Geisinger

Consolidated Financial Statements and Information on Federal Awards

June 30, 2018

(With Independent Auditors' Reports Thereon)

Geisinger
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KPMG LLP
1601 Market Street
Philadelphia, PA 19103-2499

Independent Auditors' Report

The Board of Directors
Geisinger Health:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Geisinger Health and its subsidiaries (collectively referred to as "Geisinger"), which comprise the consolidated balance sheets as of June 30, 2018 and 2017, and the related consolidated statements of operations, consolidated statements of changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Geisinger as of June 30, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Other Matters

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidated schedule of expenditures of federal awards is presented for purposes of additional analysis, as required by Title 2 U.S. Code of Federal Regulations, Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidated schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

The schedule of Pennsylvania Department of Health awards has not been subjected to the auditing procedures applied in the audits of the consolidated financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 5, 2018 on our consideration of Geisinger's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Geisinger's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Geisinger's internal control over financial reporting and compliance.

KPMG LLP

Philadelphia, Pennsylvania
October 5, 2018

Geisinger
Consolidated Balance Sheets
June 30, 2018 and 2017

(dollars in thousands)	2018	2017
Assets		
Current assets		
Cash and cash equivalents	$ 363,574	$ 282,931
Investments	784,035	867,709
Accounts receivable, net of estimated uncollectibles of $76,623 in 2018 and $72,222 in 2017	632,279	622,955
Inventories and other	169,876	172,537
Assets held for sale	134,095	-
Total current assets	2,083,859	1,946,132
Investments	3,248,304	3,050,924
Property and equipment, net	1,955,994	2,074,974
Other assets, net	415,202	356,205
Total assets	$ 7,703,359	$ 7,428,235
Liabilities and Net Assets		
Current liabilities		
Current installments of long-term debt	$ 23,819	$ 22,071
Estimated third-party payor settlements	91,994	122,875
Accounts payable	183,950	145,651
Medical claims payable	177,665	168,890
Accrued expenses and other	674,263	681,343
Liabilities held for sale	78,582	-
Total current liabilities	1,230,273	1,140,830
Long-term debt, net of current installments	1,734,745	1,807,390
Other liabilities and contingencies	507,104	608,178
Total liabilities	3,472,122	3,556,398
Net assets		
Unrestricted	4,054,128	3,702,723
Unrestricted-noncontrolling interest	9,100	12,425
Temporarily restricted	72,589	64,333
Permanently restricted	95,420	92,356
Total net assets	4,231,237	3,871,837
Total liabilities and net assets	$ 7,703,359	$ 7,428,235

Geisinger
Consolidated Statements of Operations
Years Ended June 30, 2018 and 2017

(dollars in thousands)	2018	2017
Unrestricted net assets		
Revenues		
Patient service revenue	$ 3,345,667	$ 3,106,645
Provision for bad debts	(121,315)	(48,522)
Net patient service revenue	3,224,352	3,058,123
Premium revenue	3,047,215	2,709,967
Other revenue	265,042	242,106
	6,536,609	6,010,196
Expenses		
Salaries and benefits	2,638,594	2,453,687
Medical claims	1,748,367	1,526,257
Supplies	903,018	835,425
Depreciation and amortization	234,624	211,180
Other	828,090	823,893
	6,352,693	5,850,442
Operating income	183,916	159,754
Investing and financing activities		
Net investment earnings	288,813	338,922
Interest expense	(54,665)	(39,674)
Unrealized gain on derivatives	6,777	8,456
(Expense) contribution from acquisitions	(11,930)	47,617
Loss on extinguishment of debt	-	(18,492)
Gain from investing and financing activities	228,995	336,829
Nonoperating losses, net	(5,825)	(5,501)
Excess of revenues over expenses	$ 407,086	$ 491,082

See accompanying notes to the consolidated financial statements.

Geisinger
Consolidated Statements of Changes in Net Assets
Years Ended June 30, 2018 and 2017

(dollars in thousands)	2018	2017
Excess of revenues over expenses	$ 407,086	$ 491,082
Other changes in unrestricted net assets		
Excess of expenses over revenues from discontinued operations	(16,314)	(46,613)
Adjustment of assets and liabilities held for sale to fair value	(140,258)	-
Total loss from discontinued operations	(156,572)	(46,613)
Unrealized gain on derivatives	5,128	9,447
Pension liability adjustments	97,428	82,762
Net asset transfers for endowments in a deficit position	4	47
Net assets released from restriction, capital purchases	2,920	4,851
Net distribution to noncontrolling interest	(4,868)	(4,383)
Other	(3,046)	508
Increase in unrestricted net assets	348,080	537,701
Changes in temporarily restricted net assets		
Donor contributions, net of uncollectibles	9,472	10,677
Contribution from acquisition	17	9,674
Net investment earnings	7,108	8,018
Net asset transfers for endowments in a deficit position	(4)	(47)
Net assets released from restriction, fund operations	(5,417)	(13,915)
Net assets released from restriction, capital purchases	(2,920)	(4,851)
Increase in temporarily restricted net assets	8,256	9,556
Changes in permanently restricted net assets		
Donor contributions	814	1,295
Contribution from acquisition	-	2,348
Net investment earnings	2,250	2,072
Increase in permanently restricted net assets	3,064	5,715
Increase in net assets	359,400	552,972
Net assets		
Beginning of year	3,871,837	3,318,865
End of year	$ 4,231,237	$ 3,871,837

See accompanying notes to the consolidated financial statements.

Geisinger
Consolidated Statements of Cash Flows
Years Ended June 30, 2018 and 2017

(dollars in thousands)	**2018**	**2017**
Cash flows from operating activities		
Increase in net assets	$ 359,400	$ 552,972
Change in net assets attributable to noncontrolling interest	3,325	2,311
Increase in net assets attributable to Geisinger	362,725	555,283
Discontinued operations	156,572	46,613
Adjustments to reconcile change in net assets to net cash provided by operating activities of continuing operations:		
Depreciation and amortization	234,624	211,807
Provision for bad debts	122,399	49,019
Unrealized gain on derivatives	(11,905)	(17,903)
Net investment earnings	(297,906)	(346,678)
Expense (contribution) from acquisitions, net of cash received	12,499	(45,259)
Restricted contributions	(10,286)	(11,972)
Noncontrolling interest	1,543	2,072
Pension liability adjustments	(97,428)	(82,762)
Gain on step acquisition	-	(4,490)
Net change in operating assets and liabilities:		
Accounts receivable	(181,131)	(32,888)
Inventories and other	2,388	(28,575)
Estimated third-party payor settlements	(21,832)	(70,151)
Accounts payable	34,756	(30,610)
Medical claims payable	8,775	20,343
Accrued expenses and other	(58,550)	54,889
Other assets and liabilities	(54,152)	6,471
Net cash provided by operating activities of continuing operations	203,091	275,209
Net cash used in activities of discontinued operations	(36,618)	(67,315)
Net cash provided by operating activities	166,473	207,894
Cash flows from investing activities		
Additions to property and equipment, net	(252,986)	(296,279)
Purchases of investments	(776,367)	(1,755,741)
Sales of investments	930,879	1,638,468
Cash paid in connection with acquisitions	-	(35,500)
Net cash used in investing activities of continuing operations	(98,474)	(449,052)
Net cash (used in) provided by investing activities of discontinued operations	(3,284)	22,429
Net cash used in investing activities	(101,758)	(426,623)

See accompanying notes to the consolidated financial statements.

(Continued)

Geisinger
Consolidated Statements of Cash Flows
Years Ended June 30, 2018 and 2017

(dollars in thousands)	**2018**	**2017**
Cash flows from financing activities		
Proceeds from issuance of debt	13,622	640,344
Repayment of debt	(39,703)	(388,450)
Deferred bond issue costs	-	(4,091)
Net distribution to noncontrolling interest	(4,868)	(4,383)
Proceeds from restricted contributions	10,286	11,972
Net cash (used in) provided by financing activities of continuing operations	(20,663)	255,392
Net cash provided by financing activities of discontinued operations	72,607	30,646
Net cash provided by financing activities	51,944	286,038
Change in cash and cash equivalents included in assets held for sale	(36,016)	-
Increase in cash and cash equivalents	80,643	67,309
Cash and cash equivalents		
Beginning of year	282,931	215,622
End of year	$ 363,574	$ 282,931
Non-cash investing activities		
In-kind transfers of investments	$ -	$ 1,393,576

See accompanying notes to the consolidated financial statements.

1. Organization

Geisinger Health and its subsidiaries (collectively referred to as "Geisinger") is a physician-led, integrated health services organization that has as its main components: (i) an array of health services providers, including eight acute-care hospitals with multiple campuses and a drug and alcohol treatment facility; (ii) multispecialty physician group practices; (iii) insurance operations, including a licensed health maintenance organization and a non-licensed risk assuming Preferred Provider Organization; and (iv) a community-based medical college and degree-granting institution. Geisinger operates in 45 of Pennsylvania's 67 counties, with a significant presence in central, south-central and northeastern Pennsylvania and in seven counties in southern New Jersey.

Geisinger Health serves as the corporate parent and exercises control over all of Geisinger's affiliated entities subject to corporate, legal, and/or regulatory limitations. Geisinger Health and all subsidiary corporate entities comprising Geisinger are tax-exempt pursuant to Sections 501(c) (2), 501(c) (3) or 501(c) (4) of the Internal Revenue Code, except for Geisinger Health's for-profit subsidiaries.

The accompanying consolidated financial statements include the accounts of Geisinger Health and its subsidiaries. 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.

Investments and Investment Income

Investments are measured at fair value. Investments in debt and equity securities are classified as trading. Interest income, dividends, and realized and unrealized gains and losses, net of investment-related expenses, on unrestricted investments are recorded as net investment earnings within other revenue or within investing and financing activities in the Consolidated Statements of Operations. Restricted 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 Changes in Net Assets. Restricted interest income, dividends, and realized and unrealized gains and losses on trusts held as permanently restricted are recorded as net investment gains (losses) in changes in permanently restricted net assets in the Consolidated Statements of Changes in Net Assets.

Geisinger's alternative investments, which include private equity and hedge funds, are reported at fair value, as estimated and reported by general partners, based upon the underlying net asset value (NAV) of the fund or partnership as a practical expedient. Adjustment from NAV is required when Geisinger expects to sell the investment at a value other than NAV. Interest income, dividends and realized and unrealized gains and losses from these investments are recorded as investment income within net investment earnings in the Consolidated Statements of Operations.

Market risk exists to the extent that the values of Geisinger's financial 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 Geisinger are both volatility and liquidity of specific securities and markets in which Geisinger holds investments. Geisinger 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. 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 financial statements.

Amounts available to meet current liabilities have been reclassified to current investments in the Consolidated Balance Sheets. In-kind transfers of investments disclosed in the Consolidated Statements of Cash Flows represents the value of investments transferred to a new investment manager in fiscal 2017.

Accounts Receivable and Allowances

Geisinger'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.

In evaluating the collectibility of accounts receivable, Geisinger 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, Geisinger 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.

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

Geisinger's insurance operations are subject to the Affordable Care Act ("ACA"), which transformed the U.S. healthcare system and increased regulations within the U.S. health insurance industry. The ACA creates state health insurance exchanges, which help to provide individuals and small businesses with access to affordable and quality health insurance. Geisinger Health Plan ("GHP") and Geisinger Quality Options ("GQO") participate in the Pennsylvania exchange. Risk adjustment is a program under the ACA which is complex and involves significant judgment and uncertainties with respect to both recorded amounts and timing of collections or payments. The degree of estimation involved in recording amounts related to the program is significant. The Consolidated Balance Sheet includes a liability of $30.5 million at June 30, 2018 and a net receivable totaling $10.0 million at June 30, 2017 related to this program.

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
Property and equipment and construction in progress are recorded at the lower of cost or fair value, if impaired. 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. Repairs and maintenance are expensed as incurred. 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 Consolidated Balance Sheet, upon retirement or disposition and any gain or loss is reported in other expenses in the Consolidated Statements of Operations.

Geisinger 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.

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 either as temporarily or permanently restricted donor contributions in the Consolidated Statements of Changes in 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 Changes in Net Assets as net assets released from restriction and within other revenue reported in the Consolidated Statements of Operations. Donor contributions restricted for the purchase of property and equipment are transferred when the asset is placed in service. 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.

Geisinger 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. During 2018, goodwill valued at $4.7 million was segregated and reported as an asset held for sale in the accompanying Consolidated Balance Sheet at June 30, 2018 related to the Holy Spirit Health System transaction (Note 3). As of June 30, 2018 and 2017, there was no indication of impairment of goodwill. Goodwill is included in other assets in the Consolidated Balance Sheets and was $61.7 million and $66.4 million as of June 30, 2018 and 2017, respectively.

Accrued Medical Claims

GHP, Geisinger Indemnity Insurance Corporation ("GIIC"), and GQO 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 GQO 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 Geisinger 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, collar and option are major financial institutions with high credit ratings. Geisinger 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 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.

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 Geisinger 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 Geisinger, or a designated trustee, in perpetuity.

Permanently restricted net assets represent the original fair value of gifts donated to Geisinger through endowments. Geisinger's permanently restricted net assets consist of approximately 230 endowments and trusts. Unless otherwise directed by the donor, gifts received for endowments are invested in accordance with Geisinger'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 endowments in a deficit position, are reported as changes in unrestricted and temporarily restricted net assets in the Consolidated Statements of Changes in Net Assets.

Geisinger annually appropriates up to 4.25% 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 accumulated earnings within temporarily restricted net assets.

Geisinger does not have any board designated endowments.

Net Patient Service Revenue
Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others at the time services are 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 and are included in accrued expenses on the accompanying Consolidated Balance Sheets.

Charity Care
Geisinger provides services to all patients regardless of ability to pay. In accordance with Geisinger's policy, a patient is classified as a charity patient based on income eligibility criteria. Geisinger also provides free care to patients that either do not pursue charity care eligibility or are otherwise determined to be in need. Because Geisinger does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

Additionally, Geisinger 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.

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 revenues and expenses. Other transactions are reported as nonoperating losses, net.

Excess of Revenues Over Expenses
The excess of revenues over expenses (the performance indicator), consistent with industry practice, includes all unrestricted revenue, expenses, and net gains and losses for the reporting period. In accordance with U.S. GAAP, certain transactions are reported outside the performance indicator. These include the loss from discontinued operations, net assets released from restriction to fund purchases of capital, pension liability adjustments, net asset transfers for endowments in a deficit position, unrealized gains (losses) on the effective portion of derivatives and distributions from noncontrolling interest, net of contributions.

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 revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include contractual allowances, assets and liabilities held for sale, 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 ACA risk adjustment, loss on discontinued operations and expected rate of return on investments used to value defined-benefit pension liabilities.

Discontinued Operations
Geisinger considers assets and liabilities to be held for sale when the planned disposal meets the criteria established under U.S. GAAP. Disposals that represent a strategic shift are expected to have a major effect on Geisinger's operations and financial results and qualify to be reported as discontinued operations. Revenues and expenses directly related to the discontinued operations, including the loss on adjusting the related assets and liabilities held for sale to fair market value, are reported as discontinued operations, a component of other changes in unrestricted net assets in the Consolidated Statements of Changes in Net Assets. Indirect costs allocated to the discontinued operations that will remain ongoing costs of Geisinger are classified as operating expenses.

Reclassifications
Geisinger has reclassified certain amounts relating to its prior period results to conform to its current period presentation. These reclassifications have not changed the results of operations of prior periods.

3. Organizational Changes

During 2018, Geisinger developed a plan to divest its provider assets in its South-Central Pennsylvania market, which comprises Holy Spirit Health System, Holy Spirit Hospital of the Sisters of Christian Charity ("HSH"), Spirit Physician Services, Inc., Holy Spirit Corporation and Holy Spirit Ventures (collectively referred to as "HSHS"), and undertook actions to sell or transfer ownership of substantially all of the assets and liabilities of HSHS. Accordingly, the assets and liabilities of HSHS have been segregated and reported as held for sale in the accompanying Consolidated Balance Sheet as of June 30, 2018. The revenues and expenses of HSHS have been segregated and reported as discontinued operations in the Consolidated Statement of Changes in Net Assets for the years ended June 30, 2018 and 2017.

June 30, 2018 and 2017 (dollars in thousands unless otherwise noted)

The following table presents the composition of the carrying amounts of major classes of assets and liabilities of the discontinued operations classified as held for sale in the accompanying Consolidated Balance Sheet as of June 30, 2018:

	Assets Held for Sale	Liabilities Held for Sale
Cash and cash equivalents	$ 36,016	$ -
Accounts receivable, net	48,184	-
Investments	4,899	-
Property and equipment, net	35,651	-
Other assets, net	9,345	-
Estimated third-party payor settlements	-	7,397
Accounts payable	-	1,602
Debt	-	58,179
Other liabilities and contingencies	-	11,404
	$ 134,095	$ 78,582

Loss from discontinued operations for the years ended June 30, 2018 and 2017 is comprised of the following:

	2018	2017
Revenues		
Patient service revenue	$ 381,142	$ 356,648
Provision for bad debts	(11,684)	(10,346)
Net patient service revenue	369,458	346,302
Other revenue	26,162	30,180
	395,620	376,482
Expenses		
Salaries and benefits	239,126	236,087
Supplies	59,160	63,737
Depreciation and amortization	13,631	15,972
Other	100,000	105,359
	411,917	421,155
Operating loss	(16,297)	(44,673)
Loss from investing and financing activities	(17)	(1,940)
Excess of expenses over revenues	(16,314)	(46,613)
Adjustment of assets and liabilities held for sale to fair value	(140,258)	-
Total loss from discontinued operations	$ (156,572)	$ (46,613)

On February 1, 2018, Geisinger sold substantially all the assets of two nursing homes, Mountain View Nursing Home, Inc. doing business as Mountain View Care Center and Geisinger-Bloomsburg Health Care Center. A gain on sale resulting from this transaction totaling $16.6 million is included in other revenue in the accompanying Consolidated Statement of Operations.

June 30, 2018 and 2017 (dollars in thousands unless otherwise noted)

Effective July 1, 2017, Geisinger Health acquired Jersey Shore Hospital and Jersey Shore Hospital Foundation (collectively "GJSH"). Assets acquired and liabilities assumed in the acquisition were recorded in the accompanying Consolidated Balance Sheet as of the acquisition date based upon their estimated fair values. The results of operations of these corporations have been included in the accompanying Consolidated Statements of Operations since the acquisition date and are not material to Geisinger Health's consolidated revenue or operating income.

Geisinger Health recognized $11.9 million of expense from the GJSH acquisition based on the fair value of the following assets and liabilities at July 1, 2017:

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Total
Cash and cash equivalents	$ 569	$ 17	$ 586
Investments	885	-	885
Property and equipment, net	9,888	-	9,888
Other assets, net	2,583	-	2,583
Debt	(14,012)	-	(14,012)
Other liabilities and contingencies	(11,843)	-	(11,843)
	$ (11,930)	$ 17	$ (11,913)

No consideration was paid, and no goodwill or other intangible assets were recognized as a result of this acquisition. The deficit in unrestricted net assets was recognized as an expense from acquisitions in the accompanying Consolidated Statements of Operations.

Effective January 1, 2017, Geisinger Health acquired The Commonwealth Medical College and subsequently changed its name to Geisinger Commonwealth School of Medicine ("GCSOM"). Assets acquired and liabilities assumed in the acquisition were recorded in the accompanying Consolidated Balance Sheets as of the acquisition date based upon their estimated fair values. The results of operations have been included in the accompanying Consolidated Statements of Operations since the acquisition date and are not material to Geisinger's consolidated revenue or operating income.

June 30, 2018 and 2017 (dollars in thousands unless otherwise noted)

In connection with this transaction, Geisinger Health paid $29.0 million to a charitable organization. This amount reduced the contribution from acquisition recognized in the accompanying Consolidated Statements of Operations and Changes in Net Assets. After consideration of the amount paid, Geisinger Health recorded a contribution from acquisition totaling $43.6 million related to the GCSOM acquisition. Fair value of the acquired assets and liabilities at January 1, 2017 and the contribution from acquisition were as follows:

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Total
Cash and cash equivalents	$ 6,584	$ 3,766	$ -	$ 10,350
Investments	23,361	-	1,814	25,175
Property and equipment, net	80,062	-	-	80,062
Other assets, net	1,773	5,908	534	8,215
Debt	(31,921)	-	-	(31,921)
Other liabilities and contingencies	(7,239)	-	-	(7,239)
	72,620	9,674	2,348	84,642
Payment to charitable organization	(29,000)	-	-	(29,000)
Contribution from acquisition of GCSOM	$ 43,620	$ 9,674	$ 2,348	$ 55,642

Additionally, increases to the fair value of other prior year acquisitions were recorded in 2017 totaling $4.0 million.

No goodwill or other intangible assets were recognized as a result of these acquisitions. The unrestricted net asset was recognized as a contribution from acquisitions in deriving the excess of revenues over expenses in the accompanying Consolidated Statements of Operations and Changes in Net Assets.

4. Investments

Geisinger's investments, which includes assets whose use is limited by the board and external parties and those restricted by donors, consists of the following at June 30:

	2018	2017
Cash and cash equivalents	$ 127,336	$ 114,245
Equity funds	2,595,070	2,463,763
Marketable equity securities	143,821	163,280
Corporate obligations	177,027	207,537
Fixed income funds	785,055	754,954
U.S. Government and agency obligations	112,658	130,908
Total return fund	20	71
Absolute return fund	242	2,316
Private equity	91,110	81,559
	$ 4,032,339	$ 3,918,633

June 30, 2018 and 2017 (dollars in thousands unless otherwise noted)

The following table summarizes investments by restriction at June 30:

	2018	2017
Current:		
Unrestricted Investments	773,564	854,354
Restricted Investments - under debt agreements	8,483	8,724
Restricted Investments - research grants	1,988	4,631
Long-Term:		
Unrestricted Investments	3,132,285	2,875,380
Restricted Investments - under debt agreements	-	59,669
Restricted Investments - under insurance arrangements	7,123	7,251
Restricted Investments - to meet donor intentions	108,896	108,624
	$ 4,032,339	$ 3,918,633

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.

Investment income and realized and unrealized gains and losses on cash and cash equivalents and investments consist of the following:

	2018	2017
Other revenue	$ 822	$ 945
Investment and financing activities		
Net realized investment earnings	$ 95,386	$ 20,316
Net unrealized investment earnings	193,488	318,643
	$ 288,874	$ 338,959
Temporarily restricted net assets,		
Net investment earnings	$ 7,108	$ 8,018
Permanently restricted net assets,		
Net investment earnings	$ 2,250	$ 2,072

5. Fair Value Measurements

Geisinger values certain financial and nonfinancial assets and liabilities by applying fair value measurements. 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.

The fair value 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 Geisinger 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. Geisinger's investment strategy is to maximize the use of observable inputs (Levels 1 and 2) and minimize the use of unobservable inputs (Level 3). Geisinger 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 Geisinger'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. Geisinger'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.

The basis for fair value hierarchy and NAV are established below:

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. Other cash and cash equivalents are short term corporate obligations valued based on quoted market prices or dealer or broker quotations and are categorized as Level 2.

Equity Funds
Equity funds consist of commingled trust funds and mutual funds that are valued on quoted market prices in active markets obtained from exchange or dealer markets for identical assets and are categorized as Level 1 with no valuation adjustments applied.

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.

Fixed Income Funds
Fixed income funds consist of commingled trust funds and mutual funds, which are valued on quoted market prices in active markets obtained from exchange or dealer markets for identical assets and categorized as Level 1.

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. Direct obligations of the U.S. Government are categorized as Level 1 and agency obligations are categorized as Level 2.

Absolute and Total Return Funds
Absolute and total return funds include 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 Geisinger'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 in unrestricted net assets or as net investment gains (losses) in temporarily restricted net assets if their use is restricted by the donor. Assets held in trust are included in other assets, net, on the accompanying Consolidated Balance Sheets. These assets are categorized as Level 3.

Derivative Instruments
Derivative instruments are interest rate swap agreements used to manage interest rate exposures related to Geisinger's outstanding variable rate debt. Derivative instruments are categorized as Level 2.

June 30, 2018 and 2017 (dollars in thousands unless otherwise noted)

The following tables set forth Geisinger's assets and liabilities at June 30, 2018 and 2017 by level within the fair value hierarchy and NAV.

	2018				
	Level 1	**Level 2**	**Level 3**	**NAV**	**Total**
Cash and cash equivalents	$ 489,491	$ 1,419	$ -	$ -	$ 490,910
Equity funds	2,595,070	-	-	-	2,595,070
Marketable equity securities	143,821	-	-	-	143,821
Corporate obligations	-	177,027	-	-	177,027
Fixed income funds	785,055	-	-	-	785,055
U.S. Government and agency obligations	62,171	50,487	-	-	112,658
Total return fund	-	-	-	20	20
Absolute return fund	-	-	-	242	242
Private equity	-	-	-	91,110	91,110
Assets held in trust	-	-	35,956	-	35,956
Derivative instruments	-	(30,940)	-	-	(30,940)
	$4,075,608	$197,993	$35,956	$91,372	$4,400,929

	2017				
	Level 1	**Level 2**	**Level 3**	**NAV**	**Total**
Cash and cash equivalents	$ 396,077	$ 1,099	$ -	$ -	$ 397,176
Equity funds	2,463,763	-	-	-	2,463,763
Marketable equity securities	163,280	-	-	-	163,280
Corporate obligations	-	207,537	-	-	207,537
Fixed income funds	754,954	-	-	-	754,954
U.S. Government and agency obligations	63,157	67,751	-	-	130,908
Total return fund	-	-	-	71	71
Absolute return fund	-	-	-	2,316	2,316
Private equity	-	-	-	81,559	81,559
Assets held in trust	-	-	33,753	-	33,753
Derivative instruments	-	(42,845)	-	-	(42,845)
	$3,841,231	$233,542	$33,753	$83,946	$4,192,472

During the years ended June 30, 2018 and 2017, there were no transfers among levels or significant changes in Level 3 investments.

June 30, 2018 and 2017 (dollars in thousands unless otherwise noted)

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 14 years	Redemptions not permitted. Distributions received as underlying investments are liquidated.	N/A

Geisinger has committed to fund certain partnership investments, which were not yet drawn at June 30, 2018. These unfunded commitments totaled $42.1 million at June 30, 2018. Such commitments have terms from one to fourteen years.

6. Property and Equipment, net

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

	Estimated Useful Lives	2018	2017
Land		$ 98,079	$ 91,361
Land improvements	(5–25 years)	80,864	80,988
Buildings and building improvements	(5–40 years)	1,215,902	1,256,976
Equipment	(3–20 years)	1,615,046	1,615,495
Computer software	(5 years)	313,833	270,137
		3,323,724	3,314,957
Accumulated depreciation		(1,485,262)	(1,342,647)
		1,838,462	1,972,310
Construction in progress		117,532	102,664
		$ 1,955,994	$ 2,074,974

June 30, 2018 and 2017 (dollars in thousands unless otherwise noted)

Depreciation expense related to property and equipment for the years ended June 30, 2018 and 2017 was $231.2 million and $208.8 million, respectively. At June 30, 2018 and 2017, respectively, $24.8 million and $18.9 million of construction-related purchases had not been paid and accordingly, were included in accrued expenses and other liabilities on the Consolidated Balance Sheets.

7. Long-Term Debt

Long-term debt consists of the following:

	Interest rate mode	Final maturity	Average interest rate	June 30, 2018	June 30, 2017
Series A-1 of 2017 Bonds	Fixed Rate	02/15/47	4.1%	$ 350,370	350,370
Series A-2 of 2017 Bonds	Fixed Rate	02/15/39	3.5	235,660	236,540
Series A of 2015 Bonds	Bank Held Rate	07/01/37	1.7	96,400	99,525
Series B of 2015 Bonds	Fixed Rate	12/01/30	1.4	27,295	29,415
Series C of 2015 Bonds	Fixed Rate	07/01/25	1.8	24,845	27,600
Series D of 2015 Bonds	Fixed Rate	04/01/42	2.4	58,213	60,000
Series E of 2015 Bonds	Bank Held Rate	06/01/39	1.4	50,000	50,000
Series F of 2015 Bonds	Bank Held Rate	06/01/39	1.4	65,000	65,000
Series A of 2014 Bonds	Fixed Rate	06/01/41	4.2	48,040	48,040
Series B of 2014 Bonds	Bank Held Rate	06/01/28	2.1	62,700	62,700
Series A of 2013 Bonds	VRDB	10/01/43	1.4	65,000	65,000
Series C of 2013 Bonds	Bank Held Rate	10/01/43	2.0	84,700	84,700
Series D of 2013 Bonds	Bank Held Rate	10/01/43	1.8	84,700	84,700
Series 2011 Bonds HSH	Fixed Rate	01/01/41	5.9	—	21,560
Series B of 2011 Bonds HSH	Fixed Rate	01/01/41	5.6	—	25,820
Series A-1 of 2011 Bonds	Fixed Rate	06/01/41	4.8	100,000	100,000
Series A-2 of 2011 Bonds	Fixed Rate	06/01/28	4.5	23,580	23,580
Series B of 2011 Bonds	VRDB	06/01/41	1.4	50,000	50,000
Series 2007 Bonds	Index Floating Rate	05/01/37	1.8	68,850	68,850
Series A of 2005 Bonds	VRDB	05/15/35	1.4	65,000	65,000
Series B of 2005 Bonds	VRDB	08/01/22	1.4	62,300	62,300
Series A of 1998 Bonds	Fixed Rate	08/15/23	5.2	24,660	27,700
Total tax-exempt revenue bonds				1,647,313	1,708,400
Other long-term debt:					
Bank loans				38,016	29,314
Notes payable				11,055	12,164
Capital leases				18,790	28,032
Total debt				1,715,174	1,777,910
Less current installments				(23,819)	(22,071)
Net unamortized premium				49,100	52,072
Deferred debt issue costs				(6,780)	(7,489)
Fair market value adjustments				1,070	6,968
				$ 1,734,745	1,807,390

Average interest rates include the impact of a discount or premium and remarketing and liquidity fees.

June 30, 2018 and 2017 (dollars in thousands unless otherwise noted)

Series 2011 and Series B of 2011 Bonds HSH are classified as liabilities held for sale in the accompanying Consolidated Balance Sheet at June 30, 2018.

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

2019	$ 23,819
2020	31,166
2021	45,512
2022	32,528
2023	27,708
Thereafter	1,554,441
	$ 1,715,174

Montour County, Pennsylvania, established the Geisinger Authority (the "Authority") for the purpose of financing through tax-exempt bonds certain capital projects of Geisinger and other nonprofit organizations within the Commonwealth of Pennsylvania and, under certain circumstances, contiguous states. All but the Series 2011 Bonds HSH and Series B of 2011 Bonds HSH were issued through the Authority. Geisinger Health has entered into a Master Trust Indenture ("MTI") with the bond trustee that governs all debt issued thereunder. All of the bonds listed above have been secured by master notes issued 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 Geisinger Health. Supplemental indentures governed by the existing MTI 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. Debt issued under the MTI is an unsecured general obligation of the Obligated Group.

During 2017, the Authority issued Series 2017 Bonds on behalf of Geisinger Health with total proceeds of $636.2 million. Proceeds totaling $351.2 million were used to refund existing debt. The remaining proceeds of $285.0 million were used to fund loan pools to reimburse qualified capital expenditures of Geisinger affiliates. As a result of this transaction Geisinger recognized a loss on extinguishment of debt totaling $17.3 million. Total loss on extinguishment of debt was $20.1 million for the year ended June 30, 2017.

Fixed rate and bank held rate bonds have various installments of principal due prior to maturity. Variable rate demand bonds ("VRDB"), and index floating rate bonds have balloon payments due upon maturity. All VRDB are supported by standby bond purchase agreements. The standby bond purchase agreements provide loans to Geisinger in the amounts necessary to purchase variable rate bonds that are not remarketed.

The MTI and various bank obligations require Geisinger to maintain, as of June 30, an annual debt service coverage ratio of 1.1 to 1.0 and to comply with various other covenants. Geisinger is in compliance with its covenants as of June 30, 2018.

Net interest paid including swap agreements was $55.9 million and $43.3 million in 2018 and 2017, respectively.

8. Derivative Instruments

During 2007, Geisinger Health entered into two interest rate swap agreements with a total outstanding notional amount of $68.9 million at both June 30, 2018 and 2017 remaining in effect until May 1, 2037. Under the swaps, Geisinger Health 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%. This transaction qualifies as an effective cash flow hedge.

In September 2005, Geisinger Health entered into an interest rate swap agreement with a total outstanding notional amount of $24.5 million at June 30, 2018 and 2017 decreasing incrementally to $0 by August 1, 2028. Under the swap, Geisinger Health 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. This transaction does not qualify as an effective cash flow hedge.

During 2001, Geisinger Health entered into an interest rate swap agreement with a total outstanding notional amount of $80.0 million at June 30, 2018 and 2017. 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. Under the swap, Geisinger Health 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.

During 2001, Geisinger Health also entered into an option that provides Geisinger Health with 0.85% times the same notional amount of the swap. In exchange for the premium, Geisinger Health 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 Geisinger Health 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, 2018, this option has not been triggered.

GCSOM is a party to two interest rate swap agreements with a total outstanding notional amount of $28.5 million at June 30, 2018 remaining in effect until September 1, 2034. Under the first swap, GCSOM pays a fixed rate of 3.54% times the notional amount and receives a floating rate equal to the SIFMA rate. Under the second swap, GCSOM pays a fixed rate of 2.95% times the notional amount and receives a floating rate equal to 68% of the one-month LIBOR rate. Neither transaction qualifies as an effective cash flow hedge.

AtlantiCare Health Services, Inc. is a party to an interest rate collar agreement with a commercial bank. The collar has a notional amount of $12.5 million at June 30, 2018. The cap and floor are set at 7.3% and 5.15%, respectively. This transaction qualifies as an effective cash flow hedge.

During the term of the swaps, the swaps effectively converts variable rate debt to a fixed rate. Net interest paid or received under the swap agreements is included in interest expense in the Consolidated Statements of Operations and Changes in Net Assets. The changes in fair value of an effective cash flow hedge 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. The changes in fair value of a derivative instrument that does not qualify as a cash flow hedge 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.

(Continued)

June 30, 2018 and 2017 (dollars in thousands unless otherwise noted)

The fair value of the derivative instruments recorded in other liabilities and contingencies in the Consolidated Balance Sheets, is as follows at June 30:

	2018	2017
Derivatives designated as hedging instruments		
Swap (2007)	$ 16,034	$ 20,630
Collar	98	630
Total derivatives designated as hedging instruments	16,132	21,260
Derivatives not designated as hedging instruments		
Swap (2001)	13,687	18,315
Swap (2005)	2,624	3,899
Swap GCSOM 1	869	1,264
Swap GCSOM 2	1,642	2,584
Option (2001)	(4,014)	(4,477)
Total derivatives not designated as hedging instruments	14,808	21,585
Derivative liability balance	$ 30,940	$ 42,845

Management intends to hold the derivative contracts to maturity. The following table shows the change in derivative liability values at June 30:

	2018	2017
Derivative liability value at beginning of year	$ 42,845	$ 56,894
GCSOM acquisition	-	3,854
Unrealized gain recorded in investing and financing activities	(6,777)	(8,456)
Unrealized gain recorded as a component of changes in net assets	(5,128)	(9,447)
Derivative liability value at end of year	$ 30,940	$ 42,845

Based on provisions contained in the swap agreements regarding the aggregate position of derivative instruments, no collateral was posted as of June 30, 2018.

June 30, 2018 and 2017 (dollars in thousands unless otherwise noted)

9. Endowment Net Assets

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

	Temporarily Restricted	Permanently Restricted (Excluding Trusts)	Total
Endowment net assets at June 30, 2016	$ 8,190	$ 71,920	$ 80,110
Net investment earnings	7,151	451	7,602
Contributions received from acquisition	-	2,348	2,348
Contributions received	-	1,372	1,372
Endowments in a deficit position	(47)	-	(47)
Annual appropriations	(2,890)	-	(2,890)
Endowment net assets at June 30, 2017	12,404	76,091	88,495
Net investment earnings	5,969	314	6,283
Contributions received	-	954	954
Endowments in a deficit position	(4)	-	(4)
Annual appropriations	(2,886)	-	(2,886)
Endowment net assets at June 30, 2018	$ 15,483	$ 77,359	$ 92,842

10. Noncontrolling Interest

Noncontrolling interest represents the proportionate share of xG Health Solutions, Inc. (“xG”), Geisinger SCA Holdings, LLC (“GSCA”), AtlantiCare Surgery Center, LLC (“ASC”) and Keystone Accountable Care Organization (“KACO”) 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 and is 46.0% owned by Geisinger at June 30, 2018. 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 and is 51.0% owned by Geisinger at June 30, 2018. ASC is a same-day surgical center with three locations in southern New Jersey and is 43.1 % owned by Geisinger at June 30, 2018. KACO is a group of health care providers who collaborate to improve health services and care and is 75.0% owned by Geisinger at June 30, 2018. The net income or loss of these ventures is allocated to the noncontrolling interest holders based on their percentage of ownership. Total noncontrolling interest was $9.1 million and $12.4 million as of June 30, 2018 and 2017, respectively.

11. Operating Leases

Geisinger leases equipment, software, vehicles and real property under operating leases, some of which require increasing monthly payments expiring over the next several years. Expenses under such operating leases during the years ended June 30, 2018 and 2017 were $47.6 million and $50.8 million, respectively.

June 30, 2018 and 2017 (dollars in thousands unless otherwise noted)

The following is a schedule by year of future minimum lease payments under noncancelable operating leases as of June 30, 2018:

Year Ending June 30,		
2019	$	31,479
2020		16,736
2021		13,315
2022		9,674
2023		6,211
2024 and after		19,927
	$	97,342

12. Retirement and Deferred Compensation Plans

Defined Contribution Plans:

Substantially all employees participate in defined-contribution plans in the form of 401(a), 401(k), 403(b), 457(b) and 457(f) plans. Employer contributions to the plans were $90.3 million and $88.0 million for the years ended June 30, 2018 and 2017, respectively.

The 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.

Defined-Benefit Plans:

Geisinger affiliates sponsor several defined-benefit plans covering various employee groups.

Effective June 30, 2017, the Geisinger Community Medical Center and Geisinger Lewistown Hospital sponsored defined-benefit plans were merged and created the Geisinger Consolidated Pension Plan (“GCPP”). Effective December 31, 2017, the Geisinger Bloomsburg Hospital (GBH) sponsored defined-benefit plan was merged into the GCPP.

GCPP and the Geisinger Jersey Shore Hospital (GJSH) sponsored defined-benefit plan are frozen to new participants and further accumulation of service benefits. AtlantiCare Health System (AHS) sponsors a defined-benefit plan and a postretirement welfare plan that are both frozen to new participants. The projected benefit obligation and the fair value of plan assets for all Geisinger defined-benefit plans at June 30, 2018 were $605.1 million and $606.0 million, respectively. The same amounts for 2017 were $669.1 million and $533.4 million, respectively. At June 30, 2018, fair value of plan assets exceeded the projected benefit obligation resulting in a prepaid pension asset totaling $0.9 million. At June 30, 2017, accrued pension costs were $135.8 million. Accrued pension cost is recognized in the Consolidated Balance Sheets as other liabilities and contingencies.

June 30, 2018 and 2017 (dollars in thousands unless otherwise noted)

The following summarizes the changes in prepaid (accrued) pension cost:

	2018	2017
Accrued pension cost	$ (135,775)	$ (219,413)
Service Cost	(22,194)	(24,429)
Interest Cost	(23,345)	(22,461)
Addition of GJSH plan	(3,843)	-
Other changes in benefit obligation	913	3,251
Return on plan assets, net of expenses	41,450	58,721
Employer Contributions	55,019	24,508
Actuarial Gain	88,683	44,048
Prepaid (accrued) pension cost	$ 908	$ (135,775)

Geisinger intends to contribute approximately $4.7 million to the plans in 2019.

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

	2018			2017		
	GCPP	GJSH	AHS	GCPP	GJSH	AHS
Discount Rate:						
Net periodic pension cost	3.67%	3.65%	3.55%	3.40%	3.40%	3.20%
Total Benefit Obligation	4.22%	4.24%	4.15%	3.67%	3.65%	3.55%
Expected long-term return on plan assets	6.50%	7.00%	6.40%	6.50%	6.50%	6.40%

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

	2018					
	Level 1	Level 2	Level 3	NAV	Total	Actual Allocation
Equity funds	$ 368,748	$ -	$ -	$ -	$ 368,748	61%
Fixed income funds	223,388	-	-	-	223,388	37%
Private Equity	-	-	-	8,781	8,781	1%
Cash and cash equivalents	5,105	-	-	-	5,105	1%
	$ 597,241	$ -	$ -	$ 8,781	$ 606,022	100%

June 30, 2018 and 2017 (dollars in thousands unless otherwise noted)

	2017					
	Level 1	Level 2	Level 3	NAV	Total	Actual Allocation
Equity funds	$ 370,479	$ -	$ -	$ -	$ 370,479	69%
Fixed income funds	150,914	-	-	-	150,914	28%
Hedge Fund Equity	-	-	-	26	26	0%
Hedge Fund Fixed	-	-	-	2,081	2,081	1%
Private Equity	-	-	-	7,819	7,819	1%
Cash and cash equivalents	2,046	-	-	-	2,046	1%
	$ 523,439	$ -	$ -	$ 9,926	$ 533,365	100%

Current target investment allocations for each plan are as follows:

	GCPP	GJSH	AHS
Equity funds	56-76%	55-65%	60-80%
Fixed income funds	24-44%	NA	20-40%
Cash and cash equivalents	0-10%	NA	0-10%

The following is a schedule by year of estimated future benefit payments as of June 30, 2018:

Year Ending June 30,	
2019	$ 39,717
2020	41,803
2021	44,287
2022	45,105
2023	45,888
2024-2028	230,219
Total	$447,019

13. Hospital and Provider Professional Liability Claims Coverage

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

Certain entities insure hospital and provider professional 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"), wholly owned subsidiaries of Geisinger. The limits of the professional liability coverage relating to the years ended June 30, 2018 and 2017 are subject to the following sublimits:

		(in Millions)	
Coverage	Coverage Period	Per Claim	Annual
Institutional professional	7/1/2017-6/30/2018	$0.5	$2.5
Physician professional	7/1/2017-6/30/2018	0.5	1.5
Non-MCARE Entities' professional	7/1/2017-6/30/2018	1.0	1.0
Employed Allied Healthcare & Dentists	7/1/2017-6/30/2018	1.0	3.0
Long-Term Care Facility	7/1/2017-6/30/2018	0.5	1.5

Certain entities insure hospital and provider professional liability and general liability claims coverage through a captive insurance program with English Creek Assurance, Ltd. ("ECA"), a wholly owned subsidiary of Geisinger. The limits of the professional liability coverage relating to the year ended June 30, 2018 and 2017 were subject to the following sublimits:

2018:		(in Millions)		
Coverage	Coverage Period	Per Claim Limit	Annual Aggregate Limit	Captive Aggregate Limit
Institutional professional	7/1/2017-6/30/2018	$1.0		$5.5 *
General liability	7/1/2017-6/30/2018	1.0	1.0 *	
Physician professional	7/1/2017-6/30/2018	1.0 **	3.0 **	7.0 *
Institutional professional & physician professional excess	7/1/2017-6/30/2018	3.0		3.0 */***

2017:		(in Millions)		
Coverage	Coverage Period	Per Claim Limit	Annual Aggregate Limit	Captive Aggregate Limit
Institutional professional	4/14/2016-10/31/2016	$1.0	$5.5	
Institutional professional	11/1/2016-6/30/2017	1.0		5.5 *
General liability	4/14/2016-10/31/2016	1.0	1.0	
General liability	11/1/2016-6/30/2017	1.0	1.0	
Physician professional	4/14/2015-10/31/2016	3.0	7.0	
Physician professional	11/1/2016-6/30/2017	3.0		7.0 *
Institutional professional & physician professional excess	4/14/2016-10/31/2016	3.0	3.0	
Institutional professional & physician professional excess	11/1/2016-6/30/2017	3.0		3.0 ***

* Effective 11/1/2016 per claim limits are shared by hospital and physicians and captive policy aggregate limits are not recognized by excess coverage.
** Limits are per provider.
*** Excess of underlying primary limits

The loss accruals, which were discounted at a rate of 3.0% for 2018 and 2017, 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 $211.3 million and $223.1 million at June 30, 2018 and 2017, 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 Geisinger 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 MCARE Act does not apply to entities insured by ECA.

The actuarially computed liability for all healthcare providers (hospital, physicians, and others) participating in the MCARE Fund at December 31, 2016 (the latest date that such information is available) was $1.0 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.

Geisinger's annual premiums for participation in the MCARE Fund were $8.4 million and $7.1 million for the years ended June 30, 2018 and 2017. No provision has been made for any future MCARE Fund assessments in the accompanying financial statements.

Certain entities are provided reinsurance and/or excess coverage through captive insurance programs with GAC, ECA and excess commercial policies. The reinsurance and/or excess coverage provides coverage above the primary and MCARE Fund layers where applicable.

June 30, 2018 and 2017 (dollars in thousands unless otherwise noted)

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

Major components of revenue consist of the following:

	2018		2017	
	Revenue	% of Total	Revenue	% of Total
Net patient service revenue				
Medicare (MC)	$ 915,309	14.0%	$ 916,432	15.2%
Medical Assistance (MA)	237,087	3.6%	248,592	4.1%
Other payors	2,071,956	31.7%	1,893,099	31.5%
	3,224,352	49.3%	3,058,123	50.8%
Premium revenue				
MC Advantage	1,015,878	15.5%	909,748	15.2%
Commercial	1,051,410	16.1%	881,897	14.7%
MA and other state programs	979,927	15.0%	918,322	15.3%
	3,047,215	46.6%	2,709,967	45.2%
Other revenue	265,042	4.1%	242,106	4.0%
	$ 6,536,609	100.0%	$ 6,010,196	100.0%

Laws and regulations governing MC and MA are complex and subject to interpretation. Geisinger 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 amounts have been completed through June 30, 2017. 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 $42.8 million and $59.0 million in 2018 and 2017, 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 $357.3 million and $308.0 million for the years ended June 30, 2018 and 2017, respectively. In addition, bad debt expense associated with net patient service revenue was $121.3 million and $48.5 million for the years ended June 30, 2018 and 2017, respectively.

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.

June 30, 2018 and 2017 (dollars in thousands unless otherwise noted)

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.

Geisinger 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%, or credit risk in accounts receivable.

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

	2018	2017
Clinical services	$ 332,845	$ 357,527
Insurance operations	182,029	182,440
Other	117,405	82,988
	$ 632,279	$ 622,955

15. Functional Expenses

Expenses related to providing services described in note 1 (including interest expense) are as follows:

	2018	2017
Health care and program services	$ 4,055,599	$ 3,792,385
HMO and PPO services	1,748,367	1,526,257
Basic and clinical research	63,883	60,755
General and administrative	539,509	510,719
	$ 6,407,358	$ 5,890,116

16. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at June 30:

	2018	2017
Support operations	$ 46,187	$ 39,836
Purchase of equipment	26,402	24,497
	$ 72,589	$ 64,333

Net assets were released from donor restriction by incurring expenditures satisfying the restricted purpose to support operations and capital purchases in the amount of $8.3 million and $18.8 million for the years ended June 30, 2018 and 2017, respectively.

17. Contingent Liabilities and Commitments

Geisinger 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 Geisinger.

Geisinger Health maintains $50.0 million of credit facilities for the issuance of letters of credit. As of June 30, 2018 and 2017, $31.3 million and $30.0 million of standby letters of credit were outstanding, respectively. Geisinger Health also maintains a $50.0 million working capital line of credit under which no balances were outstanding at June 30, 2018.

Geisinger has outstanding commitments on construction projects totaling $71.2 million and $39.9 million at June 30, 2018 and 2017, respectively.

18. Subsequent Events

Management has evaluated subsequent events through October 5, 2018, 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, 2018, and events which occurred subsequent to June 30, 2018, but were not recognized in the financial statements.

KPMG LLP
1601 Market Street
Philadelphia, PA 19103-2499

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

The Board of Directors
Geisinger Health:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the consolidated financial statements of Geisinger Health and its subsidiaries (collectively referred to as "Geisinger"), which comprise the consolidated balance sheet as of June 30, 2018, and the related consolidated statements of operations, consolidated statements of changes in net assets, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated October 5, 2018.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2018-001 that we consider to be a significant deficiency.

Compliance and Other Matters

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

KPMG

Geisinger's Response to the Finding

Geisinger's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Geisinger's response was not subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

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

KPMG LLP

Philadelphia, Pennsylvania
October 5, 2018

KPMG LLP
1601 Market Street
Philadelphia, PA 19103-2499

Independent Auditors' Report on Compliance for Each Major Federal Program and Report on Internal Control over Compliance Required by the Uniform Guidance

The Board of Directors
Geisinger Health:

Report on Compliance for Each Major Federal Program

We have audited Geisinger Health's and its subsidiaries' (collectively referred to as "Geisinger") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on Geisinger's major federal program for the year ended June 30, 2018. Geisinger's major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

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

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of Geisinger's compliance.

Opinion on Each Major Federal Program

In our opinion, Geisinger complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2018.

Report on Internal Control over Compliance

Management of Geisinger is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Geisinger's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform

Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Geisinger's internal control over compliance.

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

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

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

KPMG LLP

Philadelphia, Pennsylvania
November 30, 2018

Geisinger
Consolidated Schedule of Expenditures of Federal Awards
Year Ended June 30, 2018

Federal or State Awarding Agency/Program	Pass Through Entity	Pass Through Entity Identification Number	CFDA No.	Expenditures	Amounts Provided to Subrecipients
FEDERAL AWARDS					
Research and Development Cluster					
Direct Programs					
United States Department of Agriculture (USDA)					
Agricultural Research Service			10.001	$ 137,351	$ 92,470
Total United States Department of Agriculture (USDA)				137,351	92,470
United States Department of Defense (DOD)					
Military Medical Research and Development			12.420	449,243	10,964
Total United States Department of Defense (DOD)				449,243	10,964
United States Department of Health and Human Services (DHHS)					
Agency for Healthcare Research and Quality (AHRQ)					
Research on Healthcare Costs, Quality and Outcomes			93.226	28,106	13,205
Total Agency for Healthcare Research and Quality (AHRQ)				28,106	13,205
Centers for Disease Control and Prevention (CDC)					
Chronic Diseases: Research, Control, and Prevention			93.068	117,619	-
Total Centers for Disease Control and Prevention (CDC)				117,619	
National Cancer Institute (NCI)					
21st Century Cures Act - Beau Biden Cancer Moonshot			93.353	400,441	101,734
Cancer Treatment Research			93.395	117,949	-
Total National Cancer Institute (NCI)				518,390	101,734
National Human Genome Research Institute (NHGRI)					
Human Genome Research			93.172	1,204,690	46,635
Total National Human Genome Research Institute (NHGRI)				1,204,690	46,635
National Institute of Diabetes and Digestive and Kidney Diseases (NIDDK)					
Diabetes, Digestive, and Kidney Diseases Extramural Research			93.847	155,808	-
				155,808	-
Total National Institute of Diabetes and Digestive and Kidney Diseases (NIDDK)					
National Institute on Drug Abuse (NIDA)					
Drug Abuse and Addiction Research Programs			93.279	387,421	111,912
Total National Institute on Drug Abuse (NIDA)				387,421	111,912
National Institute of General Medical Sciences (NIGMS)					
Biomedical Research and Research Training			93.859	464,312	165,006
Total National Institute of General Medical Sciences (NIGMS)				464,312	165,006
National Heart, Lung, and Blood Institute (NHLBI)					
Cardiovascular Diseases Research			93.837	640,254	84,001
Total National Heart, Lung, and Blood Institute (NHLBI)				640,254	84,001
National Institute of Mental Health (NIMH)					
Mental Health Research Grants			93.242	1,519,419	278,082
Total National Institute of Mental Health (NIMH)				1,519,419	278,082
Office of the Director (OD)					
Trans-NIH Research Support			93.310	202,036	40,362
Total Office of the Director (OD)				202,036	40,362
Total U.S. Department of Health and Human Services (DHHS)				5,238,055	840,936
Total Direct Programs				5,824,649	944,369
Indirect Programs					
Environmental Protection Agency (EPA)					
Science to Achieve Results (STAR) Research Program	University of California Davis	201400354-02	66.509	19,997	-
Total Environmental Protection Agency (EPA)				19,997	-
United States Department of Agriculture (USDA)					
Food and Nutrition Service	FHCCP	4100067774	10.578	39,693	
Total United States Department of Agriculture (USDA)				39,693	-
United States Department of Agriculture (USDA)					
Defense Threat Reduction Agency					
Office of Navel Research	Virginia Tech		12.351	16,501	-
Total Defense Reduction Agency				16,501	-
U.S. Department of Health and Human Services (DHHS)					
Agency for Healthcare Research and Quality (AHRQ)					
Research on Healthcare Costs, Quality and Outcomes	University of Wisconsin	500K953	93.226	28,981	
Total Agency for Healthcare Research and Quality (AHRQ)				28,981	-

Federal or State Awarding Agency/Program	Pass Through Entity	Pass Through Entity Identification Number	CFDA No.	Expenditures	Amounts Provided to Subrecipients
Eunice Kennedy Shriver National Institute of Child Health and Human Development (EKS-NICHHD)					
Child Health and Human Development Extramural Research	Columbia University	GG011042-01	93.865	$ 20,578	$ -
Child Health and Human Development Extramural Research	Henry Ford Health System	R01HD067314	93.865	2,385	-
Child Health and Human Development Extramural Research	Johns Hopkins University	2002925195	93.865	24,000	-
Child Health and Human Development Extramural Research	Vanderbilt University	R01HD093671	93.865	26,718	-
Total Eunice Kennedy Shriver National Institute of Child Health and Human Development (EKS-NICHHD)				73,682	-
Health Resources and Services Administration (HRSA)					
MCH Block Grants	Commonwealth of New Jersey	DFHS18ADL007	93.994	289,939	-
Total Health Resources and Services Administration (HRSA)				289,939	-
National Cancer Institute (NCI)					
Alliance for Clinical Trials Subcontract	Alliance for Clinical Trials		93.UNK	26,337	-
Cancer Trials Support Unit Subcontract	Cancer Trials Support Unit		93.UNK	22,716	-
Children's Oncology Group Subcontract	Children's Oncology Group		93.UNK	17,459	-
Eastern Cooperative Oncology Group Subcontract	Eastern Cooperative Oncology Group		93.UNK	32,514	-
Gynecologic Oncology Group Subcontract	Gynecologic Oncology Group		93.UNK	124	-
North Central Cancer Treatment Subcontract	North Central Cancer Treatment		93.UNK	166	-
NRG Oncology Subcontract	NRG Oncology		93.UNK	16,295	-
Radiation Therapy Oncology Group Subcontract	Radiation Therapy Oncology Group		93.UNK	84	-
University of Rochester Medical Center Subcontract	University of Rochester Medical Center		93.UNK	244	-
Wake Forest University	Wake Forest University		93.UNK	2,705	-
Cancer Cause and Prevention Research	Kaiser Foundation	OOS030047-GEISINGER	93.393	12,776	-
Cancer Cause and Prevention Research	University of California San Francisco	9317SC	93.393	57,984	-
Cancer Research Manpower Grants	Vanderbilt University	VUMC 58237	93.398	3,479	-
Total National Cancer Institute (NCI)				192,883	-
National Institute of General Medical Sciences (NIGMS)					
Biomedical Research and Research Training	Pennsylvania State University	5603-GC-DHHS-1907	93.859	26,503	
Total National Institute of General Medical Sciences (NIGMS)				26,503	-
National Institutes of Health (NIH)					
Medical Library Assistance	University of Indiana	IN4687289GC	93.879	96,665	
Total National National Institutes of Health (NIH)				96,665	-
National Human Genome Research Institute (NHGRI)					
Human Genome Research	Brigham & Women's Hospital	117565	93.172	875,994	-
Human Genome Research	Brigham & Women's Hospital	115540	93.172	61,099	-
Human Genome Research	Duke University	2031847	93.172	2,064	-
Human Genome Research	Duke University	2036566	93.172	4,180	-
Human Genome Research	University of Maryland	1400786	93.172	186,047	-
Human Genome Research	University of North Carolina	5033698	93.172	43,453	-
Human Genome Research	University of North Carolina	5105966	93.172	4,694	-
Human Genome Research	University of North Carolina	5108828	93.172	174,844	-
Human Genome Research	Vanderbilt University	VUMC63907	93.172	81,094	-
Total National Human Genome Research Institute (NHGRI)				1,433,469	-
National Heart, Lung, and Blood Institute (NHLBI)					
Cardiovascular Diseases Research	Brigham And Women'S Hospital	R01HL122225	93.837	1,761	-
Cardiovascular Diseases Research	Duke Clinical Research	U10HL084904	93.837	64,232	-
Cardiovascular Diseases Research	NYU Langone Medical Center	12-01972	93.837	1,702	-
Cardiovascular Diseases Research	Partner's Healthcare System	5U01HL101422	93.837	22,215	-
Cardiovascular Diseases Research	New York University	U01HL117905	93.837	4,679	-
Cardiovascular Diseases Research	UCLA	1557 GUA444	93.837	7,663	-
Cardiovascular Diseases Research	University of Maryland	050154B	93.837	11,808	-
Lung Diseases Research	Asthma Management Systems	R43HL115846	93.838	6,516	-
Lung Diseases Research	COPD Foundation	001	93.838	28,228	-
Lung Diseases Research	University of Alabama	000507361-003	93.838	7,958	-
Lung Diseases Research	University of Pennsylvania	570229	93.838	180,295	-
Total National Heart, Lung, and Blood Institute (NHLBI)				337,057	-
National Institute on Aging (NIA)					
Aging Research	University of Massachusetts	WA00497810/OSP2017111	93.866	27,580	21,686
Aging Research	University of Nebraska	36-5360-2141-104	93.866	33,963	-
Total National Institute on Aging (NIA)				61,542	21,686
National Institute of Allergy and Infectious Diseases (NIAID)					
Allergy and Infectious Diseases Research	Northwestern University	60043491 GHS	93.855	344,634	-
Allergy and Infectious Diseases Research	University of Pennsylvania	569025	93.855	85,995	-
Allergy and Infectious Diseases Research	Vanderbilt University	VUMC 60392	93.855	132,598	-
Total National Institute of Allergy and Infectious Diseases (NIAID)				563,226	-

Geisinger
Consolidated Schedule of Expenditures of Federal Awards
Year Ended June 30, 2018

Federal or State Awarding Agency/Program	Pass Through Entity	Pass Through Entity Identification Number	CFDA No.	Expenditures	Amounts Provided to Subrecipients
National Institute of Arthritis and Muscoskeletal and Skin Diseases (NIAMS)					
Arthritis, Musculoskeletal and Skin Diseases Research	UNIVERSITY OF MINNESOTA	N000188536	93.846	$ 1,143	$ -
Arthritis, Musculoskeletal and Skin Diseases Research	JOHNS HOPKINS	W81XWH-09-2-0108	93.846	192	-
Total National Institute of Arthritis and Muscoskeletal and Skin Diseases (NIAMS)				1,335	-
National Institute of Diabetes and Digestive and Kidney Diseases (NIDDK)					
Diabetes, Digestive, and Kidney Diseases Extramural Research	Johns Hopkins University	2002787367	93.847	43,344	-
Diabetes, Digestive, and Kidney Diseases Extramural Research	National Jewish Health	20108201	93.847	39,616	-
Diabetes, Digestive, and Kidney Diseases Extramural Research	University Of Maryland	050317/13570	93.847	91,498	-
Diabetes, Digestive, and Kidney Diseases Extramural Research	University Of Michigan	3003773936	93.847	4,689	-
Diabetes, Digestive, and Kidney Diseases Extramural Research	University Of Michigan	3004195232	93.847	4,197	-
Total National Institute of Diabetes and Digestive and Kidney Diseases (NIDDK)				183,344	-
National Institute of Environmental Health Sciences (NIEHS)					
Environmental Health	University of California Davis	201224708-02	93.113	18,740	-
Total National Institute of Environmental Health Sciences (NIEHS)				18,740	-
National Institute of Mental Health (NIMH)					
Mental Health Research Grants	UCLA	2000 G SA373	93.242	13,260	-
Total National Institute of Mental Health (NIMH)				13,260	-
National Institute of Neurological Disorders and Stroke (NINDS)					
Extramural Research Programs in the Neurosciences and Neurological Disorders	Emory University	T659991 (YR4 T477273)	93.853	25,088	-
Total National Institute of Neurological Disorders and Stroke (NINDS)				25,088	-
National Institute on Drug Abuse (NIDA)					
Drug Abuse and Addiction Research Programs	Kaiser Foundation	RNG200340-GC-01	93.279	5,439	-
Total National Institute on Drug Abuse (NIDA)				5,439	-
Total U.S. Department of Health and Human Services (DHHS)				3,351,154	21,686
Total Indirect Programs				3,427,345	21,686
Total Research and Development Cluster				9,251,993	966,056
Other Programs					
Direct Programs					
U.S. Department of Health and Human Services (DHHS)					
Health Resources and Services Administration (HRSA)					
Centers of Excellence			93.157	302,105	71,011
Grants for Primary Care Training and Enhancement		Geisinger Commonwealth School of Medicine	93.884	146,817	23,687
Rural Health Care Services Outreach, Rural Health Network Development and Small Health Care Provider Quality Improvement Program			93.912	13,595	-
Total Health Resources and Services Administration (HRSA)				462,517	94,698
Total U.S. Department of Health and Human Services (DHHS)				462,517	94,698
Total Direct Programs				462,517	94,698
Indirect Programs					
Department of Justice (DOJ)					
Crime Victim Assistance	PA Commission on Crime	2016-VF-05-26976	16.575	60,442	-
Crime Victim Assistance	PA Commission on Crime	2016-VF-05-27002	16.575	25,003	-
Crime Victim Assistance	PA Commission on Crime	2016-VF-05-27003	16.575	16,351	-
Improving the Investigation and Prosecution of Child Abuse and the Regional and Local Children's Advocacy Centers	PA Chapter of CAC	ERIE-PA-2QIAA17	16.758	1,345	-
Total Department of Justice (DOJ)				103,141	-
U.S. Department of Health and Human Services (DHHS)					
Centers for Disease Control and Prevention (CDC)					
Adult Viral Hepatitus Prevention and Control	Henry Ford Health System	B11146_GEISINGER	93.270	105,317	-
H.I.V. Prevention Activities Health Department Based Program	Commonwealth of New Jersey	AIDS18NAV011	93.940	125,000	-
H.I.V. Prevention Activities Health Department Based Program	Commonwealth of New Jersey	AIDS18CTN006	93.940	220,000	-
Diabetes Prevention and Control Program	Commonwealth of New Jersey	DFHS18DPC004	93.945	63,881	-
Total Centers for Disease Control and Prevention (CDC)				514,198	-
Centers for Medicare and Medicaid Services (CMS)					
Children's Health Insurance Program	Commonwealth of Pennsylvania	4000013241	93.767	34,657,630	-
Total Centers for Medicare and Medicaid Services (CMS)				34,657,630	-
Health Resources and Services Administration (HRSA)					
Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	Central Susquehanna Community Foundation	4100070296	93.505	189,072	-
Area Health Education Centers	Pennsylvania State University	U77HP06111	93.107	59,620	59,620
HIV Care Formula Grants	Commonwealth of New Jersey	AIDS18CTR022	93.917	61,984	-
HIV Care Formula Grants	Commonwealth of New Jersey	AIDS17RWB020	93.917	281,403	-
HIV Care Formula Grants	Commonwealth of New Jersey	AIDS18RWB017	93.917	142,168	-
Maternal and Child Health Services Block Grant to the States	Pennsylvania State University	5229-GHS-HRSA-8317	93.110	113,213	-
Small Rural Hospital Improvement Grant Program	Pennsylvania State University	H3HRH00009	93.301	192	-
Total Health Resources and Services Administration (HRSA)				847,652	59,620

Geisinger
Consolidated Schedule of Expenditures of Federal Awards
Year Ended June 30, 2018

Federal or State Awarding Agency/Program	Pass Through Entity	Pass Through Entity Identification Number	CFDA No.	Expenditures	Amounts Provided to Subrecipients
Office of the Secretary (OS)					
Hospital Preparedness Program (HPP) Ebola Preparedness and Response Activities	Commonwealth of Pennsylvania	4100070342	93.817	$ 24,373	$ -
National Bioterrorism Hospital Preparedness Program	Commonwealth of New Jersey	PHLP18FUL009	93.889	135,775	-
National Bioterrorism Hospital Preparedness Program	Commonwealth of Pennsylvania	4100062621	93.889	5,500	-
National Bioterrorism Hospital Preparedness Program	Commonwealth of Pennsylvania	4100062890	93.889	13,800	-
National Bioterrorism Hospital Preparedness Program	Commonwealth of Pennsylvania	4100063155	93.889	5,285	-
Total Office of the Secretary (OS)				184,732	-
Substance Abuse and Mental Health Services Administration (SAMHSA)					
State Targeted Response to the Opioid Crisis Grants	Commonwealth of Pennsylvania	4100078559	93.788	444,167	
Total Substance Abuse and Mental Health Services Administration (SAMHSA)				444,167	-
Substance Abuse and Mental Health Services Administration					
Block Grants for Prevention and Treatment of Substance Abuse	County of Cumberland	DU17-0025	93.959	212,894	
Total Substance Abuse and Mental Health Services Administration				212,894	-
Total U.S. Department of Health and Human Services (DHHS)				36,861,273	59,620
Total Indirect Programs				36,964,415	59,620
Total Other Programs				37,426,932	154,318
Health Center Cluster					
Direct Programs					
U.S. Department of Health and Human Services (DHHS)					
Health Resources and Services Administration (HRSA)					
Health Center Program (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care)		H80CS00858-15-09	93.224	346,020	-
Grants for New and Expanded Services under the Health Center Program		H80CS00858-15-09	93.527	1,038,060	-
Health Center Program (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care)		H80CS00858-16-06	93.224	195,801	-
Grants for New and Expanded Services under the Health Center Program		H80CS00858-16-06	93.527	587,402	-
Total Health Resources and Services Administration (HRSA)				2,167,283	-
Total Health Center Cluster				2,167,283	-
Transit Services Programs Cluster					
Indirect Programs					
US Department of Transportation (USDOT)					
Enhanced Mobility of Seniors and Individuals with Disabilities	PA Department of Transportation	4400016510	20.513	34,414	-
Total US Department of Transportation (USDOT)				34,414	-
Total Transit Services Programs Cluster				34,414	-
Student Financial Aid Cluster					
Direct Programs					
Department of Education					
Federal Direct Student Loans			84.268	25,523,188	-
Federal Pell Grant Program			84.063	64,048	-
Total Department of Education				25,587,236	-
Total Student Financial Aid Cluster				25,587,236	-
Total Federal Expenditures of Federal Awards				**$ 74,467,858**	**$ 1,120,374**

See accompanying independent auditors' report.

1. Reporting Entity

Geisinger includes all federal expenditures in its consolidated schedule of expenditures of federal awards (the Schedule) administered by all entities included in its consolidated financial statements. Specifically, the Schedule includes expenditures of the following entities: Geisinger Clinic (identification number 23-6291113); Geisinger Medical Center (identification number 24-0795959); Geisinger Wyoming Valley (identification number 23-1996150); Geisinger Community Health Services (identification number 23-2967235); Geisinger Bloomsburg Hospital (identification number 23-2193572); Geisinger Community Medical Center (identification number 24-0862246); Geisinger Lewistown Hospital (identification number 23-1352187); Holy Spirit Hospital of the Sisters of Christian Charity (identification number 23-1512747); Geisinger Health Plan (identification number 23-2311553); AtlantiCare Regional Medical Center (identification number 21-0634549); AtlantiCare Health Services (identification number 22-3265214); AtlantiCare Behavioral Health (identification number 21-0721208); AtlantiCare Foundation (identification number 22-2148992); Geisinger Jersey Shore Hospital (identification number 24-0792115); and Geisinger Commonwealth School of Medicine (identification number 26-0812968).

2. Basis of Presentation

The accompanying Schedule includes all the federal award programs activity of Geisinger under programs of the federal government for the year ended June 30, 2018. The information in this Schedule is presented in accordance with the requirements of the Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). The Schedule presents only a selected portion of the operations of Geisinger, and it is not intended to and does not present the consolidated financial position, results of operations, or cash flows of Geisinger.

3. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance and 45 CFR Part 74 Appendix E, hospital cost principles, wherein certain types of expenditures are not allowable or are limited as reimbursement. Therefore, some amounts presented in the Schedule may differ from amounts presented in or used in the preparation of the basic financial statements.

4. Indirect Cost

Geisinger has not elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

(1) Summary of Auditor's Results

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

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

- Material weaknesses: **No**
- Significant deficiencies: **2018-001**

(c) Noncompliance material to the consolidated financial statements: **No**

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

- Material weaknesses: **No**
- Significant deficiencies: **None reported**

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

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

(g) Major programs:

- Children's Health Insurance Program: CFDA number 93.767

(h) Dollar threshold used to distinguish between Type A and Type B programs: **$2,234,036**

(i) Auditee qualified as a low-risk auditee: **Yes**

(2) Finding Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards*

Finding 2018-001 – Segregation of Duties and Information Technology System Design

Criteria and Condition

Management, with board oversight, sets entity-level objectives that align with the entity's mission, vision, and strategies. These high-level objectives reflect choices made by management about how the organization seeks to create, preserve, and realize value for its stakeholders. Such objectives may focus on the entity's unique operational needs, or align with laws, rules, regulations, and standards imposed by legislators, regulators, and standard setters, or some combination thereof.

The Committee on Sponsoring Organizations (COSO) has published Integrated Internal Control Framework (2013), also known as "COSO 13" or "the Framework." COSO 2013 establishes control activities as the actions established through policies and procedures that help ensure that management's directives to mitigate risks to the achievement of objectives are carried out. Segregation of duties is typically built into the selection and development of these control activities.

Principle #10 of COSO 13, Selects and Develops Control Activities, states the following regarding segregating duties:

When selecting and developing control activities management should consider whether duties are divided or segregated among different people to reduce the risk of error or inappropriate or fraudulent actions. Such consideration should include the legal environment, regulatory requirements, and stakeholder expectations. This segregation of duties generally entails dividing the responsibility for recording, authorizing, and approving transactions, and handling the related asset. Where segregation of duties is not practical, management should select and develop alternative control activities.

Principle #11 of COSO 13, Control Activities, states the following:

The organization selects and develops general control activities over technology to support the achievement of objectives.

Similarly, under Principle #11, the Framework specifies a key point of focus relating to Security Management (Information Technology Access):

Security management includes sub-processes and control activities over who and what has access to an entity's technology, including who has the ability to execute transactions. They generally cover access rights at the data, operating system (system software), network, application, and physical layers. Security controls over access protects an entity from inappropriate access and unauthorized use of the system and supports segregation of duties.

We noted the following matters with respect to segregation of duties related to Geisinger's accounting information system (specifically, the general ledger system (Infor/Lawson) and two of the revenue systems, (IDX and Cerner Invision):

- Due to the functionality of Geisinger's general ledger system and the timely need for financial reporting, adequate segregation of duties within Geisinger's accounting information system presents a challenge. Geisinger's accounting information system affords a level of access to 107 finance department personnel that enables each of them to create and post manual journal entries to the general ledger system.

- Of the 107 finance department personnel with journal entry creation and posting, 42 of these individuals who reside within the revenue and reimbursement function, also have access to edit patient-level details within the subledgers of the revenue systems. These privileges include the ability to create and post individual patient charges and writeoffs.

- Of 42 finance department personnel with access to post charges in the revenue subledgers, a total of 10 individuals also have the ability to apply cash to open charges.

- Certain of these individuals included above also maintained the review or approve responsibility for periodic reconciliations of the general ledger to the related subsystem.

Although management expects the existing compensating controls to detect unauthorized, erroneous or fraudulent transactions, and our audit procedures found no evidence of management override, nor any errors in the accounting records with respect to this matter, preventive controls such as segregation of duties are generally preferable to controls designed to detect unauthorized, erroneous, or fraudulent transactions after they have occurred.

Cause

Geisinger's accounting information systems are not currently designed to provide adequate segregation of duties around manual journal entries.

Effect

Unauthorized, erroneous, or potentially fraudulent transactions may not be prevented, resulting in the need to rely on compensating controls to detect inappropriate transactions on a timely basis.

Recommendation

We recommend that Geisinger make enhancements to its accounting information systems to eliminate access to the information technology subledger systems for the finance department personnel who have the ability to create and post journal entries in the general ledger system. Additionally, we recommend Geisinger enhance its monitoring controls to evaluate the reasonableness and appropriateness of the manual journal entry transactions posted throughout the year. We further recommend that the Company re-evaluate the costs and benefits of establishing stronger segregation of duties within the general ledger system as a preventive control.

Views of Responsible Parties

While management believes that compensating controls, which include approval processes, reviews, reconciliations, etc., would detect unauthorized, erroneous or potentially fraudulent transactions, we agree with KPMG's finding. Management has taken the following action to improve segregation of duties and provide additional controls around information technology:

- Management is reviewing all access used to create and post journal entries in the Infor/Lawson system with the intention of limiting access to a minimum number of individuals.

- Policies and procedures are in place which require signoff for each manual journal entry posted or uploaded to the Infor/Lawson system. These procedures are aimed at ensuring that all journal entries are supported by documentation that has been reviewed and approved in accordance with Policy A31 "Approval of Standard & Nonstandard Manual Journal Entries". This policy establishes thresholds for review and approval of journal entries for each entity based upon the size and complexity of that entity. Management will be adding procedures that require an individual who is independent of the journal entry creation and posting process to ensure that all entries posted to the system are supported and approved in accordance with Policy A31. It is expected that these procedures will be uniformly adopted by October 31, 2018 and will be applied retroactively to July 1, 2018.

- In September, Cerner Invision and IDX system access was corrected to prohibit finance employees with access to create and post journal entries in Infor/Lawson from posting charges, payments, adjustments or making cash entries in IDX and Cerner Invision systems.

- Also in September, a twelve month audit was completed of all activity posted in the IDX and Cerner Invision systems by the 42 employees who had access to post charges, adjustments and payments in these systems and journal entries in Infor/Lawson. The audit aimed to determine whether any activity in IDX or Invision systems resulted in posting of charges, adjustments or cash. One employee was noted whose job responsibilities spanned two departments for a time and required posting in both systems. Additional procedures were performed specific to this employee to determine if the activity was inappropriate. No inappropriate transactions were found.

(3) Findings and Questioned Costs Relating to Federal Awards

None

Geisinger
Schedule of the Pennsylvania Department of Health Awards (Unaudited)
June 30, 2018

The information provided below is in accordance with the Pennsylvania Department of Health (PDOH)'s audit requirements. This schedule lists awards, cash received and revenue recognized and deferred for all awards funded by the PDOH as follows:

Activity	SAP number	Award amount	Amount received (paid back) FY 2018	Accrued (deferred) revenue 6/30/2017	Revenue recognized FY2018	Accrued (deferred) revenue 6/30/2018
PACMAT	4100078559	999,849	292,996	—	444,167	151,171
NEWBORN SCREEN CYSTIC FIBROSIS	4100072668	9,950	3,826	5,290	(1,184)	280
CYSTIC FIBROSIS FY 2017	4100065968	64,125	21,421	13,012	23,147	14,738
CYSTIC FIBROSIS FY 2018	4100080021	21,620	2,112	—	20,148	18,036
SPINA BIFIDA FY 2017	4100065977 R2	10,000	573	2,412	176	2,016
NEWBORN SCREEN CYSTIC FIBROSIS	4100072668	270,306	124,365	—	206,587	82,221
CLINICAL PHENOTYPES CFTR	4100077061	140,437	—	—	39,733	39,733
SPINA BIFIDA FY 2018	4100078284	4,510	—	—	2,482	2,482
PEDIATRIC EPILEPSY GRANT	4100072004	434,388	17,755	—	40,551	22,796
GROW WITH WIC	4100067774	131,929	40,899	15,150	39,693	13,944
GWV HOSPITAL PREPAREDNESS FY17	4100062621	20,325	20,178	14,678	5,500	—
G-SACH HPP FY17	4100062620	16,857	—	31,287	—	31,287
GMC HOSPITAL PREPAREDNESS	4100062620	23,057	—	38,235	—	38,235
GEISINGER BLOOMSBURG HPP FY17	4100062890	19,692	19,300	5,500	13,800	—
GCMC HOSPITAL PREPAREDNESS	4100062604	20,151	—	9,527	—	9,527
HPP LEWISTOWN HOSPITAL FY17	4100063155	19,963	19,963	15,423	5,285	745
EBOLA GRANT	4100070342	750,000	379,066	—	384,066	5,000
KIDDE SAFE KIDS	Community Awareness Mini Grant	600	600	—	597	(3)
EVALUATION OF SYSTEM-WIDE MEDS	4100072547	184,737	—	(140,997)	63,709	(77,289)
FORNWALT FORMULA FUNDS		—	—	—	—	—
CURE BIG DATA BIOMED DISCOVERY	4100070267	4,385,863	—	(2,472,067)	1,112,248	(1,359,819)
PA CURE FORMULA GRANT ROBISHAW	4100068713	137,129	—	(5,918)	—	(5,918)