



# **Geisinger**

**Consolidated Financial Statements and  
Information on Federal Awards**

**June 30, 2019**

**(With Independent Auditors' Reports Thereon)**

# Geisinger

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KPMG LLP  
1601 Market Street  
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## 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, 2019 and 2018, 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, 2019 and 2018, 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 September 26, 2019 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  
September 26, 2019

**Geisinger**  
**Consolidated Balance Sheets**  
**June 30, 2019 and 2018**

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	2019	2018
<i>(dollars in thousands)</i>		
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 202,345	\$ 399,590
Investments	888,203	784,056
Accounts receivable	708,770	680,464
Inventories and other	201,159	176,704
	<hr/>	<hr/>
Total current assets	2,000,477	2,040,814
Investments	3,320,716	3,253,181
Property and equipment, net	2,009,952	1,991,645
Other assets, net	559,691	417,719
	<hr/>	<hr/>
Total assets	<u>\$ 7,890,836</u>	<u>\$ 7,703,359</u>
<b>Liabilities and Net Assets</b>		
Current liabilities		
Current installments of long-term debt	\$ 34,211	\$ 29,274
Estimated third-party payor settlements	38,938	99,391
Accounts payable	107,041	185,552
Medical claims payable	177,453	177,665
Accrued expenses and other	743,908	682,190
	<hr/>	<hr/>
Total current liabilities	1,101,551	1,174,072
Long-term debt, net of current installments	1,722,360	1,787,469
Other liabilities and contingencies	661,553	510,581
	<hr/>	<hr/>
Total liabilities	3,485,464	3,472,122
Net assets		
Without donor restrictions	4,228,750	4,054,129
With donor restrictions	169,421	168,009
Noncontrolling interest	7,201	9,099
	<hr/>	<hr/>
Total net assets	4,405,372	4,231,237
	<hr/>	<hr/>
Total liabilities and net assets	<u>\$ 7,890,836</u>	<u>\$ 7,703,359</u>

See accompanying notes to the consolidated financial statements.

**Geisinger**  
**Consolidated Statements of Operations**  
**Years Ended June 30, 2019 and 2018**

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	2019	2018
<i>(dollars in thousands)</i>		
Revenues		
Net patient service revenue	\$ 3,761,257	\$ 3,560,747
Premium revenue	3,120,760	3,047,215
Other revenue	263,591	250,500
	<u>7,145,608</u>	<u>6,858,462</u>
Expenses		
Salaries and benefits	3,013,701	2,888,905
Medical claims	1,726,197	1,715,305
Supplies	1,047,088	962,179
Depreciation and amortization	249,935	248,255
Purchased services	541,316	490,201
Other	437,037	397,060
	<u>7,015,274</u>	<u>6,701,905</u>
Operating income before asset impairment loss	130,334	156,557
Asset impairment loss	<u>11,517</u>	<u>140,384</u>
Operating income	118,817	16,173
Investing and financing activities		
Investment earnings, net	209,574	291,838
Interest expense	(61,389)	(57,708)
Unrealized (loss) gain on derivatives	(5,128)	6,777
Contribution (expense) from acquisitions	51	(11,930)
Gain from investing and financing activities	<u>143,108</u>	<u>228,977</u>
Nonoperating gains, net	<u>17,154</u>	<u>5,361</u>
Excess of revenues over expenses	<u>\$ 279,079</u>	<u>\$ 250,511</u>

See accompanying notes to the consolidated financial statements.

**Geisinger**  
**Consolidated Statements of Changes in Net Assets**  
**Years Ended June 30, 2019 and 2018**

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	2019	2018
<i>(dollars in thousands)</i>		
<b>Excess of revenues over expenses</b>	\$ 279,079	\$ 250,511
Other changes in net assets without donor restrictions		
Unrealized (loss) gain on derivatives	(6,099)	5,128
Pension liability adjustments	(85,750)	97,428
Net assets released from restriction for capital purchases	5,416	2,924
Net distribution to noncontrolling interest	(20,576)	(4,868)
Other	653	(3,043)
	<u>172,723</u>	<u>348,080</u>
<b>Changes in net assets with donor restrictions</b>		
Donor contributions	11,359	10,286
Contribution from acquisition	-	17
Investment earnings, net	4,863	9,358
Net assets released from restriction to fund operations	(9,394)	(5,417)
Net assets released from restriction for capital purchases	(5,416)	(2,924)
	<u>1,412</u>	<u>11,320</u>
Increase in net assets with donor restrictions	<u>1,412</u>	<u>11,320</u>
Increase in net assets	174,135	359,400
<b>Net assets</b>		
Beginning of year	<u>4,231,237</u>	<u>3,871,837</u>
End of year	<u>\$ 4,405,372</u>	<u>\$ 4,231,237</u>

See accompanying notes to the consolidated financial statements.

**Geisinger**  
**Consolidated Statements of Cash Flows**  
**Years Ended June 30, 2019 and 2018**

	2019	2018
<i>(dollars in thousands)</i>		
<b>Cash flows from operating activities</b>		
Increase in net assets	\$ 174,135	\$ 359,400
Decrease in net assets attributable to noncontrolling interest	1,898	3,326
	<u>176,033</u>	<u>362,726</u>
Increase in net assets attributable to Geisinger	176,033	362,726
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	246,783	248,737
Provision for bad debts	-	134,083
Unrealized loss (gain) on derivatives	11,226	(11,905)
Investment earnings, net	(214,496)	(301,349)
Expense from acquisitions, net of cash received	-	12,499
Restricted contributions	(11,359)	(10,286)
Noncontrolling interest	18,678	1,542
Pension liability adjustments	85,750	(97,428)
Asset impairment loss	11,517	140,384
Gain on sale of business segments	(24,520)	(16,574)
Net change in operating assets and liabilities:		
Accounts receivable	(28,143)	(190,442)
Inventories and other	(24,452)	(3,805)
Estimated third-party payor settlements	(60,453)	(24,035)
Accounts payable	(78,607)	35,843
Medical claims payable	(212)	8,775
Accrued expenses and other	55,272	(10,092)
Other assets and liabilities	(48,792)	(56,690)
	<u>114,225</u>	<u>221,983</u>
Net cash provided by operating activities	114,225	221,983
<b>Cash flows from investing activities</b>		
Additions to property and equipment, net	(269,717)	(287,458)
Purchases of investments	(1,268,105)	(776,366)
Sales of investments	1,310,919	959,996
Cash proceeds from sale of business segments	24,558	26,056
Investment in joint ventures	(40,716)	(5,000)
	<u>(243,061)</u>	<u>(82,772)</u>
Net cash used in investing activities	(243,061)	(82,772)
<b>Cash flows from financing activities</b>		
Proceeds from issuance of debt	-	13,622
Repayment of debt	(59,192)	(41,592)
Net distribution to noncontrolling interest	(20,576)	(4,868)
Proceeds from restricted contributions	11,359	10,286
	<u>(68,409)</u>	<u>(22,552)</u>
Net cash used in financing activities	(68,409)	(22,552)
(Decrease) increase in cash and cash equivalents	(197,245)	116,659
<b>Cash and cash equivalents</b>		
Beginning of year	<u>399,590</u>	<u>282,931</u>
End of year	<u>\$ 202,345</u>	<u>\$ 399,590</u>

See accompanying notes to the consolidated financial statements.

# Geisinger

## Notes to Consolidated Financial Statements

### June 30, 2019 and 2018 (dollars in thousands unless otherwise noted)

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#### 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. Recently Adopted Accounting Standards

Effective July 1, 2018, Geisinger adopted Financial Accounting Standards Board (“FASB”) Accounting Standards Update (“ASU”) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* (“ASC 958”). This ASU requires not-for-profit entities to revise financial presentation and disclosures, including reducing the number of net asset classifications, expanding disclosures related to the liquidity and availability of resources to meet operating needs and disclosing expenses by both their natural and functional classification and program. Geisinger adopted this standard on retrospective basis. As a result of adopting this standard certain prior year amounts were reclassified to conform to the presentation requirements of the standard.

Effective July 1, 2018, Geisinger adopted FASB Accounting Standards Codification Topic 606, *Revenue from Contracts with Customers* (“ASC 606”). Under ASC 606, Geisinger recognizes revenue to represent services provided to customers in an amount that reflects the consideration that Geisinger expects to be entitled to receive in exchange for its services. ASC 606 establishes a five-step model to be used to determine the amount and timing of revenue recognition which includes identifying the contract with the customer, identifying the performance obligations in the contract, determining the transaction price, allocation of the transaction price and determining the timing of satisfying the performance obligation. Geisinger adopted ASC 606 using a modified retrospective approach. The adoption of ASC 606 did not have a material impact on the amount and timing of Geisinger’s revenue recognition. Disclosures in the Summary of Significant Accounting Policies (Note 3) have been updated as required by ASC 606.

Effective July 1, 2018, Geisinger adopted FASB ASU No. 2018-08, *Not-for-Profit Entities – Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made* (“ASU No. 2018-08”). This ASU provides additional guidance to be used to determine whether a contribution is conditional and when a transaction should be accounted for as a contribution versus an exchange transaction. Geisinger adopted this ASU on a modified prospective basis. The adoption of ASU No. 2018-08 did not have a material impact on the amount and timing of Geisinger’s revenue recognition. Disclosures in the Summary of Significant Accounting Policies (Note 3) have been updated as required by the standard.

Effective July 1, 2018, Geisinger adopted FASB ASU No. 2017-07, *Compensation – Retirement Benefits* (“ASC 715”). ASC 715 changes the presentation of net periodic pension cost by requiring components other than service costs to be presented outside of the operating indicator. Service costs continue to be

**Geisinger**  
**Notes to Consolidated Financial Statements**  
**June 30, 2019 and 2018 (dollars in thousands unless otherwise noted)**

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reported as a component of salaries and benefits and are separately disclosed. Geisinger adopted ASC 715 retrospectively, applying the changes to all periods presented.

**3. 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 investments without donor restrictions are recorded as investment earnings, net 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 donor restricted endowment funds are recorded as investment earnings, net in changes in net assets with donor restrictions 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 within investment earnings, net 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 necessary to meet current liabilities have been reclassified to current investments in the Consolidated Balance Sheets.

**Investments in Joint Ventures**

Geisinger has invested in joint ventures primarily for the purpose of promoting health and fulfilling health and wellness needs in the communities it serves. When the investment results in Geisinger having substantial influence over the investee's operating and financial policies, the equity method of accounting is applied. Under the equity method of accounting, the investment is recorded at cost and adjusted for changes in the investee's equity. Investments in joint ventures are reported in other assets in the Consolidated Balance Sheets.

# Geisinger

## Notes to Consolidated Financial Statements

### June 30, 2019 and 2018 (dollars in thousands unless otherwise noted)

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#### **Inventories**

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

#### **Property and Equipment**

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 or license agreement 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.

#### **Contribution and Grant Revenue, and Pledges Receivable**

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 all donor imposed conditions are met. Pledges received with donor restrictions that limit the use of the donated assets are reported as donor contributions with donor restrictions 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, net assets with donor restrictions are transferred to net assets without donor restrictions 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 released from restriction when the asset is placed in service.

Geisinger has elected to report restricted contributions and grants whose restrictions are met in the same reporting period as revenue is recognized as other revenue without donor restrictions in the Consolidated Statements of Operations.

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 does not amortize goodwill but evaluates the amounts for impairment annually and as events or changes in circumstances indicate that the value of the asset may be impaired. Impairment testing consists of internal qualitative assessments and considers other publicly available market information. If the carrying amount of the goodwill exceeds the estimated fair value, an impairment charge to current operations is recorded to reduce the carrying amount to estimated fair value. As of June 30, 2019 and 2018, there was no indication of impairment of goodwill. Goodwill is included in other assets in the Consolidated Balance Sheets and was \$61.7 million as of June 30, 2019 and 2018.

# Geisinger

## Notes to Consolidated Financial Statements

### June 30, 2019 and 2018 (dollars in thousands unless otherwise noted)

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#### **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 derivatives in other changes in net assets without donor restrictions 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**

Geisinger adopted ASC 958, which changes the reporting of net asset classifications from three classifications, unrestricted, temporarily restricted and permanently restricted into two classifications, net assets without donor restrictions and net assets with donor restrictions.

Net assets without donor restrictions include net assets that are not subject to donor-imposed restrictions.

Net assets with donor restrictions include net assets whose use is subject to donor-imposed restrictions to support operations or for capital purchases that will be met either by the actions of Geisinger or the passage of time and net assets that have been restricted by donors to be maintained by Geisinger, or a designated trustee, in perpetuity.

Net assets restricted to be maintained in perpetuity are recorded at their original fair value of gifts donated to Geisinger through endowments. These net assets consist of approximately 210 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

# Geisinger

## Notes to Consolidated Financial Statements

### June 30, 2019 and 2018 (dollars in thousands unless otherwise noted)

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investment earnings, net with donor restrictions 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 net assets with donor restrictions.

Geisinger does not have any board designated endowments.

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

Net patient service revenue is reported at the amount that reflects the consideration to which Geisinger expects to be entitled in exchange for providing health care services. Revenue is recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided by Geisinger. Revenue for performance obligations satisfied at a point in time is recognized when services are provided and completed. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total expected or actual charges. Geisinger believes that this method provides a reasonable depiction of the transfer of services over the term of the performance obligation. Geisinger measures the performance obligation from start of services to the point when it has completed services for that patient, which is generally at the time of discharge. This span of services is considered to be a single performance obligation.

Geisinger records net patient service revenue based on standard charges for services provided, reduced by explicit contractual adjustments provided to third-party payors and implicit price concessions provided to patients as reductions from established billing rates. Geisinger determines its estimates of explicit and implicit price concessions based on historical data which considers experience, market conditions, and other factors.

Explicit and implicit price concessions to net patient service revenue are recorded at the time the performance obligations are satisfied. Any changes to these concessions, as a result of subsequent reassessment, are recognized in the period the change is identified as adjustments to net patient service revenue. The amount recognized due to changes in its estimates of explicit and implicit price concessions for the year ended June 30, 2019 is not significant. Subsequent changes that are determined to be a result of an adverse change in the patient's or payor's ability to pay and are material are recorded as bad debt expense. No bad debt expense was recorded for the year ended June 30, 2019 related to net patient service revenue.

As of June 30, 2018, prior to the adoption of ASC 606, Geisinger maintained an allowance for doubtful accounts totaling \$84,454 based on the expected collectability of patient accounts receivable. In evaluating the collectability of patient accounts receivable, Geisinger considered the historical collection experience and other economic factors. The provision for bad debt expense for 2018 amounted to \$133.0 million.

#### **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

# Geisinger

## Notes to Consolidated Financial Statements

### June 30, 2019 and 2018 (dollars in thousands unless otherwise noted)

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to be in need. The charges for charity care provided by Geisinger are entirely offset by the related implicit price concessions and therefore, are not recognized as net patient service 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.

#### **Premium Revenue and Accounts Receivable**

Premium revenues are generally received in advance and are recognized as revenue ratably over the period for which the enrolled member is entitled to healthcare services. Premiums billed and collected in advance are recorded as unearned premiums and are included in accrued expenses on the accompanying Consolidated Balance Sheets. Unearned premiums totaled \$0.5 million and \$0.3 million at June 30, 2019 and 2018, respectively.

As of June 30, 2018, insurance premiums that were past due greater than 60 days were reserved as uncollectible and were subject to subsequent contract cancellation under terms of the insurance contract.

Geisinger's insurance operations are subject to the Affordable Care Act ("ACA"). The ACA creates state health insurance exchanges, which 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 permanent program under the ACA which aims to transfer funds from qualified individual and small group insurance plans with below average risk scores to plans with above average risk scores in the same market. Risk adjustment is complex and involves significant estimation and uncertainties with respect to both recorded amounts and timing of collections or payments. The Consolidated Balance Sheets include liabilities of \$50.7 million and \$30.5 million at June 30, 2019 and 2018, respectively, related to this program.

#### **Other Revenue**

Geisinger's other revenue consists of contracts that vary in duration and in performance obligations. Adoption of ASC 606 did not change the nature, timing or extent of revenues previously recognized. Revenues are recognized when the performance obligations identified within the individual contracts are satisfied and collections can be reasonably assured. Certain revenue streams such as contributions, grants and pledges are reported as other revenue in the Consolidated Statements of Operations and are not subject to ASC 606.

#### **Nonoperating Gains**

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 gains, net.

#### **Excess of Revenues Over Expenses**

The excess of revenues over expenses (the performance indicator), consistent with industry practice, includes all revenues, expenses, and net gains and losses for the reporting period classified as without donor restrictions. Net assets released from restriction to fund capital purchases, pension liability adjustments, unrealized gains (losses) on the effective portion of derivatives and distributions from noncontrolling interest, net of contributions are reported outside the performance indicator.

#### **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

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revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include implicit and explicit price concessions for revenue transactions, estimated third-party payor settlements, depreciation, accrued medical claims, medical legal liabilities, workers' compensation liabilities, derivatives, alternative investments, ACA risk adjustment liabilities, asset impairment losses, and expected rate of return on investments used to value defined-benefit pension liabilities.

**Reclassifications**

Geisinger has reclassified certain amounts relating to its prior period results to conform to its current period presentation.

During fiscal year 2018, Geisinger planned 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"). Accordingly, the assets and liabilities of HSHS were adjusted to fair value, segregated and reported as held for sale in the June 30, 2018 Consolidated Balance Sheet. The revenues and expenses of HSHS had been segregated and reported as discontinued operations in the Consolidated Statement of Changes in Net Assets for the year ended June 30, 2018. During fiscal year 2019, the plan to divest concluded without a divestiture and HSHS was no longer considered held for sale. The segregated assets, liabilities, revenue and expenses were reclassified to their natural classifications and the impairment charge recorded to adjust HSHS assets and liabilities to fair value was reclassified to operating expense in the accompanying Consolidated Statements of Operations.

As described in Note 2, the adoption of ASC 958 required a change in net asset classifications from unrestricted, temporarily and permanently restricted to without donor restrictions and with donor restrictions. Net asset balances at June 30, 2018 were reclassified to conform with this change.

ASC 715, described in Note 2, requires all components of net periodic pension costs, with the exception of service cost, to be reported separately from service cost and outside of operating income. These costs are reported in nonoperating gains, net, while service cost continues to be reported in salaries and benefits, both in the accompanying Consolidated Statement of Operations. Adoption of ASC 715 resulted in an increase in salaries and benefits and nonoperating gains, net of \$15.9 million and \$11.2 million for the years ended June 30, 2019 and 2018, respectively.

**4. Organizational Changes**

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 fiscal year 2018 Consolidated Statements of Operations.

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. Geisinger Health recognized \$11.9 million contribution expense during fiscal year 2018 as a result of this transaction.

**5. Joint Ventures**

Geisinger's investment in joint ventures, included in other assets on the accompanying Consolidated Balance Sheets, totaled \$127.6 million and \$17.1 million at June 30, 2019 and 2018, respectively.

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During fiscal year 2019, Geisinger and LHC Group, Inc. (“LHC”) entered into a joint venture partnership and formed Keystone Healthcare Partnership, LLC (“KHP”). Geisinger sold its home health and hospice lines of business to KHP. Concurrent with the sale, Geisinger purchased a 25% minority interest in KHP. A gain on sale resulting from this transaction totaling \$24.5 million is included in other revenue in the accompanying fiscal year 2019 Consolidated Statement of Operations. An investment in KHP of \$7.2 million is included in other assets at June 30, 2019 on the accompanying Consolidated Balance Sheet.

Effective February 1, 2019, Geisinger entered into a collaboration agreement with Evangelical Community Hospital and affiliate (collectively “Evan”). Upon closing of the agreement, Evan transferred 30% of its membership interest to Geisinger in consideration for financial, operational and other commitments of Geisinger. An investment of \$92.0 million is included in other assets on the accompanying Consolidated Balance Sheet at June 30, 2019. Liabilities totaling \$72.7 million are included in liabilities at June 30, 2019 representing the remaining financial commitments of Geisinger.

Also effective February 1, 2019, Geisinger entered into a joint venture and operating agreement with Highmark Health. The parties formed Geisinger-HM Joint Venture, LLC (“GHM”), of which Geisinger owns 60%. GHM will build and operate a hospital facility in Pennsdale, Pennsylvania, and will operate several clinic sites in the region. As of June 30, 2019, Geisinger had not yet contributed cash or other assets to the joint venture.

Effective March 14, 2018, Geisinger entered into joint venture agreement with St. Luke’s University Health Network (“St. Luke’s”). The joint venture, which is 50% owned by each party will build a hospital facility in Orwigsburg, Pennsylvania. An investment of \$19.5 million is included in other assets on the accompanying Consolidated Balance Sheet at June 30, 2019.

**6. Liquidity and Availability of Resources**

Liquid financial resources are utilized by Geisinger to meet short term, one year or less, expenditure needs. Geisinger’s investment strategy is to maintain liquid resources sufficient to meet short term needs and invest the excess. Geisinger’s long term investments without donor restrictions, except for private equity funds, are intended for long term uses but are available for short term needs. The following summarizes Geisinger’s financial assets and liquidity resources available within one year to meet the needs of Geisinger as of June 30:

	<b>2019</b>	<b>2018</b>
Financial Assets		
Cash and cash equivalents	\$ 202,345	\$ 399,590
Accounts receivable	708,770	680,464
Investments	4,208,919	4,037,237
Total financial assets	<u>\$ 5,120,034</u>	<u>\$ 5,117,291</u>
Less restricted investments:		
To meet donor intentions	116,664	113,643
Under debt agreements	7,828	8,504
Under insurance arrangements	7,338	7,253
Research grants	1,823	1,988
Plus liquidity resources:		
Line of Credit (Note 20)	50,000	50,000
	<u>\$ 5,036,381</u>	<u>\$ 5,035,903</u>

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**7. Investments**

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

	2019	2018
Cash and cash equivalents	\$ 31,465	\$ 127,717
Equity funds	2,572,783	2,598,550
Marketable equity securities	88,828	143,821
Corporate obligations	221,711	177,026
Fixed income funds	1,053,275	786,093
U.S. Government and agency obligations	147,614	112,658
Total return fund	19	20
Absolute return fund	163	242
Private equity	93,061	91,110
	<u>\$ 4,208,919</u>	<u>\$ 4,037,237</u>

Unrealized investment earnings represent the change in fair value of investments calculated for securities 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.

**8. 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.

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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,

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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, and trusts that have donor-imposed restrictions are reported as net assets with donor restrictions. Distributions from trusts are recorded as investment earnings, net in net assets without donor restriction or as investment earnings, net in net assets with donor restrictions 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.

The following tables set forth Geisinger's assets and liabilities at June 30, 2019 and 2018 by level within the fair value hierarchy and NAV.

	<b>2019</b>				
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>NAV</b>	<b>Total</b>
Cash and cash equivalents	\$ 233,810	\$ -	\$ -	\$ -	\$ 233,810
Equity funds	2,572,783	-	-	-	2,572,783
Marketable equity securities	88,828	-	-	-	88,828
Corporate obligations	-	221,711	-	-	221,711
Fixed income funds	1,053,275	-	-	-	1,053,275
U.S. Government and agency obligations	93,501	54,113	-	-	147,614
Absolute and total return funds	-	-	-	182	182
Private equity	-	-	-	93,061	93,061
Assets held in trust	-	-	36,545	-	36,545
Derivative instruments	-	(42,167)	-	-	(42,167)
	<u>\$ 4,042,197</u>	<u>\$ 233,657</u>	<u>\$ 36,545</u>	<u>\$ 93,243</u>	<u>\$ 4,405,642</u>

	<b>2018</b>				
	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>NAV</b>	<b>Total</b>
Cash and cash equivalents	\$ 525,888	\$ 1,419	\$ -	\$ -	\$ 527,307
Equity funds	2,598,550	-	-	-	2,598,550
Marketable equity securities	143,821	-	-	-	143,821
Corporate obligations	-	177,026	-	-	177,026
Fixed income funds	786,093	-	-	-	786,093
U.S. Government and agency obligations	62,171	50,487	-	-	112,658
Absolute and total return funds	-	-	-	262	262
Private equity	-	-	-	91,110	91,110
Assets held in trust	-	-	35,956	-	35,956
Derivative instruments	-	(30,940)	-	-	(30,940)
	<u>\$ 4,116,523</u>	<u>\$ 197,992</u>	<u>\$ 35,956</u>	<u>\$ 91,372</u>	<u>\$ 4,441,843</u>

# Geisinger

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During the years ended June 30, 2019 and 2018, there were no transfers among levels or significant changes in Level 3 investments.

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 13 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, 2019. These unfunded commitments totaled \$31.3 million at June 30, 2019. Such commitments have terms from one to thirteen years.

### 9. Property and Equipment, net

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

	Estimated Useful Lives	2019	2018
Land		\$ 89,139	\$ 102,050
Land improvements	(5–25 years)	84,126	82,348
Buildings and building improvements	(5–40 years)	1,279,084	1,256,472
Equipment	(3–20 years)	1,768,445	1,659,567
Computer software	(5 years)	356,297	321,695
		<u>3,577,091</u>	<u>3,422,132</u>
Accumulated depreciation and amortization		<u>(1,732,411)</u>	<u>(1,549,470)</u>
		1,844,680	1,872,662
Construction in progress		<u>165,272</u>	<u>118,983</u>
		<u>\$ 2,009,952</u>	<u>\$ 1,991,645</u>

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Depreciation expense related to property and equipment for the years ended June 30, 2019 and 2018 was \$242.5 million and \$239.4 million, respectively. At June 30, 2019 and 2018, respectively, \$31.2 million and \$24.8 million of construction-related purchases had not been paid and accordingly, were included in accrued expenses and other liabilities on the Consolidated Balance Sheets.

Geisinger recorded impairment losses totaling \$11.5 million and \$140.4 million at June 30, 2019 and 2018, respectively. These losses primarily related to HSHS, see the reclassifications in note 3.

**10. Long-Term Debt**

Long-term debt consists of the following:

	Interest Rate Mode	Final Maturity	Average Interest Rate	June 30,	
				2019	2018
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%	234,885	235,660
Series A of 2015 Bonds	Bank Held Rate	07/01/37	2.2%	93,130	96,400
Series B of 2015 Bonds	Bank Held Rate	12/01/30	2.6%	25,125	27,295
Series C of 2015 Bonds	Fixed Rate	07/01/25	1.8%	22,010	24,845
Series D of 2015 Bonds	Fixed Rate	04/01/42	2.4%	56,383	58,213
Series E of 2015 Bonds	Bank Held Rate	06/01/39	2.0%	50,000	50,000
Series F of 2015 Bonds	Bank Held Rate	06/01/39	2.0%	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	2.6%	62,700	62,700
Series A of 2013 Bonds	VRDB	10/01/43	1.5%	65,000	65,000
Series C of 2013 Bonds	Bank Held Rate	10/01/43	2.4%	84,700	84,700
Series D of 2013 Bonds	Bank Held Rate	10/01/43	2.4%	84,700	84,700
Series 2011 Bonds HSH	Fixed Rate	01/01/41	5.9%	14,010	17,885
Series B of 2011 Bonds HSH	Fixed Rate	01/01/41	5.6%	25,820	25,820
Series A-1 of 2011 Bonds	Fixed Rate	06/01/41	4.8%	95,000	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	1.5%	50,000	50,000
Series 2007 Bonds	Index Floating Rate	05/01/37	2.5%	68,850	68,850
Series A of 2005 Bonds	VRDB	05/15/35	1.5%	65,000	65,000
Series B of 2005 Bonds	VRDB	08/01/22	1.5%	62,300	62,300
Series A of 1998 Bonds	Fixed Rate	08/15/28	5.2%	21,450	24,660
Total tax-exempt revenue bonds				1,668,053	1,691,018
<b>Other long-term debt</b>					
Bank loans				26,413	41,616
Notes payable				9,892	11,055
Capital leases				7,140	25,289
Total debt				1,711,498	1,768,978
Less: current installments				(34,211)	(29,274)
Net unamortized premium				46,201	49,099
Deferred debt issue costs				(6,320)	(6,780)
Fair market value adjustments				5,192	5,446
				<u>\$ 1,722,360</u>	<u>\$ 1,787,469</u>

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

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

2020	\$ 34,211
2021	48,416
2022	33,397
2023	90,380
2024	27,603
Thereafter	<u>1,477,491</u>
	<u>\$ 1,711,498</u>

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.

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, 2019.

Net interest paid, including swap agreements, was \$64.5 million and \$55.9 million in 2019 and 2018, respectively.

**11. 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, 2019 and 2018 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, 2019 and 2018 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.

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During 2001, Geisinger Health entered into an interest rate swap agreement with a total outstanding notional amount of \$80.0 million at June 30, 2019 and 2018. 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, 2019, this option has not been triggered.

Geisinger Commonwealth School of Medicine ("GCSOM") is a party to two interest rate swap agreements with a total outstanding notional amount of \$27.4 million at June 30, 2019 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. was a party to an interest rate collar agreement with a commercial bank. The cap and floor were set at 7.3% and 5.15%, respectively. The collar matured during fiscal year 2019 and has no outstanding notional amount at June 30, 2019. This transaction qualified 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 net assets without donor restriction 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.

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

	2019	2018
Derivatives designated as hedging instruments		
Swap (2007)	\$ 22,231	\$ 16,034
Collar	-	98
Total derivatives designated as hedging instruments	<u>22,231</u>	<u>16,132</u>
Derivatives not designated as hedging instruments		
Swap (2001)	16,149	13,687
Swap (2005)	3,612	2,624
Swap GCSOM 1	1,332	869
Swap GCSOM 2	2,548	1,642
Option (2001)	<u>(3,705)</u>	<u>(4,014)</u>
Total derivatives not designated as hedging instruments	<u>19,936</u>	<u>14,808</u>
Derivative liability balance	<u>\$ 42,167</u>	<u>\$ 30,940</u>

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

	2019	2018
Derivative liability value at beginning of year	\$ 30,940	\$ 42,845
Unrealized loss (gain) recorded in the Consolidated Statements of Operations	5,128	(6,777)
Unrealized loss (gain) recorded as a component of changes in net assets	6,099	(5,128)
Derivative liability value at end of year	<u>\$ 42,167</u>	<u>\$ 30,940</u>

Based on provisions contained in the swap agreements regarding the aggregate position of derivative instruments, no collateral was posted as of June 30, 2019.

**12. Endowment Net Assets**

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

<b>Endowment net assets at June 30, 2017</b>	\$ 88,495
Net investment earnings	6,283
Contributions received	954
Annual appropriations	<u>(2,890)</u>
<b>Endowment net assets at June 30, 2018</b>	92,842
Net investment earnings	3,608
Contributions received	2,213
Annual appropriations	<u>(3,017)</u>
<b>Endowment net assets at June 30, 2019</b>	<u>\$ 95,646</u>

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**13. Noncontrolling Interest**

Noncontrolling interest represents the proportionate share of Geisinger SCA Holdings, LLC (“GSCA”), AtlantiCare Surgery Center, LLC (“ASC”) and Keystone Accountable Care Organization (“KACO”) that are owned by third parties. 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% owned by Geisinger at June 30, 2019. ASC is a same-day surgical center with three locations in southern New Jersey and is 43.1% owned by Geisinger at June 30, 2019. KACO is a group of health care providers who collaborate to improve health services and care and is 75% owned by Geisinger at June 30, 2019. 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 \$8.8 million and \$9.1 million as of June 30, 2019 and 2018, respectively.

**14. 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, 2019 and 2018 were \$48.6 million and \$47.6 million, respectively.

The following is a schedule by year of future minimum lease payments under noncancelable operating leases as of June 30, 2019:

<b>Year Ending June 30,</b>	
2020	\$ 19,750
2021	17,369
2022	13,089
2023	9,885
2024	7,990
2025 and after	37,647
	<u>\$ 105,730</u>

**15. 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 \$101.7 million and \$90.3 million for the years ended June 30, 2019 and 2018, 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 December 31, 2017, the Geisinger Bloomsburg Hospital (GBH) sponsored defined-benefit plan was merged into the Geisinger Consolidated Pension Plan (“GCPP”).

**Geisinger**  
**Notes to Consolidated Financial Statements**  
**June 30, 2019 and 2018 (dollars in thousands unless otherwise noted)**

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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, 2019 were \$694.6 million and \$611.2 million, respectively. The same amounts for 2018 were \$605.1 million and \$606.0 million, respectively. At June 30, 2019, accrued pension costs were \$83.4 million. At June 30, 2018, fair value of plan assets exceeded the projected benefit obligation resulting in a prepaid pension asset totaling \$0.9 million. Accrued pension cost is recognized in the Consolidated Balance Sheets as other liabilities and contingencies.

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

	<b>2019</b>	<b>2018</b>
<b>Prepaid (accrued) pension cost</b>	\$ 908	\$ (135,775)
Service Cost	(19,187)	(22,194)
Interest Cost	(24,404)	(23,345)
Addition of GJSH Plan	—	(3,843)
Other changes in benefit obligation	(2)	913
Return on plan assets, net of expenses	43,852	41,450
Employer Contributions	4,726	55,019
Actuarial (Loss) Gain	(89,281)	88,683
<b>(Accrued) prepaid pension cost</b>	<u>\$ (83,388)</u>	<u>\$ 908</u>

Geisinger intends to contribute approximately \$11.5 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:

	<b>2019</b>			<b>2018</b>		
	<b>GCPP</b>	<b>GJSH</b>	<b>AHS</b>	<b>GCPP</b>	<b>GJSH</b>	<b>AHS</b>
Discount Rate:						
Net periodic pension cost	4.22%	4.24%	4.15%	3.67%	3.65%	3.55%
Total Benefit Obligation	3.40%	3.40%	3.35%	4.22%	4.24%	4.15%
Expected long-term return on plan assets	4.80%	5.17%	6.40%	6.50%	7.00%	6.40%

**Geisinger**  
**Notes to Consolidated Financial Statements**  
**June 30, 2019 and 2018 (dollars in thousands unless otherwise noted)**

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:

	2019					Actual Allocation
	Level 1	Level 2	Level 3	NAV	Total	
Equity funds	\$ 315,683	\$ -	\$ -	\$ -	\$ 315,683	52%
Fixed income funds	286,781	-	-	-	286,781	47%
Private Equity	-	-	-	7,981	7,981	1%
Cash and cash equivalents	713 *	-	-	-	713	0%
	<u>\$ 603,177</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,981</u>	<u>\$ 611,158</u>	<u>100%</u>

  

	2018					Actual Allocation
	Level 1	Level 2	Level 3	NAV	Total	
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%
	<u>\$ 597,241</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,781</u>	<u>\$ 606,022</u>	<u>100%</u>

Current target investment allocations for each plan are as follows:

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

The following is a schedule by year of estimated future benefit payments as of June 30, 2019:

Year Ending June 30,	
2020	\$ 44,482
2021	47,540
2022	47,590
2023	48,023
2024	48,855
2025-2029	240,626
Total	<u>\$ 477,116</u>

**16. 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.

**Geisinger**  
**Notes to Consolidated Financial Statements**  
**June 30, 2019 and 2018 (dollars in thousands unless otherwise noted)**

The limits of the professional liability coverage relating to the years ended June 30, 2019 and 2018 are subject to the following sublimits:

Coverage	Coverage Period	(in Millions)	
		Per Claim	Annual
Institutional professional	7/1/2018-6/30/2019	\$ 0.5	\$ 2.5
Physician professional	7/1/2018-6/30/2019	0.5	1.5
Non-MCARE Entities' professional	7/1/2018-6/30/2019	1.0	1.0
Employed Allied Healthcare & Dentists	7/1/2018-6/30/2019	1.0	3.0
Long-Term Care Facility	7/1/2018-6/30/2019	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, 2019 and 2018 were subject to the following sublimits:

		(in Millions)		
2019:		Per Claim	Annual	Captive
Coverage	Coverage Period	Limit	Aggregate	Aggregate
			Limit	Limit
Institutional professional	7/1/2018-6/30/2019	\$ 1.0	\$	\$ 5.5 *
General liability	7/1/2018-6/30/2019	1.0	1.0 *	*
Physician professional	7/1/2018-6/30/2019	1.0 **	3.0 **	7.0
Institutional professional & physician professional excess	7/1/2018-6/30/2019	3.0		3.0 */***

  

		(in Millions)		
2018:		Per Claim	Annual	Captive
Coverage	Coverage Period	Limit	Aggregate	Aggregate
			Limit	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 *	7.0 *
Physician professional	7/1/2017-6/30/2018	1.0 **	3.0 **	
Institutional professional & physician professional excess	7/1/2017-6/30/2018	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% for 2019 and 2018, 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 \$244.2 million and \$211.3 million at June 30, 2019 and 2018, respectively.

**Geisinger**  
**Notes to Consolidated Financial Statements**  
**June 30, 2019 and 2018 (dollars in thousands unless otherwise noted)**

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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 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 \$9.5 million and \$8.4 million for the years ended June 30, 2019 and 2018, respectively. 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.

**Geisinger**  
**Notes to Consolidated Financial Statements**  
**June 30, 2019 and 2018 (dollars in thousands unless otherwise noted)**

**17. Revenue, Charity Care, and Accounts Receivable**

Major components of revenue consist of the following:

	2019		2018	
	Revenue	% of Total	Revenue	% of Total
Net patient service revenue				
Medicare (MC)	\$ 1,079,771	15.1%	\$ 1,019,555	14.9%
Medical Assistance (MA)	213,803	3.0%	244,371	3.6%
Other payors	2,467,683	34.5%	2,296,821	33.5%
	<u>3,761,257</u>	<u>52.6%</u>	<u>3,560,747</u>	<u>52.0%</u>
Premium revenue				
MC Advantage	1,072,939	15.0%	1,015,878	14.8%
Commercial	1,014,314	14.2%	1,051,410	15.3%
MA and other state programs	1,033,507	14.5%	979,927	14.3%
	<u>3,120,760</u>	<u>43.7%</u>	<u>3,047,215</u>	<u>44.4%</u>
Other revenue	<u>263,591</u>	<u>3.7%</u>	<u>250,500</u>	<u>3.6%</u>
	<u>\$ 7,145,608</u>	<u>100.0%</u>	<u>\$ 6,858,462</u>	<u>100.0%</u>

Laws and regulations governing MC and MA are complex and subject to interpretation. Geisinger is aware of these laws and regulations. Periodically, in the ordinary course of business, situations arise requiring additional scrutiny by management to ensure that no instances of non-compliance with laws and regulations exist. If an instance on non-compliance is identified, governing bodies are alerted and efforts are made to estimate contingencies. If these contingencies are probable and estimable they are recorded as liabilities in the Consolidated Balance Sheet. 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, 2018. Provisions have been made in the accompanying financial statements for anticipated adjustments that are estimable and are included in estimated third-party payor settlements on the Consolidated Balance Sheets.

The cost of charity service provided was approximately \$50.9 million and \$44.4 million in 2019 and 2018, 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 \$407.0 million and \$357.3 million for the years ended June 30, 2019 and 2018, respectively. In addition, price concessions for a patients' inability or unwillingness to pay totaled \$134.2 million for the year ended June 30, 2019.

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

**Geisinger**  
**Notes to Consolidated Financial Statements**  
**June 30, 2019 and 2018 (dollars in thousands unless otherwise noted)**

inpatient, hospital outpatient, and physician providers to CMS within prescribed deadlines. The Centers for Medicare and Medicaid Services (CMS) risk-adjustment model uses this diagnosis data to calculate the risk adjusted premium payment to MC Advantage plans.

CMS is continuing to perform audits of various companies' selected MC Advantage contracts related to this risk adjustment diagnosis data. These Risk-Adjustment Data Validation Audits review medical record documentation in an attempt to validate provider coding practices and the presence of risk adjustment conditions, which influence the calculation of premium payments to MC Advantage plans.

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 consist of the following:

	2019	2018
Clinical services	\$ 399,154	\$ 376,857
Insurance operations	171,842	182,029
Other	137,774	121,578
	<u>\$ 708,770</u>	<u>\$ 680,464</u>

**18. Functional Expenses**

Expenses attributed to each program or supporting function of Geisinger are reported in the following table. Expenses attributable to more than one program require allocation, which is consistently applied and based upon reasonable statistics such as revenue, expenses or full-time equivalents. Indirect costs incurred for the benefit of multiple programs are classified as management and general expenses. Expenses related to providing services described in note 1 (including interest expense) are as follows:

Year Ended June 30, 2019	Program Services				Management & General	
	Clinical Enterprise	Health Plan	Other	Total	& General	Total
Salaries and benefits	\$ 2,433,071	\$ 95,673	\$ 138,031	\$ 2,666,775	\$ 346,926	\$ 3,013,701
Medical Claims	-	1,726,197	-	1,726,197	-	1,726,197
Supplies	1,010,926	3,419	25,022	1,039,367	7,721	1,047,088
Depreciation and amortization	113,043	21,331	5,458	139,832	110,103	249,935
Purchased services	245,522	59,190	37,954	342,666	198,650	541,316
Asset impairment losses	10,981	-	-	10,981	536	11,517
Other	202,245	30,781	15,856	248,882	188,155	437,037
Total Expenses	<u>\$ 4,015,788</u>	<u>\$ 1,936,591</u>	<u>\$ 222,321</u>	<u>\$ 6,174,700</u>	<u>\$ 852,091</u>	<u>\$ 7,026,791</u>

Year Ended June 30, 2018	Program Services				Management & General	
	Clinical Enterprise	Health Plan	Other	Total	& General	Total
Salaries and benefits	\$ 2,305,635	\$ 91,861	\$ 145,585	\$ 2,543,081	\$ 345,824	\$ 2,888,905
Medical Claims	-	1,715,305	-	1,715,305	-	1,715,305
Supplies	918,607	3,435	26,041	948,083	14,096	962,179
Depreciation and amortization	109,897	18,223	5,809	133,929	114,326	248,255
Purchased services	227,995	55,309	34,505	317,809	172,392	490,201
Asset impairment losses	140,384	-	-	140,384	-	140,384
Other	168,770	19,281	26,861	214,912	182,148	397,060
Total Expenses	<u>\$ 3,871,288</u>	<u>\$ 1,903,414</u>	<u>\$ 238,801</u>	<u>\$ 6,013,503</u>	<u>\$ 828,786</u>	<u>\$ 6,842,289</u>

**Geisinger**  
**Notes to Consolidated Financial Statements**  
**June 30, 2019 and 2018 (dollars in thousands unless otherwise noted)**

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**19. Net Assets with Donor Restrictions**

Net assets with donor restrictions were available for the following purposes at June 30:

	2019	2018
Time and purpose restrictions:		
Support operations	\$ 47,743	\$ 46,187
Purchase of equipment	23,623	26,402
	<u>\$ 71,366</u>	<u>\$ 72,589</u>
Amount held in perpetuity	98,055	95,420
	<u>\$ 169,421</u>	<u>\$ 168,009</u>

Net assets were released from donor restriction by incurring expenditures satisfying the restricted purpose to support operations and capital purchases in the amount of \$14.8 million and \$8.3 million for the years ended June 30, 2019 and 2018, respectively.

**20. Contingent Liabilities and Commitments**

Geisinger is involved in litigation and compliance reviews arising in the ordinary course of business. After consultation with legal counsel, management believes that the outcomes of litigation and reviews that are estimable at June 30, 2019 will not materially affect the financial statements of Geisinger. Results of certain billing and compliance reviews are not currently estimable.

Geisinger Health maintains \$50.0 million of credit facilities for the issuance of letters of credit. As of June 30, 2019 and 2018, \$30.5 million and \$31.3 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, 2019.

Geisinger has outstanding commitments on construction projects totaling \$62.8 million and \$71.2 million at June 30, 2019 and 2018, respectively.

**21. Subsequent Events**

Management has evaluated subsequent events through September 26, 2019, 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, 2019, and events which occurred subsequent to June 30, 2019, 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, 2019, and the related consolidated statement of operations, consolidated statement 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 September 26, 2019.

**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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**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*.



**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  
September 26, 2019



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 programs for the year ended June 30, 2019. Geisinger's major federal programs are 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 each of Geisinger's major federal programs 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 programs 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 each major federal programs. 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 each of its major federal programs for the year ended June 30, 2019.

### **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 each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each 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  
September 26, 2019

**Geisinger**  
**Consolidated Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2019**

Federal or State Awarding Agency/Program	Pass Through Entity	Pass Through Entity Identification Number	CFDA No.	Expenditures	Amounts Provided to Subrecipients
<b>Research and Development Cluster</b>					
<b>Direct Programs</b>					
<b>United States Department of Agriculture (USDA)</b>					
Agricultural Research Service			10.001	\$ 159,085	\$ 87,139
Total United States Department of Agriculture (USDA)				<u>159,085</u>	<u>87,139</u>
<b>United States Department of Defense (DOD)</b>					
Military Medical Research and Development			12.420	501,014	32,079
Total United States Department of Defense (DOD)				<u>501,014</u>	<u>32,079</u>
<b>United States Department of Health and Human Services (DHHS)</b>					
<b>Centers for Disease Control and Prevention (CDC)</b>					
Chronic Diseases: Research, Control, and Prevention			93.068	782,097	319,968
Total Centers for Disease Control and Prevention (CDC)				<u>782,097</u>	<u>319,968</u>
<b>National Cancer Institute (NCI)</b>					
21st Century Cures Act - Beau Biden Cancer Moonshot			93.353	799,451	445,607
Cancer Treatment Research			93.395	1,849,243	-
Total National Cancer Institute (NCI)				<u>2,648,694</u>	<u>445,607</u>
<b>National Human Genome Research Institute (NHGRI)</b>					
Human Genome Research			93.172	1,221,309	104,481
Total National Human Genome Research Institute (NHGRI)				<u>1,221,309</u>	<u>104,481</u>
<b>National Institute of Diabetes and Digestive and Kidney Diseases (NIDDK)</b>					
Diabetes, Digestive, and Kidney Diseases Extramural Research			93.847	137,309	-
Total National Institute of Diabetes and Digestive and Kidney Diseases (NIDDK)				<u>137,309</u>	<u>-</u>
<b>National Institute on Drug Abuse (NIDA)</b>					
Drug Abuse and Addiction Research Programs			93.279	1,152,921	304,389
Total National Institute on Drug Abuse (NIDA)				<u>1,152,921</u>	<u>304,389</u>
<b>National Institute of General Medical Sciences (NIGMS)</b>					
Biomedical Research and Research Training			93.859	284,890	128,067
Total National Institute of General Medical Sciences (NIGMS)				<u>284,890</u>	<u>128,067</u>
<b>National Heart, Lung, and Blood Institute (NHLBI)</b>					
Cardiovascular Diseases Research			93.837	1,153,437	410,421
Total National Heart, Lung, and Blood Institute (NHLBI)				<u>1,153,437</u>	<u>410,421</u>
<b>National Institute of Mental Health (NIMH)</b>					
Mental Health Research Grants			93.242	1,842,508	198,386
Total National Institute of Mental Health (NIMH)				<u>1,842,508</u>	<u>198,386</u>
Total U.S. Department of Health and Human Services (DHHS)				<u>9,223,165</u>	<u>1,911,319</u>
Total Direct Programs				<u>9,883,264</u>	<u>2,030,537</u>
<b>Indirect Programs</b>					
<b>United States Department of Agriculture (USDA)</b>					
Food and Nutrition Service	FHCCP	4100067774	10.578	34,726	-
Total United States Department of Agriculture (USDA)				<u>34,726</u>	<u>-</u>
<b>United States Department of Agriculture (USDA)</b>					
<b>Defense Threat Reduction Agency</b>					
Office of Naval Research	Virginia Tech		12.351	21,720	-
Total Defense Reduction Agency				<u>21,720</u>	<u>-</u>
<b>U.S. Department of Health and Human Services (DHHS)</b>					
<b>Eunice Kennedy Shriver National Institute of Child Health and Human Development (EKS-NICHHD)</b>					
Child Health and Human Development Extramural Research	Vanderbilt University	VUMC64984	93.865	106,968	-
Total Eunice Kennedy Shriver National Institute of Child Health and Human Development (EKS-NICHHD)				<u>106,968</u>	<u>-</u>

**Geisinger**  
**Consolidated Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2019**

Federal or State Awarding Agency/Program	Pass Through Entity	Pass Through Entity Identification Number	CFDA No.	Expenditures	Amounts Provided to Subrecipients
<b>Health Resources and Services Administration (HRSA)</b>					
MCH Block Grants	Commonwealth of New Jersey	DFHS19ADL002	93.994	\$ 290,000	\$ -
Total Health Resources and Services Administration (HRSA)				<u>290,000</u>	<u>-</u>
<b>National Cancer Institute (NCI)</b>					
Alliance for Clinical Trials Subcontract	Alliance for Clinical Trials		93.UNK	30,372	-
Cancer Trials Support Unit Subcontract	Cancer Trials Support Unit		93.UNK	26,187	-
Children's Oncology Group Subcontract	Children's Oncology Group		93.UNK	10,923	-
	Eastern Cooperative Oncology Group				
Eastern Cooperative Oncology Group Subcontract	Group		93.UNK	32,456	-
Gynecologic Oncology Group Subcontract	Gynecologic Oncology Group		93.UNK	168	-
North Central Cancer Treatment Subcontract	North Central Cancer Treatment		93.UNK	710	-
NRG Oncology Subcontract	NRG Oncology		93.UNK	12,325	-
Radiation Therapy Oncology Group Subcontract	Radiation Therapy Oncology Group		93.UNK	166	-
University of Rochester Medical Center Subcontract	University of Rochester Medical		93.UNK	3,407	-
Wake Forest University	Wake Forest University		93.UNK	3,371	-
Subtotal National Cancer Institute (CFDA 93.UNK)				<u>120,085</u>	<u>-</u>
	University of California San Francisco				
Cancer Cause and Prevention Research	Francisco	93175C	93.393	1,138	-
Cancer Cause and Prevention Research	University of Pennsylvania	576656	93.393	9,627	-
Subtotal Cancer Cause and Prevention Research (CFDA 93.393)				<u>10,765</u>	<u>-</u>
Total National Cancer Institute (NCI)				<u>130,850</u>	<u>-</u>
<b>National Institute of General Medical Sciences (NIGMS)</b>					
Biomedical Research and Research Training	Brown University	00001287	93.859	54,552	-
Biomedical Research and Research Training	Case Western University	RES513849	93.859	32,493	-
Biomedical Research and Research Training	Pennsylvania State University	5603-GC-DHHS-1907	93.859	22,971	-
Total National Institute of General Medical Sciences (NIGMS)				<u>110,016</u>	<u>-</u>
<b>National Institutes of Health (NIH)</b>					
Medical Library Assistance	University of Indiana	2030226	93.879	57,309	-
Vision Research	NYU School of Medicine	16-00463	93.867	4,336	-
Translation and Implementation Science Research for Heart, Lung, Blood Diseases and Sleep Disorders	Washington University	WU-19-31	93.840	144,617	-
National Center for Advancing Translational Sciences	Scripps	5-53684	93.350	48,373	-
National Center for Advancing Translational Sciences			93.350	3,454	-
Subtotal National Center for Advancing Translation Sciences (CFDA 93.350)				<u>51,827</u>	<u>-</u>
Total National National Institutes of Health (NIH)				<u>258,089</u>	<u>-</u>
<b>National Human Genome Research Institute (NHGRI)</b>					
Human Genome Research	Boston Children's Hospital	GENFD0001649733	93.172	87,281	-
Human Genome Research	Brigham & Women's Hospital	117565	93.172	1,196,235	-
Human Genome Research	Duke University	2036566	93.172	6,243	-
Human Genome Research	Duke University	A030094	93.172	3,172	-
Human Genome Research	Phenosolve		93.172	58,690	-
Human Genome Research	University of Maryland	1400786	93.172	34,389	-
Human Genome Research	University of North Carolina	5033698	93.172	6,312	-
Human Genome Research	University of North Carolina	5111263	93.172	215,120	-
Human Genome Research	University of Pennsylvania	4126835	93.172	85,052	-
Human Genome Research	Vanderbilt University	VUMC63907	93.172	225,933	-
Human Genome Research	Vanderbilt University	VUMC66431	93.172	124,789	-
Total National Human Genome Research Institute (NHGRI)				<u>2,043,216</u>	<u>-</u>
<b>National Heart, Lung, and Blood Institute (NHLBI)</b>					
Cardiovascular Diseases Research	Johns Hopkins		93.837	4,382	-
Cardiovascular Diseases Research	Partner's Healthcare System	SU01HL101422	93.837	17,107	-
Cardiovascular Diseases Research	Sutter Bay Hospital	280201017-S231	93.837	49,955	-
Cardiovascular Diseases Research	New York University	U01HL117905	93.837	19,511	-
Cardiovascular Diseases Research	Duke Clinical Research	U10HL084904	93.837	18,107	-
Subtotal Cardiovascular Diseases Research (CFDA 93.837)				<u>109,062</u>	<u>-</u>
Lung Diseases Research	COPD Foundation	001	93.838	56,366	-
Lung Diseases Research	University of Alabama	000507361-003	93.838	489	-
Lung Diseases Research	University of Pennsylvania	3801529	93.838	141,669	-
Lung Diseases Research	University of Pittsburg	9012549 (131692-36)	93.838	16,381	-
Subtotal Lung Diseases Research (CFDA 93.838)				<u>214,905</u>	<u>-</u>
Total National Heart, Lung, and Blood Institute (NHLBI)				<u>323,967</u>	<u>-</u>

**Geisinger**  
**Consolidated Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2019**

Federal or State Awarding Agency/Program	Pass Through Entity	Pass Through Entity Identification Number	CFDA No.	Expenditures	Amounts Provided to Subrecipients
<b>National Institute on Aging (NIA)</b>					
Aging Research	UCLA	1558 G WA349	93.866	\$ 7,741	\$ -
Aging Research	University of Nebraska	36-5360-2141-104	93.866	14,685	-
Total National Institute on Aging (NIA)				<u>22,426</u>	<u>-</u>
<b>National Institute of Allergy and Infectious Diseases (NIAID)</b>					
Allergy and Infectious Diseases Research	Northwestern University	60043491 GHS	93.855	226,665	-
Total National Institute of Allergy and Infectious Diseases (NIAID)				<u>226,665</u>	<u>-</u>
<b>National Institute of Diabetes and Digestive and Kidney Diseases (NIDDK)</b>					
Diabetes, Digestive, and Kidney Diseases Extramural Research	Johns Hopkins University	2002787367	93.847	9,210	-
Diabetes, Digestive, and Kidney Diseases Extramural Research	Johns Hopkins University	2004036780	93.847	5,081	-
Diabetes, Digestive, and Kidney Diseases Extramural Research	Translational Genomics	DISTEFANO-18-03	93.847	51,327	-
Diabetes, Digestive, and Kidney Diseases Extramural Research	University of Chicago	FP068366-01 D	93.847	10,153	-
Diabetes, Digestive, and Kidney Diseases Extramural Research	University Of Maryland	050317/13570	93.847	10,312	-
Diabetes, Digestive, and Kidney Diseases Extramural Research	University Of Michigan	3003773936	93.847	4,162	-
Diabetes, Digestive, and Kidney Diseases Extramural Research	University Of Michigan	3004195232	93.847	5,540	-
Diabetes, Digestive, and Kidney Diseases Extramural Research	University Of North Carolina	5111390	93.847	81,355	-
Diabetes, Digestive, and Kidney Diseases Extramural Research	University Of Washington	UWSC10047	93.847	17,974	-
Total National Institute of Diabetes and Digestive and Kidney Diseases (NIDDK)				<u>195,114</u>	<u>-</u>
<b>National Institute of Environmental Health Sciences (NIEHS)</b>					
Environmental Health	The Regents of the University	00009554	93.113	17,073	-
Total National Institute of Environmental Health Sciences (NIEHS)				<u>17,073</u>	<u>-</u>
<b>National Institute of Neurological Disorders and Stroke (NINDS)</b>					
Extramural Research Programs in the Neurosciences and Neurological	Emory University	T659991 (YR4 T477273 )	93.853	3,883	-
Extramural Research Programs in the Neurosciences and Neurological	Rutgers University	0673	93.853	34,287	-
Extramural Research Programs in the Neurosciences and Neurological	Stanford	61933056-125439	93.853	5,487	-
Total National Institute of Neurological Disorders and Stroke (NINDS)				<u>43,657</u>	<u>-</u>
<b>National Institute on Drug Abuse (NIDA)</b>					
Drug Abuse and Addiction Research Programs	Kaiser Foundation	RNG200340-GC-01	93.279	27,504	-
Drug Abuse and Addiction Research Programs	Kaiser Foundation	RNG209779GC-01	93.279	52,391	-
Total National Institute on Drug Abuse (NIDA)				<u>79,895</u>	<u>-</u>
Total U.S. Department of Health and Human Services (DHHS)				<u>3,847,936</u>	<u>-</u>
Total Indirect Programs				<u>3,904,382</u>	<u>-</u>
Total Research and Development Cluster				<u>13,787,646</u>	<u>2,030,537</u>
<b>Other Programs</b>					
<b>Direct Programs</b>					
<b>U.S. Department of Health and Human Services (DHHS)</b>					
<b>Health Resources and Services Administration (HRSA)</b>					
Centers of Excellence			93.157	715,180	97,054
Grants for Primary Care Training and Enhancement	Geisinger Commonwealt		93.884	25,164	697
Total Health Resources and Services Administration (HRSA)				<u>740,344</u>	<u>97,751</u>
Total U.S. Department of Health and Human Services (DHHS)				<u>740,344</u>	<u>97,751</u>
Total Direct Programs				<u>740,344</u>	<u>97,751</u>
<b>Indirect Programs</b>					
<b>Department of Justice (DOJ)</b>					
Crime Victim Assistance	PA Commission on Crime	2016-VF-05-26976	16.575	39,578	-
Crime Victim Assistance	PA Commission on Crime	2016-VF-05-27002	16.575	19,456	-
Crime Victim Assistance	PA Commission on Crime	2016-VF-05-27003	16.575	9,236	-
Crime Victim Assistance	PA Commission on Crime	2017/2018-VF-05-29009	16.575	32,146	-
Crime Victim Assistance	PA Commission on Crime	2018-VF-05-29056	16.575	2,121	-
Subtotal Crime Victim Assistance (CFDA 16.575)				<u>102,537</u>	<u>-</u>
Improving the Investigation and Prosecution of Child Abuse and the Regional and Local Children's Advocacy Centers	PA Chapter of CAC	ERIE-PA-2QIAA18	16.758	665	-
Total Department of Justice (DOJ)				<u>103,202</u>	<u>-</u>
<b>U.S. Department of Health and Human Services (DHHS)</b>					
<b>Centers for Disease Control and Prevention (CDC)</b>					
Adult Viral Hepatitis Prevention and Control	Henry Ford Health System	B11146_GEISINGER	93.270	90,090	-
H.I.V. Prevention Activities Health Department Based Program	Commonwealth of New Jersey	AIDS19NAV010	93.940	110,352	-
H.I.V. Prevention Activities Health Department Based Program	Commonwealth of New Jersey	AIDS19CTN021	93.940	207,592	-
Subtotal H.I.V. Prevention Activities Health Department Based Program (CFDA 93.940)				<u>317,944</u>	<u>-</u>

**Geisinger**  
**Consolidated Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2019**

Federal or State Awarding Agency/Program	Pass Through Entity	Pass Through Entity Identification Number	CFDA No.	Expenditures	Amounts Provided to Subrecipients
Diabetes Prevention and Control Program	Commonwealth of New Jersey	DFHS18DPC004	93.945	\$ 27,019	\$ -
Total Centers for Disease Control and Prevention (CDC)				<u>435,053</u>	<u>-</u>
<b>Centers for Medicare and Medicaid Services (CMS)</b>					
Children's Health Insurance Program	Commonwealth of Pennsylvania	4000013241	93.767	37,101,617	-
Total Centers for Medicare and Medicaid Services (CMS)				<u>37,101,617</u>	<u>-</u>
<b>Health Resources and Services Administration (HRSA)</b>					
Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	Central Susquehanna Community Foundation	4100070296	93.505	171,758	-
HIV Care Formula Grants	Commonwealth of New Jersey	AIDS19CTR022	93.917	99,811	-
HIV Care Formula Grants	Commonwealth of New Jersey	AIDS18RWB017	93.917	386,944	-
HIV Care Formula Grants	Commonwealth of New Jersey	DHST19RWB003	93.917	127,618	-
Subtotal HIV Care Formula Grants (CFDA 93.917)				<u>614,373</u>	<u>-</u>
Maternal and Child Health Services Block Grant to the States	Pennsylvania State University	5229-GHS-HRSA-8317	93.110	9,826	-
Total Health Resources and Services Administration (HRSA)				<u>795,957</u>	<u>-</u>
<b>Office of Family Assistance (OFA)</b>					
Temporary Assistance for Needy Families (TANF)	State of New Jersey		93.558	1,018,320	-
<b>Total Office of Family Assistance (OFA)</b>				<u>1,018,320</u>	<u>-</u>
<b>Office of the Secretary (OS)</b>					
Hospital Preparedness Program (HPP) Ebola Preparedness and Response Activities	Commonwealth of Pennsylvania	4100070342	93.817	85,116	-
Domestic Ebola Supplement to the Epidemiology and Laboratory Capacity for Infectious Diseases (ELC).		4100070342	93.815	11,486	-
National Bioterrorism Hospital Preparedness Program	Commonwealth of New Jersey	PHLP18FUL007	93.889	183,607	-
Total Office of the Secretary (OS)				<u>280,209</u>	<u>-</u>
<b>Substance Abuse and Mental Health Services Administration (SAMHSA)</b>					
State Targeted Response to the Opioid Crisis Grants	Commonwealth of Pennsylvania	4100078559	93.788	594,211	73,304
Total Substance Abuse and Mental Health Services Administration (SAMHSA)				<u>594,211</u>	<u>73,304</u>
<b>Substance Abuse and Mental Health Services Administration</b>					
Block Grants for Prevention and Treatment of Substance Abuse	County of Cumberland	DU17-0025	93.959	220,000	-
MH Block Grant	State of New Jersey	40101	93.958	267,509	-
Total Substance Abuse and Mental Health Services Administration				<u>487,509</u>	<u>-</u>
Total U.S. Department of Health and Human Services (DHHS)				<u>40,712,876</u>	<u>73,304</u>
Total Indirect Programs				<u>40,816,078</u>	<u>73,304</u>
Total Other Programs				<u>41,556,422</u>	<u>171,055</u>
<b>Health Center Cluster</b>					
<b>Direct Programs</b>					
<b>U.S. Department of Health and Human Services (DHHS)</b>					
<b>Health Resources and Services Administration (HRSA)</b>					
Health Center Program (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care)		H80CS00858-16-06	93.224	607,867	-
Grants for New and Expanded Services under the Health Center Program		H80CS00858-15-09	93.527	2,244,120	-
Total Health Resources and Services Administration (HRSA)				<u>2,851,987</u>	<u>-</u>
Total Health Center Cluster				<u>2,851,987</u>	<u>-</u>

**Geisinger**  
**Consolidated Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2019**

Federal or State Awarding Agency/Program	Pass Through Entity	Pass Through Entity Identification Number	CFDA No.	Expenditures	Amounts Provided to Subrecipients
<b>Other Cluster</b>					
<b>Indirect Programs</b>					
<b>US Department of Transportation (USDOT)</b>					
Enhanced Mobility of Seniors and Individuals with Disabilities	PA Department of Transportation	4400016510	20.513	\$ <u>49,498</u>	\$ -
Total US Department of Transportation (USDOT)				<u>49,498</u>	-
Total Other Cluster				<u>49,498</u>	-
<b>Student Financial Aid Cluster</b>					
<b>Direct Programs</b>					
<b>Department of Education</b>					
Federal Direct Student Loans			84.268	27,369,385	-
Federal Pell Grant Program			84.063	<u>82,976</u>	-
Total Department of Education				<u>27,452,361</u>	-
Total Student Financial Aid Cluster				<u>27,452,361</u>	-
Total Expenditures of Federal Awards				<u>\$ 85,697,914</u>	<u>\$ 2,201,592</u>

See accompanying independent auditors' report.

**Geisinger**  
**Notes to Consolidated Schedule of Expenditures of Federal Awards**  
**June 30, 2019**

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**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, 2019. 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.

**Geisinger**  
**Schedule of Findings and Questioned Costs**  
**June 30, 2019**

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**(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: **No**
- (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
  - Research and Development Cluster – various CFDA numbers
- (h) Dollar threshold used to distinguish between Type A and Type B programs: **\$2,570,937**
- (i) Auditee qualified as a low-risk auditee: **Yes**

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

No matters were reported.

**(3) Findings and Questioned Costs Relating to Federal Awards**

No matters were reported.

**Geisinger**  
**Schedule of the Pennsylvania Department of Health Awards (Unaudited)**  
**June 30, 2019**

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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:

<u>Activity</u>	<u>SAP number</u>	<u>Award amount</u>	<u>Amount received (paid back) FY 2019</u>	<u>Accrued (deferred) revenue 6/30/2018</u>	<u>Revenue recognized FY2019</u>	<u>Accrued (deferred) revenue 6/30/2019</u>
PACMAT	4100078559	999,849	531,907	151,171	594,211	213,475
NEWBORN SCREEN CYSTIC FIBROSIS	4100072668	9,950	—	280	—	280
CYSTIC FIBROSIS FY 2017	4100065968	54,125	14,738	14,738	—	—
CYSTIC FIBROSIS FY 2018	4100080021	56,771	21,432	18,036	43,521	40,125
SPINA BIFIDA FY 2017	4100065977 R2	10,000	—	2,016	—	2,016
NEWBORN SCREEN CYSTIC FIBROSIS	4100072668	260,256	85,689	82,221	3,468	—
NEWBORN SCREEN CF FY19	4100080899	67,540	40,270	—	67,540	27,270
CLINICAL PHENOTYPES CFTR	4100077061	140,437	140,437	39,733	65,298	(35,406)
SPINA BIFIDA FY 2018	4100078284	11,125	6,677	2,482	6,093	1,898
PEDIATRIC EPILEPSY GRANT	4100072004	434,388	142,729	22,796	133,778	13,845
GROW WITH WIC	4100067774	131,919	42,193	13,944	34,726	6,478
G-SACH HPP FY17	4100062620	16,857	—	31,287	—	31,287
GMC HOSPITAL PREPAREDNESS	4100062620	23,057	—	38,235	—	38,235
GCMC HOSPITAL PREPAREDNESS	4100062604	20,151	—	9,527	—	6,527
HPP LEWISTOWN HOSPITAL FY17	4100063155	19,963	—	745	—	745
EBOLA GRANT	4100070342	750,000	96,603	5,000	91,603	—
KIDDE SAFE KIDS	Community Awareness	600	—	(3)	—	(3)
	Mini Grant					
EVALUATION OF SYSTEM-WIDE MEDS	4100072547	184,737	—	(77,289)	75,378	(1,911)
FORNWALT FORMULA FUNDS	4100079720	176,152	176,152	—	68,557	(107,595)
CURE BIG DATA BIOMED DISCOVERY	4100070267	4,385,863	—	(1,359,819)	1,210,250	(149,569)
PA CURE FORMULA GRANT ROBISHAW	4100068713	137,129	(5,918)	(5,918)	—	—

Finance Administration  
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Geisinger

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**Geisinger**  
**Summary Schedule of Prior Year Audit Findings**  
**June 30, 2019**

**Finding:** 2018-001 - Segregation of Duties and Information Technology System Design  
**Status:** Corrective action was taken.