809
2020	23,636
Thereafter	1,179,506
	<u>\$ 1,246,887</u>

Montour County established the Geisinger Authority (the "Authority") for the purpose of financing certain capital projects of GHS and other nonprofit organizations within the Commonwealth of Pennsylvania. All but the Series 2007 Lewistown Bonds, Series 2011 Bonds Holy Spirit Hospital and Series B of 2011 Bonds Holy Spirit Hospital were issued through the Authority. The Foundation has entered into a Master Trust Indenture ("MTI") with the bond trustee that governs all debt issued there under. All of the bonds listed below have now been issued master notes under the MTI. Under the terms of the MTI, substantially all indebtedness is a joint and several obligation of the Obligated Group, whose sole present member is the Foundation. Additional indentures were issued with each new bond issuance. The proceeds from the bond issuances were used for the purpose of financing capital projects or to refinance other bonds.

Fixed rate bonds have various installments of principal due prior to maturity. Variable rate demand bonds ("VRDB"), bank held rate, and index floating rate bonds have balloon payments due upon maturity. The following table provides information on each bond issue. Average interest rates include the impact of a discount or premium and remarketing and liquidity fees.

Bond Issue	Interest Rate Mode	Par	Final Maturity	Average Interest Rate	
				2015	2014
Series A of 2014 Bonds	Fixed Rate	\$ 48,040	06/01/41	4.2 %	N/A
Series B of 2014 Bonds	Bank Held Rate	62,700	06/01/28	1.2 %	N/A
Series A of 2013 Bonds	VRDB	65,000	10/01/43	0.4 %	0.4 %
Series B of 2013 Bonds	VRDB	50,000	10/01/43	0.3 %	0.4 %
Series C of 2013 Bonds	Bank Held Rate	84,700	10/01/43	0.8 %	0.8 %
Series D of 2013 Bonds	Bank Held Rate	84,700	10/01/43	0.9 %	0.9 %
Series 2011 Bonds Holy Spirit Hospital	Fixed Rate	48,355	01/01/41	5.6 %	N/A
Series B of 2011 Bonds Holy Spirit Hospital	Fixed Rate	33,640	01/01/41	5.6 %	N/A
Series A-1 of 2011 Bonds	Fixed Rate	100,000	06/01/41	4.8 %	4.8 %
Series A-2 of 2011 Bonds	Fixed Rate	26,475	06/01/28	4.1 %	3.8 %
Series B of 2011 Bonds	VRDB	50,000	06/01/41	0.3 %	0.4 %
Series A of 2009 Bonds	Fixed Rate	157,000	06/01/39	5.2 %	5.2 %
Series B of 2009 Bonds	Bank Held Rate	50,000	06/01/39	0.7 %	0.7 %
Series C of 2009 Bonds	Bank Held Rate	65,000	06/01/39	0.7 %	0.7 %
Series 2007 Lewistown Bonds	Fixed Rate	18,480	07/01/30	5.1 %	5.1 %
Series 2007 Bonds	Index Floating Rate	68,850	05/01/37	0.9 %	0.9 %
Series A of 2005 Bonds	VRDB	65,000	05/15/35	0.5 %	0.6 %
Series B of 2005 Bonds	VRDB	62,300	08/01/22	0.3 %	0.5 %
Series 2002 Bonds	VRDB	50,000	11/15/32	0.4 %	0.5 %
Series A of 1998 Bonds	Fixed Rate	27,700	08/15/23	5.2 %	5.2 %

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All VRDB are supported by standby bond purchase agreements. The standby bond purchase agreements provide loans to GHS in the amounts necessary to purchase variable rate bonds that are not remarketed.

The MTI requires GHS to maintain, as of June 30, an annual debt coverage ratio of 1.1 to 1. GHS is in compliance with the covenant as of June 30, 2015.

Net interest paid including swap agreements was \$32.0 million and \$26.2 million in 2015 and 2014, respectively.

The fair value of long-term debt is estimated using quoted market prices, where applicable. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments. Accordingly, the fair value of long-term debt is categorized as Level 2.

6. Interest Rate Swaps and Option

During 2007, GHS entered into two interest rate swap agreements with a total outstanding notional amount of \$68.9 million at both June 30, 2015 and 2014 remaining in effect until May 1, 2037. During the term of the swap, the swap effectively converts variable rate debt to a fixed rate. Under the swap, GHS pays a fixed rate of 4.40% times the notional amount and receives a floating rate equal to 67% of the London Inter-Bank Offer Rate ("LIBOR") plus 0.77%. Net interest paid or received under the swap agreement is included in interest expense in the Consolidated Statements of Operations and Changes in Net Assets. This transaction qualifies as an effective cash flow hedge, and therefore, the changes in fair value are reported as unrealized gain or loss on derivative within other changes in unrestricted net assets in the Consolidated Statements of Operations and Changes in Net Assets.

In September 2005, GHS entered into an interest rate swap agreement with a total outstanding notional amount of \$30.3 million at June 30, 2015 and \$33.0 million at June 30, 2014 decreasing incrementally to \$0 by August 1, 2028. During the term of the swap, the swap effectively converts variable rate debt to a fixed rate. Under the swap, GHS pays a fixed rate of 3.40% times the notional amount and receives a floating rate equal to 68% of the LIBOR. Payments under the swap were exchanged beginning September 2008. Net interest paid or received under the swap agreement is included in interest expense in the Consolidated Statements of Operations and Changes in Net Assets. This transaction does not qualify as an effective cash flow hedge, and therefore, the changes in fair value are recognized as an unrealized gain or loss on derivatives within the investing and financing activities in the Consolidated Statements of Operations and Changes in Net Assets.

During 2001, GHS entered into an interest rate swap agreement with a total outstanding notional amount of \$80.0 million at June 30, 2015 and 2014. The swap has a notional amount of \$80.0 million from inception until August 1, 2022 and \$40.0 million from August 1, 2022 to August 1, 2028. During the term of the swap, the swap effectively converts variable rate debt to a fixed rate. Under the swap, GHS pays a fixed rate of 4.86% times the notional amount and receives a rate equal to the Securities Industry and Financial Markets Association ("SIFMA") rate, an index of high-grade tax-exempt variable rate demand obligations. This transaction does not qualify as an effective cash flow hedge, and therefore, the changes in fair value are recognized as an unrealized gain or loss on derivatives within the investing and financing activities in the Consolidated Statements of Operations and Changes in Net Assets.

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During 2001, GHS also entered into an option that provides GHS with 0.85% times the same notional amount of the swap. In exchange for the premium, GHS granted the counterparty the right to create a derivative transaction with the same remaining terms as the swap, but with the counterparty as the fixed-rate payor and GHS as the floating-rate payor. This derivative would have cash flows exactly opposite to the swap. The counterparty may only exercise this option if SIFMA has averaged more than 7% for six consecutive months. As of June 30, 2015, this option has not been triggered.

The fair value of the swaps and the option, which are recorded in other liabilities and contingencies in the Consolidated Balance Sheets, is as follows:

	(Level 2)	
	June 30	
	2015	2014
Derivatives designated as hedging instruments		
Swap (2007)	\$ 19,063	\$ 15,470
Derivatives not designated as hedging instruments		
Swap (2001)	21,391	19,983
Swap (2005)	4,315	4,173
Option	(5,250)	(4,428)
Total derivatives not designated as hedging instruments	20,456	19,728
Derivative liability balance	\$ 39,519	\$ 35,198

Management intends to hold the derivative contracts to maturity and records noncash entries to account for fluctuations in their market values. The following table shows the change in derivative liability values at June 30:

	2015	2014
Derivative liability value at beginning of year	\$ 35,198	\$ 35,812
Unrealized loss (gain) recorded in investing and financing activities	728	(869)
Unrealized loss recorded as a component of changes in net assets	3,593	255
Derivative liability value at end of year	\$ 39,519	\$ 35,198

Based on provisions contained in the swap agreements regarding the aggregate position of derivative instruments, no collateral was posted as of June 30, 2015.

7. Operating Leases

GHS leases equipment and real property under noncancelable operating leases, some of which require increasing monthly payments expiring over the next several years. Expense under such operating leases during the years ended June 30, 2015 and 2014 was \$40.6 million and \$37.5 million, respectively.

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The following is a schedule by year of future minimum lease payments under operating leases as of June 30, 2015:

Year Ending June 30,	
2016	\$ 29,244
2017	16,033
2018	11,451
2019	8,663
2020	6,316
2021 and after	<u>26,692</u>
	<u>\$ 98,399</u>

8. Retirement and Deferred Compensation Plans

Substantially all employees participate in defined-contribution plans. Employer contributions to the plans were \$71.8 million and \$64.7 million for the years ended June 30, 2015 and 2014, respectively.

Various 457(b) and 457(f) nonqualified deferred compensation plans are offered to physicians and other highly compensated employees. The investments held in these deferred compensation plans are recorded in other assets with a corresponding liability in other liabilities and contingencies in the Consolidated Balance Sheets.

Geisinger Community Medical Center (GCMC), Geisinger-Bloomsburg Hospital (G-BH), and Geisinger-Lewistown Hospital (G-LH) sponsor defined-benefit plans that are frozen to new participants and further accumulation of service benefits. The projected benefit obligation, the fair value of plan assets, and the accrued pension costs recognized in the Consolidated Balance Sheet as other liabilities and contingencies for all GHS defined-benefit plans at June 30, 2015 were \$180.0 million, \$132.9 million, and \$47.1 million, respectively. The same amounts for 2014 were \$173.3 million, \$135.2 million, and \$38.1 million, respectively.

The hospitals intend to contribute approximately \$0.7 million to the plans in 2016.

The assumptions used in computing the total net periodic pension cost and total benefit obligation for the sponsors of the plan at June 30, 2015 and 2014 are as follows:

	2015			2014		
	GCMC	GLH	GBH	GCMC	GLH	GBH
Discount rate, net periodic pension cost	4.16 %	4.19 %	4.16 %	4.51 %	4.50 %	4.54 %
Discount rate, total benefit obligation	4.27 %	4.27 %	4.27 %	4.16 %	4.16 %	4.16 %
Expected long-term return on plan assets	6.50 %	6.00 %	6.00 %	6.50 %	7.50 %	6.00 %

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The following tables set forth the composition of plan assets, inputs used to measure those assets, actual and target asset allocations at June 30:

2015						
	Level 1	Level 2	Level 3	Total	Actual Allocation	Target Allocation*
Equity funds	\$ 83,725	\$ 7,897	\$ -	\$ 91,622	69 %	54%-78%
Fixed income funds	-	33,678	-	33,678	25 %	22%-46%
Cash and cash equivalents	7,569	-	-	7,569	6 %	0%-20%
	<u>\$ 91,294</u>	<u>\$ 41,575</u>	<u>\$ -</u>	<u>\$ 132,869</u>	<u>100 %</u>	

2014						
	Level 1	Level 2	Level 3	Total	Actual Allocation	Target Allocation*
Equity funds	\$ 83,539	\$ 7,988	\$ -	\$ 91,527	68 %	54%-78%
Fixed income funds	-	32,959	-	32,959	24 %	22%-46%
Cash and cash equivalents	10,726	-	-	10,726	8 %	0%-20%
	<u>\$ 94,265</u>	<u>\$ 40,947</u>	<u>\$ -</u>	<u>\$ 135,212</u>	<u>100 %</u>	

* The target allocation for fixed income funds also includes cash and cash equivalents.

The following is a schedule by year of future benefit payments as of June 30, 2015:

2016	\$ 6,363
2017	6,821
2018	7,363
2019	7,854
2020	8,414
2021 – 2025	47,718
	<u>\$ 84,533</u>

9. Medical Legal Claims Coverage

In the ordinary course of business, various claimants have asserted professional and general liability claims against GHS. These claims are in various stages of processing or, in certain instances, are in litigation. In addition, there are known incidents, and there also may be unknown incidents, that may result in the assertion of additional claims. GHS has accrued its best estimate of both asserted and unasserted claims based on actuarially determined amounts.

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Certain entities insure medical legal liability claims coverage through a captive insurance program with Geisinger Insurance Corporation, Risk Retention Group ("RRG"), which is reinsured through Geisinger Assurance Company, Ltd. ("GAC"). The limits of the professional liability coverage relating to the years ended June 30, 2015 and 2014 are subject to the following sublimits:

Institutional professional liability	\$0.5 million per claim; \$2.5 million annual aggregate
Physician professional liability	\$0.5 million per claim; \$1.5 million annual aggregate
Non-MCARE Entities' professional liability	\$1.0 million per claim; \$1.0 million annual aggregate
Employed Allied Healthcare professional liability	\$1.0 million per claim; \$3.0 million annual aggregate
Employed Dentists	\$1.0 million per claim; \$3.0 million annual aggregate
Long-Term Care Facility	\$1.0 million per claim; \$3.0 million annual aggregate

The loss accruals, which were discounted at a rate of 3% for 2015 and 2014, include estimates of known and incurred but not reported losses based on annual actuarial studies and are reported in other liabilities and contingencies in the Consolidated Balance Sheets. Amounts expected to be paid out in the next twelve months are reported as a current liability in accrued expenses and other in the Consolidated Balance Sheets. The total net loss accruals were \$150.2 million and \$133.2 million at June 30, 2015 and 2014, respectively.

GAC has also issued a direct policy, on a claims-made basis, for miscellaneous professional liability, which is not covered by the Medical Care Availability and Reduction of Error ("MCARE") Fund. The policy provides limits of \$1.0 million per occurrence with no aggregate limit. This policy has a retroactive date of July 1, 1985 and later.

The MCARE Act was enacted by the legislature of the Commonwealth of Pennsylvania ("Commonwealth") in 2002. This act created the MCARE Fund, which replaced The Pennsylvania Medical Professional Liability Catastrophe Loss Fund (the "Medical CAT Fund"), to facilitate the payment of medical malpractice claims exceeding the primary layer of professional liability insurance carried by GHS and other healthcare providers practicing in the Commonwealth. The MCARE Fund is funded on a "pay-as-you-go-basis" and assesses healthcare providers, calculated as a percentage of the rates established by the Joint Underwriting Association (also a Commonwealth of Pennsylvania agency), for basic coverage. The MCARE act provides for the gradual phase-out of Medical CAT Fund coverage; however, this has been deferred by the Pennsylvania legislature and will be considered in the future.

The actuarially computed liability for all healthcare providers (hospital, physicians, and others) participating in the MCARE Fund at December 31, 2013 (the latest date that such information is available) was \$1.13 billion. Even though the MCARE Fund coverage will eventually be phased out, the Commonwealth has indicated that the unfunded liability will likely be funded through assessments in future years as MCARE Fund-covered claims are eventually settled and paid. The Commonwealth has agreed to devote the proceeds of the Automobile Catastrophe Fund surcharge, estimated at \$40 million per year for 10 years (for a total of \$400 million), to help offset the MCARE Fund unfunded liability.

GHS's annual premiums for participation in the MCARE Fund were \$8.0 million for the years ended June 30, 2015 and 2014. No provision has been made for any future MCARE Fund assessments in the accompanying financial statements as GHS's portion of the MCARE Fund unfunded liability cannot be reasonably estimated.

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Certain entities are provided excess coverage through a captive insurance program with GAC and excess commercial policies. The excess coverage provides coverage above the primary and MCARE Fund layers where applicable.

10. Revenue, Charity Care, and Accounts Receivable, Net

Major components of revenue consist of the following:

	2015		2014	
	Revenue	% of Total	Revenue	% of Total
Net patient service revenue				
Medicare (MC)	\$ 681,453	14.9%	\$ 544,313	13.7%
Medical Assistance (MA)	238,530	5.2%	194,436	4.9%
Other payors	1,283,361	28.1%	1,059,834	26.6%
	<u>2,203,344</u>	<u>48.2%</u>	<u>1,798,583</u>	<u>45.2%</u>
Premium revenue				
MC Advantage	887,545	19.4%	812,795	20.4%
Commercial	670,413	14.7%	649,183	16.3%
MA and other state programs	638,101	14.0%	574,835	14.5%
	<u>2,196,059</u>	<u>48.1%</u>	<u>2,036,813</u>	<u>51.2%</u>
Other revenue	<u>165,236</u>	<u>3.7%</u>	<u>142,530</u>	<u>3.6%</u>
	<u>\$ 4,564,639</u>	<u>100.0%</u>	<u>\$ 3,977,926</u>	<u>100.0%</u>

Laws and regulations governing MC and MA are complex and subject to interpretation. GHS is aware of these laws and regulations and, to the best of its knowledge and belief, is in compliance with them. Amounts received from MC and MA are subject to review and final determination by program intermediaries or their agents. Tentative settlements of these receivables have been completed through June 30, 2014. Provisions have been made in the accompanying financial statements for anticipated adjustments and are included in estimated third-party payor settlements on the Consolidated Balance Sheets.

The cost of charity service provided was approximately \$44.2 million and \$36.0 million in 2015 and 2014, respectively. The costs of charity care are derived from both estimated and actual data. The estimated cost of charity includes the direct and indirect cost of providing such services and is estimated utilizing the providers' ratio of cost to gross charges, which is then multiplied by the gross uncompensated charges associated with providing care to charity patients. In addition to charity service, services are provided under the MA program to financially needy patients. The payments received under this program are less than the cost of providing the services. The unpaid cost of this program was approximately \$183.2 million and \$178.1 million for the years ended June 30, 2015 and 2014, respectively. In addition, bad debt expense associated with net patient service revenue was \$50.1 million and \$53.7 million for the years ended June 30, 2015 and 2014, respectively.

GHS grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. There are no significant concentrations, payors comprising 10%, of risk in accounts receivable.

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Major components of accounts receivable, net of estimated uncollectibles consist of the following:

	2015	2014
Clinical services	\$ 211,467	\$ 167,878
Insurance operations	283,848	190,106
Other	46,512	33,398
	<u>\$ 541,827</u>	<u>\$ 391,382</u>

Premium revenue from MC Advantage products is based on a risk-adjustment model according to health severity that pays more for enrollees with predictably higher costs. Under this model, rates paid to MC Advantage plans are based on actuarially determined bids, which include a process whereby prospective payments are based on a comparison of beneficiaries' risk scores, derived from medical diagnoses, to those enrolled in the government's original MC program. Under the risk-adjustment model, all MC Advantage plans must collect and submit the necessary diagnosis code information from hospital inpatient, hospital outpatient, and physician providers to CMS within prescribed deadlines. The Centers for Medicare and Medicaid Services (CMS) risk-adjustment model uses this diagnosis data to calculate the risk adjusted premium payment to MC Advantage plans.

CMS is continuing to perform audits of various companies' selected MC Advantage contracts related to this risk adjustment diagnosis data. These Risk-Adjustment Data Validation Audits review medical record documentation in an attempt to validate provider coding practices and the presence of risk adjustment conditions, which influence the calculation of premium payments to MC Advantage plans. In February 2012, CMS released a final version of the audit methodology, which included guidance on: 1) a fee-for-service adjustment factor that will further reduce any identified payment error rate in the event of a CMS audit, 2) the exposure period, which limits exposure to plan payment years 2011 and beyond, and 3) CMS selecting 30 plans for audit in the first year. MC Advantage premiums and liabilities are subject to estimation based upon the diagnosis data submitted to CMS and ultimately accepted by CMS.

11. Functional Expenses

GHS provides comprehensive healthcare services (including primary and tertiary care, trauma care, psychiatric care, and outpatient surgery) and operates a licensed HMO and PPOs providing comprehensive health care to subscribers. Healthcare services are provided primarily to residents in northeastern and central Pennsylvania.

Expenses related to providing these services (including interest expense) are as follows:

	2015	2014
Healthcare and program services	\$ 2,685,834	\$ 2,304,625
HMO and PPO services	1,262,945	1,140,379
Basic and clinical research	48,524	46,733
General and administrative	440,282	375,660
	<u>\$ 4,437,585</u>	<u>\$ 3,867,397</u>

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12. Acquisitions

The Foundation Board of Directors approved a Comprehensive Health System Integration Agreement with Sisters of Christian Charity Health Care Corporation (SCCHCC) and Holy Spirit Health System ("HSHS"), an acute care focused, integrated healthcare delivery system located in Harrisburg, Pennsylvania, on June 19, 2014. Pursuant to this agreement, Holy Spirit Health System and its affiliates were acquired and the Foundation became sole member of Holy Spirit Health System effective October 1, 2014.

As consideration for this transaction, Foundation paid \$15 million to the SCCHCC.

The Foundation recorded contribution income representing the excess of the fair value of assets acquired over the fair value of liabilities assumed and consideration paid. Fair value of the acquired assets and liabilities assumed at October 1, 2014 was as follows:

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total
Cash and cash equivalents	\$ 15,789	\$ -	\$ -	\$ 15,789
Investments	78,720	185	2,832	81,737
Property and equipment	138,727	-	-	138,727
Other assets	44,585	3,752	-	48,337
Current and long-term debt	(118,392)	-	-	(118,392)
Other liabilities and contingencies	(68,223)	-	-	(68,223)
	<u>\$ 91,206</u>	<u>\$ 3,937</u>	<u>\$ 2,832</u>	<u>\$ 97,975</u>

The following table summarizes amounts attributable to HSHS since the acquisition date that are included in the accompanying Consolidated Statements of Operations and Changes in Net Assets:

	Period from October 1, 2015 to June 30, 2015
Revenue	\$ 272,233
Expenses	<u>275,180</u>
Operating loss	(2,947)
Interest expense	(3,683)
Realized and unrealized investment gains, net	<u>2,298</u>
Deficiency of revenue and gains over expenses and losses	<u>\$ (4,332)</u>

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The following table represents the proforma financial information, assuming the acquisition of HSHS had taken place on July 1, 2013. The proforma financial information is not necessarily indicative of the results of operations as they would have been had the transaction been effected on July 1, 2013.

	Unaudited	
	Year Ended June 30,	
	<u>2015</u>	<u>2014</u>
Revenue	\$ 4,564,639	\$ 4,343,269
Expenses	4,404,837	4,220,223
Operating income	<u>159,802</u>	<u>123,046</u>
Realized and unrealized investment earnings	(6,268)	312,504
Interest expense	(34,058)	(26,304)
Unrealized gain on derivatives	(728)	869
Nonoperating losses	<u>(212)</u>	<u>(18)</u>
Excess of revenue over expenses	118,536	410,097
Other changes in unrestricted net assets	\$ (582)	\$ 34,885
Changes in temporarily restricted net assets	479	12,500
Changes in permanently restricted net assets	2,564	3,938
	<u>\$ 120,997</u>	<u>\$ 461,420</u>

Proforma excess of revenue over expenses excludes \$74.7 million and \$16.0 million of nonrecurring nonoperating revenue and \$7.3 million and \$0.7 million restricted funds for the contributions received as a result of acquisitions for the years ended June 30, 2015 and 2014, respectively.

Effective October 1, 2014, GHS entered into an asset purchase agreement with PrimeMed, PC d/b/a Viewmont Health Associates, an outpatient ancillary business located in the greater Scranton, Pennsylvania area. Under this agreement, GHS purchased certain assets related to ancillary medical services. Fair value of the acquired assets at October 1, 2014 was as follows:

Inventory	\$ 150
Equipment	2,253
Goodwill	43,497
Other Intangible Assets	600
Total Purchase Price	<u>\$ 46,500</u>

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13. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

	June 30	
	2015	2014
Purchase of equipment	\$ 27,897	\$ 19,488
Support operations	22,220	26,282
	<u>\$ 50,117</u>	<u>\$ 45,770</u>

Net assets were released from donor restriction by incurring expenditures satisfying the restricted purpose to support operations and capital purchases in the amount of \$7.7 million and \$7.6 million for the years ended June 30, 2015 and 2014, respectively.

14. Contingent Liabilities and Commitments

GHS is involved in litigation arising in the ordinary course of business. After consultation with legal counsel, management believes that the outcome will not materially affect the financial statements of GHS.

The Foundation maintains \$50.0 million of credit facilities for the issuance of letters of credit. As of June 30, 2015 and 2014, \$28.8 million and \$23.7 million of standby letters of credit were outstanding, respectively. The Foundation also maintains a \$25.0 million working capital line of credit under which no balance was outstanding at June 30, 2015.

GHS has outstanding commitments on construction projects totaling \$91.2 million and \$80.0 million at June 30, 2015 and 2014, respectively.

15. Subsequent Events

Management has evaluated subsequent events through September 16, 2015, which represents the date the financial statements were available for issuance, to ensure that the financial statements include appropriate disclosure of events both recognized in the financial statements as of June 30, 2015, and events which occurred subsequent to June 30, 2015, but were not recognized in the financial statements.

On September 16, 2015, the Superior Court of New Jersey gave final approval for AtlantiCare Health System and its affiliates (collectively, "AtlantiCare") to become members of the Foundation. AtlantiCare is an acute care focused, integrated healthcare delivery system located in Atlantic City, New Jersey. No proceeds will be paid as part of this transaction.

For the year ended December 31, 2014, AtlantiCare had assets of \$1.2 billion, net assets of \$592 million, and total revenues of \$805 million.