Genesis Health System and Related Organizations

Consolidated Financial Report
June 30, 2014

Contents

Independent Auditor's Report

To the Audit and Compliance Committee
Genesis Health System
Davenport, Iowa

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Genesis Health System and related organizations (System) which comprise the consolidated balance sheets as of June 30, 2014 and 2013, and the related consolidated statements of operations, 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 accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of Misericordia Assurance Company, Ltd., a consolidated subsidiary, which statements reflect total assets constituting approximately 3% and 4%, respectively, of the related consolidated total assets as of June 30, 2014 and 2013, and total revenue constituting approximately 1% of consolidated total revenue for each of the years then ended. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Misericordia Assurance Company, Ltd., is based solely on the report of the other auditors. We conducted our audits for the years ended June 30, 2014 and 2013 in accordance with auditing standards generally accepted in the United States of America and our audit for the year ended June 30, 2014 in accordance with 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 auditor's 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, based on our audits and the report of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Genesis Health System and related organizations as of June 30, 2014 and 2013, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2014 on our consideration of the System'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 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 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 the System's internal control over financial reporting and compliance.

McGladrey LLP

Davenport, Iowa
October 22, 2014

Genesis Health System
and Related Organizations

Consolidated Balance Sheets
June 30, 2014 and 2013

Assets	**2014**	2013
Current Assets:		
Cash and cash equivalents	**$ 68,999,498**	$ 75,980,412
Short-term investments	**658,377**	648,632
Receivables:		
Patients, net	**79,592,556**	85,722,863
Other	**27,255,114**	29,036,220
Inventories, supplies and materials	**12,694,450**	12,916,985
Prepaid expenses and deposits	**6,505,390**	7,004,060
Total current assets	**195,705,385**	211,309,172
Investments	**63,028,063**	61,651,493
Assets Limited as to Use:		
Internally designated	**200,065,142**	174,235,597
Under bond indenture, funds held by trustee	**111,012,884**	-
Interest in net assets of Foundation	**1,503,179**	994,059
Donor restricted	**22,534,768**	19,004,081
	335,115,973	194,233,737
Property and Equipment, net	**265,825,514**	252,290,286
Other Assets:		
Bond issuance costs, net	**1,041,950**	664,837
Goodwill	**31,204,225**	30,730,877
Overfunded status of retirement plan	**8,058,376**	2,665,857
Other	**154,139**	321,490
	40,458,690	34,383,061
	$ 900,133,625	$ 753,867,749

See Notes to Consolidated Financial Statements.

Liabilities and Net Assets	**2014**	2013
Current Liabilities:		
Current maturities of long-term debt	**$ 8,861,422**	$ 8,421,389
Accounts payable	**25,177,336**	28,094,315
Accrued salaries and wages	**10,259,429**	10,541,034
Accrued paid leave	**16,075,084**	17,792,684
Due to third-party payors	**10,423,726**	8,568,819
Unpaid losses and loss adjustment expenses	**15,767,359**	12,685,044
Other accrued expenses	**10,324,160**	8,429,423
Total current liabilities	**96,888,516**	94,532,708
Long-Term Debt, less current maturities	**194,118,821**	79,273,240
Unpaid Losses and Loss Adjustment Expenses, Retirement Benefits and Other Long-Term Liabilities	**32,048,437**	34,292,885
Total liabilities	**323,055,774**	208,098,833
Commitments and Contingent Liabilities (Note 11)		
Net Assets:		
Unrestricted	**544,402,637**	517,156,303
Noncontrolling interests - unrestricted	**8,343,876**	8,455,723
Temporarily restricted	**20,227,110**	16,175,239
Permanently restricted	**4,104,228**	3,981,651
	577,077,851	545,768,916
	$ 900,133,625	$ 753,867,749

Genesis Health System
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Consolidated Statements of Operations
Years Ended June 30, 2014 and 2013

	2014	2013
Change in unrestricted net assets:		
Unrestricted revenue:		
Patient service revenue, net of contractual adjustments	**$ 557,609,032**	$ 548,703,386
Less provision for doubtful accounts	**36,045,483**	35,672,919
Net patient service revenue	**521,563,549**	513,030,467
Other service revenue, net of cost of revenue 2014 $12,074,058; 2013 $11,426,714	**5,129,167**	5,870,389
Medical office building rental revenue	**2,051,026**	2,120,240
Other revenue	**26,048,193**	31,438,387
Total revenue	**554,791,935**	552,459,483
Expenses:		
Salaries and wages	**254,445,842**	239,375,705
Employee benefits	**49,300,354**	47,510,837
Contracted professionals and services	**35,746,405**	48,719,607
Supplies	**89,876,702**	83,721,196
Other	**83,859,373**	75,478,431
Interest	**3,238,385**	4,069,575
Depreciation and amortization	**36,797,188**	36,277,950
Total expenses	**553,264,249**	535,153,301
Operating income	**1,527,686**	17,306,182
Nonoperating gains and losses:		
Interest and dividend income and realized gains on sales of investments	**23,158,882**	11,782,407
Current year change in unrealized gains on trading securities	**3,573,211**	6,838,810
Other nonoperating income	**2,619,517**	4,245,995
Nonoperating gains	**29,351,610**	22,867,212
Excess of revenue over expenses	**30,879,296**	40,173,394
Less excess of revenue over expenses attributable to noncontrolling interests	**(1,194,881)**	(1,340,443)
Excess of revenue over expenses attributable to Genesis Health System	**29,684,415**	38,832,951
Change in unrecognized funded status of retirement plan	**(2,438,081)**	13,291,089
Increase in unrestricted net assets	**$ 27,246,334**	$ 52,124,040

See Notes to Consolidated Financial Statements.

Genesis Health System
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Consolidated Statements of Changes in Net Assets
Years Ended June 30, 2014 and 2013

	Unrestricted Net Assets	Temporarily Restricted Net Assets	Permanently Restricted Net Assets	Noncontrolling Interests - Unrestricted Net Assets	Total Net Assets
Net assets, June 30, 2012	$ 465,032,263	$ 15,520,089	$ 3,817,834	$ 8,418,457	$ 492,788,643
Excess of revenue over expenses	38,832,951	-	-	1,340,443	40,173,394
Change in unrecognized funded status of retirement plan	13,291,089	-	-	-	13,291,089
Contributions, investment income and other	-	2,378,832	163,817	-	2,542,649
Net assets released from restrictions, for operating activities	-	(1,945,409)	-	-	(1,945,409)
Change in interest in net assets of Foundation	-	221,727	-	-	221,727
Distributions to noncontrolling interests	-	-	-	(1,303,177)	(1,303,177)
Change in net assets	52,124,040	655,150	163,817	37,266	52,980,273
Net assets, June 30, 2013	517,156,303	16,175,239	3,981,651	8,455,723	545,768,916
Excess of revenue over expenses	29,684,415	-	-	1,194,881	30,879,296
Change in unrecognized funded status of retirement plan	(2,438,081)	-	-	-	(2,438,081)
Contributions, investment income and other	-	5,258,527	122,577	-	5,381,104
Net assets released from restrictions, for operating activities	-	(1,715,776)	-	-	(1,715,776)
Change in interest in net assets of Foundation	-	509,120	-	-	509,120
Distributions to noncontrolling interests	-	-	-	(1,306,728)	(1,306,728)
Change in net assets	27,246,334	4,051,871	122,577	(111,847)	31,308,935
Net assets, June 30, 2014	**$ 544,402,637**	**$ 20,227,110**	**$ 4,104,228**	**$ 8,343,876**	**$ 577,077,851**

See Notes to Consolidated Financial Statements.

Genesis Health System
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Consolidated Statements of Cash Flows
Years Ended June 30, 2014 and 2013

	2014	2013
Cash Flows from Operating Activities:		
Change in net assets	**$ 31,308,935**	$ 52,980,273
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	**36,517,491**	35,953,462
Amortization	**279,697**	324,488
Change in interest in net assets of Foundation	**(509,120)**	(221,727)
Loss on disposal of property and equipment	**62,429**	430,752
Earnings less than distributions of associated companies	**692,339**	105,269
Excess of fair value over consideration paid for acquisitions	**-**	(3,261,704)
Restricted contributions	**(1,727,769)**	(851,245)
Realized and unrealized (gains) on investments	**(25,599,642)**	(15,086,951)
Net changes in assets and liabilities:		
(Increase) decrease in patient and other receivables	**7,911,413**	(4,056,592)
(Increase) decrease in inventories, supplies and materials	**222,535**	(81,734)
(Increase) decrease in prepaid expenses and deposits	**498,670**	(256,949)
(Increase) in funded status of retirement plan	**(5,392,519)**	(19,652,014)
Increase (decrease) in accounts payable	**(2,916,979)**	3,741,250
Increase in accrued expenses, due to third-party payors, retirement benefits and other	**2,588,306**	1,048,442
Net cash provided by operating activities	**43,935,786**	51,115,020
Cash Flows from Investing Activities:		
Purchase of property and equipment	**(50,258,404)**	(36,900,417)
Proceeds from sale of equipment	**143,256**	10,897
Cash received upon acquisition of Aledo organizations	**-**	3,431,975
Cash paid upon acquisition of Aledo organizations	**-**	(2,246,380)
Purchase of investments	**(323,097,304)**	(59,442,651)
Proceeds from sale of investments	**206,245,176**	55,291,599
Change in other assets	**(1,009,147)**	9,747
Net cash (used in) investing activities	**(167,976,423)**	(39,845,230)
Cash Flows from Financing Activities:		
Principal payments on long-term debt, including capital lease obligations	**(8,421,561)**	(9,774,754)
Proceeds from long-term debt	**124,950,091**	-
Payment of bond issuance costs	**(1,196,576)**	-
Restricted contributions	**1,727,769**	851,245
Net cash provided by (used in) financing activities	**$ 117,059,723**	$ (8,923,509)

(Continued)

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Consolidated Statements of Cash Flows (Continued)
Years Ended June 30, 2014 and 2013

	2014	2013
Net increase (decrease) in cash and cash equivalents	**$ (6,980,914)**	$ 2,346,281
Cash and cash equivalents:		
Beginning	**75,980,412**	73,634,131
Ending	**$ 68,999,498**	$ 75,980,412
Supplemental Disclosure of Cash Flow Information, cash payments for interest, including capitalized interest 2014 $3,974,212; 2013 $128,089	**$ 7,212,597**	$ 4,197,699
Supplemental Disclosures of Noncash Investing Activities, Acquisition of Genesis Medical Center-Aledo and Genesis Senior Living-Aledo:		
Assets acquired:		
Cash		$ 3,431,975
Net patient receivables		3,778,516
Property and equipment		2,479,462
Other current assets		340,284
Liabilities assumed:		
Accounts payable		(834,011)
Long term debt		(1,604,472)
Due to third-party payors		(1,028,496)
Other current liabilities		(1,055,174)
Cash paid upon acquisition of Aledo organizations		(2,246,380)
Excess of fair value over consideration paid		$ 3,261,704

See Notes to Consolidated Financial Statements.

Note 1. Nature of Business and Significant Accounting Policies

Nature of business:

Genesis Health System – Iowa (GHS Iowa), an Iowa nonprofit corporation, and Genesis Health System – Illinois (GHS Illinois), an Illinois not-for-profit corporation, have identical governing boards, management and bylaws and can act jointly. GHS Iowa is also the sole member of Genesis Health Services Foundation and Genesis Health System Workers' Compensation Plan and Trust, the sole stockholder of GenVentures, Inc., a member of Misericordia Assurance Company, Ltd. and a partner in GenGastro, LLC. GHS Illinois is the sole member of Genesis Medical Center – Aledo (GMC – Aledo) and Genesis Senior Living – Aledo (GSL – Aledo), and is a partner in The Larson Center Partnership.

GHS Iowa, GHS Illinois, GMC – Aledo and GSL – Aledo collectively represent the Obligated Group on certain components of the System's long-term debt.

GHS Iowa and GHS Illinois operate the following business units:

Genesis Health System provides administrative, management, information technology and other support services to its affiliates.

Genesis Clinical Services operates physician medical practices, convenient care practices and an occupational medicine clinic and provides behavioral health services to the residents of eastern Iowa and western Illinois.

Genesis Medical Center – Davenport (GMC – Davenport) is licensed as a 502-bed acute care hospital which provides services from two hospital facilities located in Davenport, Iowa.

Genesis Family Medical Center (GFMC) is a family practice residency training program that operates clinics in Davenport and Blue Grass, Iowa to provide a clinical setting for the residents to treat patients.

Genesis Medical Center – DeWitt (GMC – DeWitt) is certified as a critical access hospital, which has 13-acute care and swing beds, and has a 77-bed long-term care facility, which provides services from its facility in DeWitt, Iowa.

Genesis Visiting Nurse Association and Hospice (VNA) provides home health care, community nursing services and hospice services to patients in eastern Iowa and western Illinois.

Genesis Medical Center – Silvis (GMC – Silvis) is licensed as a 149-bed acute care hospital which provides services from its facility in Silvis, Illinois.

Illini Hospital Nursing Home (INH) operates Illini Restorative Care Center and Crosstown Square. Illini Restorative Care Center is a 120-bed licensed nursing facility, consisting of 75 skilled care beds and 45 sheltered care beds. Twenty-two of the skilled care beds are designated as hospital-based Medicare certified beds. The sheltered care unit provides rehabilitative and personal care in a family-oriented setting. Crosstown Square is an independent living facility containing 76 rentable apartments and two guest rooms that offers services designed to meet the needs of senior adults.

Note 1. Nature of Business and Significant Accounting Policies (Continued)

GHS Iowa and GHS Illinois have a controlling ownership interest or membership in the following organizations:

Genesis Medical Center – Aledo (GMC – Aledo) is certified as a critical access hospital, which has 22-acute care and swing beds, as well as a physician clinic, which provides services from its facility in Aledo, Illinois.

Genesis Senior Living – Aledo (GSL – Aledo) is certified as a nursing facility, which has a 92-bed long-term care facility, which provides services from its facility in Aledo, Illinois.

On February 1, 2013, GMC – Aledo and GSL – Aledo acquired all of the assets and assumed all the liabilities of the hospital and nursing home in Aledo, Illinois from Mercer County, Illinois. The assets acquired exceed the liabilities assumed and consideration paid by approximately $3,261,000, a contribution which was presented as a component of other nonoperating income for the year ended June 30, 2013.

Genesis Health Services Foundation (Genesis Foundation) is an organization whose mission is to develop, manage and grant charitable support to meet the health-related needs of the communities served by Genesis Health System. The Genesis Foundation is referred to as the Foundation.

GenGastro, LLC (d/b/a the Center for Digestive Health) is a limited liability company, which operates a single-specialty gastroenterology ambulatory surgery center located in Bettendorf, Iowa. Upon obtaining a controlling interest, the System consolidated the accounts of GenGastro, LLC in its consolidated financial statements in January 2011. Genesis Health System maintains a 75% ownership interest in GenGastro, LLC as of June 30, 2014 and 2013.

The Larson Center Partnership (LCP) is a for-profit real estate partnership which owns a medical office building adjacent to GMC – Silvis and leases space for clinics, laboratory, pharmacy and offices to GMC – Silvis and other third-party organizations. GHS Illinois is a general partner and owns approximately 75.6% of LCP.

GenVentures, Inc. (GenVentures) is a wholly-owned for-profit corporation which operates the following divisions, primarily in the Quad Cities:

Genesis at Home, Continuing Care sells and leases home medical equipment; provides intravenous therapy services, including sales of related solutions and supplies to patients; and provides retail pharmaceutical and over-the-counter products to patients and employees of the System.

GenProperties owns, leases and/or manages office space in 15 medical office buildings located in Bettendorf, Clinton, Davenport, Eldridge, Le Claire and Muscatine, Iowa.

Crescent Laundry provides commercial laundry services to health care facilities in eastern Iowa and in north-central Illinois.

Note 1. Nature of Business and Significant Accounting Policies (Continued)

Genesis Accountable Care Organization, LLC (Genesis ACO) is an Iowa limited liability company formed in December 2011. Its purpose is to engage in any lawful business and any business related to creation and organization of a "physician-driven" network to act as, and/or participate in, an Accountable Care Organization within the meaning of the federal Patient Protection and Affordable Care Act. The company is also organized to develop a clinically integrated network of providers including physicians, health professionals, hospitals and ancillary providers working together to promote high quality, coordinated and efficient care to patients including members of various managed care payors and the community at large.

Genesis Health System Workers' Compensation Plan and Trust (Workers' Compensation Trust) provides a fund which can be used to pay workers' compensation claims and costs for the benefit of Genesis Health System.

Misericordia Assurance Company, Ltd. (Misericordia) is a wholly-owned Cayman-based captive insurance company which underwrites the general and professional liability risks of Genesis Health System and affiliates.

Genesis Philanthropy is a wholly-owned tax-exempt entity formed in 2013, which partners with other hospital foundations to form a regional network to attract donors to help fund specific health-related causes and promote wellness in the region.

Genesis Health System and its related organizations are collectively referred to as the System.

Significant accounting policies:

Principles of consolidation: The accompanying consolidated financial statements include the accounts of Genesis Health System and related organizations. All significant intercompany balances and transactions have been eliminated upon consolidation.

Accounting estimates: The preparation of financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Due to uncertainties inherent in the estimation and assumption process, it is at least reasonably possible that changes in the estimates and assumptions in the near term would be material to the financial statements. Estimates that are particularly susceptible to significant changes in the near term and which require significant judgments by management include the allowances for doubtful accounts and contractual adjustments, estimated third-party payor settlements, self-insured professional, general, health and dental and workers' compensation liabilities, assumptions for the defined benefit retirement plan, fair value of financial instruments and recoverability of long-term assets (including goodwill).

Cash and cash equivalents: Cash and cash equivalents include unrestricted cash and temporary cash investments not limited as to use. The cash equivalents have a maturity of three months or less at date of issuance. Certain temporary cash investments internally designated as long-term investments are excluded from cash and cash equivalents.

Note 1. Nature of Business and Significant Accounting Policies (Continued)

Patient receivables and net patient service revenue: The collection of receivables from third-party payors and patients is the System's primary source of cash for operations and is critical to its operating performance. The primary collection risks relate to uninsured patient accounts and patient accounts for which the primary insurance payor has paid, but patient responsibility amounts for deductibles and copayments remain outstanding. Patient receivables, where a third-party payor is responsible for paying the amount, are carried at a net amount determined by the original charge for the service provided, less an estimate made for contractual adjustments or discounts provided to third-party payors.

Patient receivables due directly from the patients are carried at the original charge for the service provided less amounts covered by third-party payors and less an estimated allowance for doubtful receivables based on a review of all outstanding amounts on a monthly basis. Receivables due from medical office building tenants and from commercial laundry customers are carried at the original invoice amount less an estimate made for doubtful accounts. Management determines the allowance for doubtful accounts by identifying troubled accounts, by historical experience applied to an aging of accounts, and by considering the patient's financial history, credit history and current economic conditions. The System does not charge interest on patient receivables. Receivables are written off as bad debts when deemed uncollectible. Recoveries of receivables previously written off are recorded as a reduction of bad debt expense when received.

Receivables or payables related to estimated settlements on various payor contracts, primarily Medicare, are reported as amounts due from or to third-party payors. Significant changes in payor mix, business office operations, economic conditions or trends in federal and state governmental health care coverage could affect the System's collection of accounts receivable, cash flows and results of operations.

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments with third-party payors are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Net patient service revenue is reported net of the provision for doubtful accounts.

In evaluating the collectability of accounts receivable, the System analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for doubtful accounts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients who have third-party coverage, the System analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for doubtful accounts, if necessary (for example, for expected uncollectible accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients (which include both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the System records a significant provision for doubtful accounts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

Note 1. Nature of Business and Significant Accounting Policies (Continued)

The System's allowance for doubtful accounts and charity care, for all payors, increased from 9% of accounts receivable at June 30, 2013, to 11% of accounts receivable at June 30, 2014. In addition, the System's provision for doubtful accounts, for all payors, increased approximately $1,420,000 from $35,673,000 to $37,093,000 for the years ended June 30, 2013 and 2014, respectively. Both increases were primarily the result of negative trends experienced in the collection of amounts from self-pay patients. A portion of the increase is also a result of an increase in write-offs correlated with the increased revenue for the year ended June 30, 2014. The System has not changed its charity care or uninsured discount policies during the year ended June 30, 2014.

The System recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for charity care, the System recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy).

Patient service revenue at established rates, less third-party payor contractual adjustments (but before the provision for doubtful accounts), recognized for the years ended June 30, 2014 and 2013, was as follows:

	2014	2013
Third-party payor	$ 477,404,828	$ 478,316,171
Self-pay	80,204,204	70,387,215
	$ 557,609,032	$ 548,703,386

Inventories, supplies and materials: Inventories, supplies and materials are valued at the lower of cost (first-in, first-out method) or market.

Assets limited as to use: Assets limited as to use include assets internally designated by the System's Board of Directors for future capital improvements and other purposes, over which the Board retains control and may at its discretion subsequently use for other purposes; assets held by trustees under bond indenture agreements; interest in the net assets of the DeWitt Community Hospital Foundation; and donor restricted assets.

Investments: Short-term investments consist of certificates of deposit which are stated at cost which approximates fair value. Investments in equity securities, including assets limited as to use, with readily determinable fair values and all investments in debt securities are measured at fair value on the consolidated balance sheets based on quoted market prices. Investments also include alternative investments which are carried at fair value using the practical expedient, which is estimated at the most recent valuations provided by external investment managers. The practical expedient allows for the use of net asset value (NAV), either as reported by the investee fund or as adjusted by the System based on various factors. Management has reviewed and evaluated the values provided by the managers and agrees with the valuation methods and assumptions used to determine their values.

Investment income includes dividends, interest and other investment income and realized gains and losses on investments. Changes in unrealized gains and losses on investments classified as trading securities are included in excess of revenue over expenses.

Investment income earned on Misericordia's investments, which is to be used for the payment of general and professional liabilities, is included in other operating revenue. Investment income (loss) included as other operating revenue was approximately $836,000 and $(110,000) for the years ended June 30, 2014 and 2013, respectively.

Note 1. Nature of Business and Significant Accounting Policies (Continued)

The System classifies substantially all of its investments in debt and equity securities as trading. This classification as trading requires the System to recognize unrealized gains and losses on substantially all of its unrestricted and internally designated investments in debt and equity securities as a component of nonoperating gains (losses) in the consolidated statements of operations.

Investments in associated companies are accounted for by the equity method of accounting under which the System's share of the net income (loss) of the associated companies that provide patient related services are recognized as other revenue and included in operating income (loss) and the share of net income (loss) of the associated companies that do not provide patient related services are recognized as nonoperating gains (losses) in the consolidated statements of operations and added to (deducted from) the investment account. Dividends and distributions received from the associated companies are treated as a reduction of the investment account. The System has investments in companies that provide: lithotripsy, ultrasound services, endoscopy procedures, specialized and orthopedic care, ambulatory surgery procedures, radiology, occupational and physical therapy rehabilitation services, a medical office building partnership, an equipment leasing company, mobile clinical and medical services, health insurance plans. The System also has an interest in the Genesis Heart Institute.

Property and equipment: Property and equipment is carried at cost or, if donated, at fair market value at date of donation. Depreciation is computed by the straight-line method over the assets' estimated useful lives. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. Amortization expense on assets acquired under capital leases is included with depreciation expense on owned assets.

Gifts of long-lived assets such as land, buildings or equipment are reported as unrestricted support and are included in the income or loss from operations unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Bond issuance costs: Bond issuance costs are being amortized over the term the bonds are outstanding.

Goodwill: A majority of the goodwill on the System’s consolidated balance sheet arose from the acquisition of a controlling interest in GenGastro, LLC, during the year ended June 30, 2011, and consists primarily of current and future expected earnings and profitability.

Goodwill is tested for impairment annually. Management performed assessments for impairment as of June 30, 2014 and 2013, and determined no goodwill impairment exists.

Unpaid losses and loss adjustment expenses: Misericordia and the Workers' Compensation Trust (collectively the Trusts) have liabilities for unpaid losses and loss adjustment expenses which are determined using case basis evaluations and statistical analyses and represent estimates of the ultimate cost of all reported and unreported losses which are unpaid at year-end. Management concurs with the independent actuary on the determination of the estimated ultimate costs for losses and loss adjustment expenses.

Note 1. Nature of Business and Significant Accounting Policies (Continued)

All estimates of unpaid losses and loss adjustment expenses are reviewed at least annually, and any adjustments determined to be necessary are reflected in current operations. Since these liabilities are based on estimates, the ultimate settlement of losses and related expense may vary from the amounts included in the consolidated financial statements. Misericordia records its estimated liability for unpaid losses and loss adjustment expenses at an undiscounted actuarially determined amount. The Workers' Compensation Trust records its estimated liability for unpaid losses and loss adjustment expenses based on assumptions and estimates including an actuarially determined amount, discounted using a 3% yield as of June 30, 2014 and 2013.

Although it is not possible to measure the degree of variability inherent in such estimates, management believes that the liabilities for unpaid losses and loss adjustment expenses are adequate. No representation is made, however, that the ultimate liabilities may not be in excess of the amounts provided. Also, Misericordia and the Workers' Compensation Trust participants are obligated by the terms of the Trusts' agreements to contribute retrospective payments to the Trusts, if deemed necessary, in order to support claims and costs in excess of the amounts provided.

Misericordia and the Workers' Compensation Trust record their estimated liabilities gross of any amounts recoverable under their own reinsurance, which amounts, if any, are recorded separately in the consolidated balance sheets. In the event that the reinsurers are unable to meet their obligations under the reinsurance agreements, Misericordia and Workers' Compensation Trust would be liable to pay all losses under the reinsurance assumed but would only receive reimbursement to the extent that the reinsurers can meet their obligations. Investments held by Misericordia and the Workers' Compensation Trust totaling approximately $34,400,000 and $35,700,000 as of June 30, 2014 and 2013, respectively, are included in investments in the accompanying consolidated balance sheets.

Premiums written and ceded: Premiums written and ceded are recognized in income pro-rata over the term of the policies and the unearned and unexpensed portions at the consolidated balance sheet dates are transferred to unearned premiums which is included in other long-term liabilities on the consolidated balance sheets.

Reinsurance premiums ceded are similarly recognized on a pro-rata basis over the terms of the policy issued and the unearned portion, if any, deferred and transferred to deferred reinsurance premiums ceded which is included in other long-term liabilities on the consolidated balance sheets.

The policies insured by Misericordia are subject to a retrospective rating plan, under which retrospective premiums are recomputed annually based on incurred loss. Retrospective premium adjustments are included in income in the period in which they are determined.

Consistent with this policy, all available income of Misericordia is transferred to the provision for outstanding losses and retrospective premium adjustments which is included in other operating revenue. Accordingly, Misericordia's statements of operations reflect a break-even position in income.

Temporarily and permanently restricted net assets: The System is required to report information regarding its financial position and operations according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. The three classes are based on the presence or absence of donor-imposed restrictions. Temporarily restricted net assets include net assets restricted by donors to a specific time period or purpose. Permanently restricted net assets have been restricted by donors to be maintained in perpetuity. Donor restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying consolidated financial statements.

Note 1. Nature of Business and Significant Accounting Policies (Continued)

Noncontrolling interests: The System has a 75.0% interest in GenGastro, LLC and a 75.6% interest in The Larson Center Partnership, LLC, while other members own a noncontrolling interest of the companies. A pro rata share of the income or losses and net assets, in the form of members' equity, applicable to these interests has been recognized in the System's consolidated financial statements.

Fair value of financial instruments: Financial instruments are described as cash or contractual obligations or rights to pay or to receive cash. The fair value for certain financial instruments approximates the carrying value because of the short-term maturity of these instruments which include cash and cash equivalents, short-term investments, receivables, accounts payable, accrued liabilities, due to third-party payors and other current liabilities. The System's investments and assets limited as to use are carried at fair value on the consolidated balance sheets. Based on borrowing rates currently available to the System with similar terms and maturities, the fair value of the long-term debt excluding capital leases and unamortized bond premium approximates $210,862,000 and $80,483,000 as of June 30, 2014 and 2013, respectively. The fair value of long-term debt is based on level 2 inputs within the fair value hierarchy.

Fair value measurements: The Fair Value Measurements and Disclosures Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification defines fair value, establishes a framework for measuring fair value and requires disclosure of fair value measurements, which applies to all assets and liabilities that are measured and reported on a fair value basis. See Note 6 for additional information.

Other service revenue, net of cost of revenue: The consolidated statements of operations include other service revenue, net of cost of revenue, which primarily consists of pharmaceuticals, home medical equipment and laundry services through GenVentures, Inc.

Operating income: The consolidated statements of operations include operating income. Changes in unrestricted net assets, which are excluded from operating income include investment income, contribution income and other income which management views as outside of core operating activity.

Electronic health records incentive program: The electronic health records incentive program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for incentive payments under both the Medicare and Medicaid programs to eligible health systems that demonstrate meaningful use of certified electronic health records (EHR) technology. Payments under both the Medicare and Medicaid programs are for five and six years, respectively, based on a statutory formula. The Medicaid programs are determined on a state-by-state basis, which are approved by the Centers for Medicare and Medicaid Services. Payment under both programs is contingent on the System initially attesting to being a meaningful user of EHR technology and then continuing to meet escalating criteria, including other specific requirements that are applicable, for consecutive reporting periods. The final amount for any payment year is determined based upon an audit by the fiscal intermediary. Events could occur that would cause the final amounts to differ from the initial payments under the program, although management does not anticipate material adjustments, as input data for the EHR incentive amounts has remained relatively consistent over time. The System accounts for the recognition of revenue related to the incentive payments ratably over the period of time in which the incentives are earned. Therefore, revenue from the incentive payments is recognized ratably as the System demonstrates that it complies with the meaningful use criteria over the applicable attestation period. During the years ended June 30, 2014 and 2013, the System has recognized approximately $1,762,000 and $6,625,000, respectively, of other operating revenue as the meaningful use objectives have been met. As of June 30, 2014 and 2013, the System recorded other current receivables of approximately $299,000 and $3,670,000, respectively, relating to the EHR incentive program.

Note 1. Nature of Business and Significant Accounting Policies (Continued)

Charity care: The System provides care to patients who meet certain criteria under charity care policies without charge or at amounts less than its established rates. Because the System does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. See additional information in Note 3.

Excess of revenue over expenses: The consolidated statements of operations and changes in net assets include excess of revenue over expenses. Changes in unrestricted net assets which are excluded from excess of revenue over expenses, consistent with industry practice, include the change in unrealized gains and losses on investments classified as other-than-trading, permanent transfers of assets for other than goods and services, contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purpose of acquiring such assets), and the change in unrecognized funded status of the retirement plan.

Subsequent events: The System has evaluated subsequent events through October 22, 2014, the date on which the consolidated financial statements were issued. In October 2014, management entered into an agreement with an unrelated third party for the sale of assets used primarily for outpatient dialysis services. The System will invest in a 20% interest in a newly formed joint venture that will perform outpatient dialysis services. Management is also exploring other possible partnership opportunities; however, no other significant agreements have been entered into as of October 22, 2014.

Note 2. Net Patient Service Revenue

Health care providers within the System have agreements with third-party payors that provide for payments at amounts different from its established rates. These third-party payors include: the Medicare and Medicaid programs, Wellmark/Blue Cross, other health maintenance organizations, and various commercial insurance and preferred provider organizations.

Third-party payor rates differ by payor and include: established charges, contracted rates less than established charges, retroactively determined cost-based rates and prospectively determined rates per discharge, per procedure, or per diem.

A summary of net patient service revenue for the years ended June 30, 2014 and 2013 is as follows:

	2014	2013
Gross patient service revenue	$ 1,320,000,640	$ 1,255,009,661
Less discounts, allowances and estimated contractual adjustments under third-party reimbursement programs	762,391,608	706,306,275
Patient service revenue, net of contractual adjustments	557,609,032	548,703,386
Less provision for doubtful accounts	36,045,483	35,672,919
Net patient service revenue	$ 521,563,549	$ 513,030,467

Estimated contractual adjustments for the years ended June 30, 2014 and 2013 include the effect of a change in the estimate of the amount due to third-party payors. The net effect of this change in estimate is a decrease in estimated contractual adjustments of approximately $598,000 and $1,064,000 for the years ended June 30, 2014 and 2013, respectively, and is related to the recognition of disproportionate share reimbursement and retroactive adjustments based on final settlements of cost reports.

Note 2. Net Patient Service Revenue (Continued)

Under the State of Illinois Medicaid Hospital Assessment Program (Illinois Program), a hospital receives additional Medicaid reimbursement from the State and pays a related assessment. Total reimbursement revenue recognized by the System related to this Illinois Program for the years ended June 30, 2014 and 2013 amounted to approximately $5,899,000 and $5,814,000, respectively, which is recorded as a reduction of estimated contractual adjustments. Total assessments incurred by the System related to this Illinois Program for the years ended June 30, 2014 and 2013 amounted to approximately $1,879,000 and $1,846,000, respectively, which is included in other operating expenses. The Illinois Program is in place through June 2018.

On June 14, 2012, the Governor of Illinois signed the Save Medicaid Access and Resources Together (SMART) Act, which scaled back the Illinois Medicaid program through provider rate adjustments, utilization controls and eligibility verification. The SMART Act also included an enhanced hospital tax assessment program, which was approved by CMS in October 2013 and is retroactive to June 2012. The program, which is effective through December 31, 2014, generates additional funds that will be used to attract additional federal matching funds. The additional funds will be used to provide new hospital payments designed to preserve and improve access to hospital services for residents throughout Illinois. Total reimbursement revenue recognized by the Hospital related to the enhanced program, which is recorded as a reduction of estimated contractual adjustments, amounted to approximately $3,142,000 and $1,087,000 for the years ended June 30, 2014 and 2013, respectively. The total enhanced assessment incurred by the System was $1,242,000 and $388,000 for the years ended June 30, 2014 and 2013, respectively, which is included in other operating expenses.

In 2011, CMS approved the State of Iowa's Hospital Provider Tax Program (Iowa Program). Under the Iowa Program, which is retroactive to July 1, 2010, a hospital is required to pay a quarterly provider tax assessment. The tax assessments collected by the State are used to fund a health care access improvement fund and are used to obtain federal matching funds, all of which must be distributed to Iowa hospitals to help bring Medicaid reimbursement closer to the cost of providing care. The allocation of these funds to specific health care providers is based primarily on the amount of care provided to Medicaid recipients. The Iowa Program increases inpatient diagnosis-related groups (DRG) reimbursement rates and also implements several supplemental inpatient and outpatient methodologies. The System's additional reimbursement has been recorded in the accompanying consolidated financial statements as a reduction of estimated contractual adjustments. Total assessments incurred by the System related to this Iowa Program amounted to approximately $2,491,000 for each of the years ended June 30, 2014 and 2013, which is included in other operating expenses.

The Affordable Care Act provides for a significant reduction in Medicaid disproportionate share (DSH) payments beginning in 2016. The U.S. Department of Health and Human Services is to determine the amount of Medicaid DSH payment cuts imposed on each state based on a defined methodology. As Medicaid DSH payments to states will be cut, consequently, payments to Medicaid-participating providers, including hospitals in Iowa and Illinois, will likely be reduced in the coming years.

The System has entered into various shared savings programs, including an Accountable Care Organization (ACO) program with Medicare. Through these programs, the System works with Wellmark and United Healthcare to provide fee-for-service beneficiaries with high-quality service and care, while reducing the growth in expenditures through enhanced care coordination. During the years ended June 30, 2014 and 2013, these programs achieved specified metrics and earned incentive payments which were paid to the System. The System's share of the incentive under these programs recognized in other operating revenue was approximately $2,282,000 and $1,365,000 for the years ended June 30, 2014 and 2013, respectively. As of June 30, 2014 and 2013, the System recorded other current receivables of approximately $1,830,000 and $104,000, respectively, relating to these programs.

Note 3. Charity Care and Community Service

The System maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy and the estimated cost of those services and supplies.

The amount of charity care provided at estimated cost was approximately $9,341,000 and $10,252,000 for the years ended June 30, 2014 and 2013, respectively. Cost of charity care is calculated by applying business unit specific cost-to-charge ratios to the amount of charity care deductions from gross revenue for each business unit. The cost-to-charge ratio is calculated by taking the business unit expenses and gross charges and applying adjustments to remove the cost of non-patient care activity, Medicaid provider taxes paid, identifiable community benefit expenses, as well as gross patient charges that are generated for identifiable community benefit services.

In addition to its charity policy, the System provided community services, including, but not limited to, the following:

- Operation of full-time emergency rooms providing emergency medical services to all patients accessing the System, regardless of race, creed, sex, national origin, handicap, age or ability to pay.
- Operation of a community based hospice program along with the only residential hospice house in the Quad Cities.
- Maintenance of provider agreements with the Medicare and Medicaid programs.
- Health screenings, promotions, education and prevention programs offered free or at low cost to its communities.
- A medical education program which provides for the education of Family Practice residents at GFMC, as well as support to nursing programs.
- Volunteer services provided by the System's staff to the communities, including major community events and fund raising activities.
- Not-for-profit community funding, including those community groups' activities that are consistent with System's mission.
- Subsidized services to other charitable organizations providing health related services.

Genesis Health System and the Foundation, as part of their missions, grant charitable support to meet the health related needs of the communities served by the System.

On June 14, 2012, the Governor of Illinois signed into law legislation that governs property and sales tax exemption for not-for-profit hospitals. The law took effect on the date it was signed. Under the law, in order to maintain its property and sales tax exemption, the value of specified services and activities of a not-for-profit hospital must equal or exceed the estimated value of the hospital's property tax liability, as determined under a formula in the law. The specified services are those that address the health care needs of low-income or underserved individuals or relieve the burden of government with regard to health care services, and include: the cost of free or discounted services provided pursuant to the hospital's financial assistance policy; other unreimbursed costs of addressing the health needs of low-income and underserved individuals; direct or indirect financial or in-kind subsidies of State and local governments; the unreimbursed cost of treating Medicaid and other means-tested program recipients; the unreimbursed cost of treating dual-eligible Medicare/Medicaid patients; and other activities that the Illinois Department of Revenue determines relieves the burden of government or addresses the health of low-income or underserved individuals. Management believes that the System's Illinois hospitals, GMC – Silvis and GMC – Aledo, meet the requirements under the law to maintain their property and sales tax exemptions in Illinois.

Note 4. Receivables

Patient receivables as of June 30, 2014 and 2013 consist of the following:

	2014	2013
Patient receivables before allowances	$ 170,907,633	$ 171,968,271
Less:		
Estimated third-party contractual allowances	73,345,741	70,452,581
Allowance for doubtful accounts and charity care	17,969,336	15,792,827
	$ 79,592,556	$ 85,722,863

Note 5. Composition of Investments and Assets Limited as to Use

Investments and assets limited as to use that are internally designated and donor restricted consist of the following as of June 30, 2014 and 2013:

	2014	2013
Cash, primarily money market funds	$ 26,146,410	$ 1,530,014
Certificates of deposit	569,899	567,798
Common stocks	79,574,075	76,092,391
Fixed income mutual funds	17,910,660	56,602,231
Equity mutual funds	65,650,493	58,512,134
Equity collective investment funds	60,927,846	48,619,018
U.S. Treasury bonds	132,709,117	-
Investment in associated companies	11,974,240	12,680,675
Other	1,836,494	935,542
	$ 397,299,234	$ 255,539,803

Investments and assets limited as to use that are internally designated and donor restricted are included in the accompanying consolidated balance sheets under the following captions as of June 30, 2014 and 2013:

	2014	2013
Short-term investments	$ 658,377	$ 648,632
Investments	63,028,063	61,651,493
Assets limited as to use:		
Internally designated	200,065,142	174,235,597
Under bond indenture, funds held by trustee	111,012,884	-
Donor restricted	22,534,768	19,004,081
	$ 397,299,234	$ 255,539,803

The investments of the System are exposed to various risks such as interest rate, market and credit. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term would materially affect investment balances and the amounts reported in the consolidated financial statements.

Note 5. Composition of Investments and Assets Limited as to Use (Continued)

The return on investments, including assets limited as to use, is reported in the consolidated statements of operations and changes in net assets as follows:

	2014	2013
Investment income:		
Interest and dividend income	$ 4,610,494	$ 5,132,712
Net realized gains on investments	20,760,362	7,824,448
Change in net unrealized gains and losses on investments	4,839,280	7,262,503
Equity in net income of associated companies	7,217,085	5,282,983
	$ 37,427,221	$ 25,502,646
Unrestricted:		
Interest and dividend income and realized gains on sales of investments	$ 23,158,882	$ 11,782,407
Current year change in unrealized gains on trading securities	3,573,211	6,838,810
Other nonoperating income	2,623,043	912,639
Other operating revenue	5,445,862	4,275,087
	34,800,998	23,808,943
Temporarily restricted:		
Interest and dividend income	206,174	301,874
Net realized gains on investments	1,184,571	811,969
Change in net unrealized gains on investments	1,171,574	518,502
	2,562,319	1,632,345
Permanently restricted:		
Interest and dividend income	5,277	7,830
Net realized gains on investments	30,238	21,433
Change in net unrealized gains on investments	28,389	32,095
	63,904	61,358
	$ 37,427,221	$ 25,502,646

Note 6. Investments and Fair Value Measurements

The Fair Value Measurements and Disclosures Topic of the FASB Accounting Standards Codification defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants and requires the use of valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources, or unobservable, meaning those that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. In that regard, this guidance establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data. Level 2 investments also include market alternatives, measured using the practical expedient, that do not have any significant redemption restrictions, lock ups, gates or other characteristics that would cause liquidation and report date NAV to be significantly different.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

A description of the valuation methodologies used for assets and liabilities measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below:

Investments in common stocks and mutual funds traded on a national securities exchange are valued at the last reported sales price on the day of valuation. These financial instruments are classified as level 1 in the fair value hierarchy.

The System invests in alternative investments consisting of equity mutual funds and collective investment funds for which fair value is determined using the NAV per share of each fund. The NAV for level 2 mutual funds and collective investment funds is primarily determined based on the underlying assets and liabilities held in the fund. The estimated fair values of certain investments of the underlying investment funds, which may include securities for which prices are not readily available, are determined by the managers of the respective other investment fund and may not reflect amounts that could be realized upon immediate sale, nor amounts that ultimately may be realized. Accordingly, the estimated fair values may differ significantly from the values that would have been used had a ready market existed for these investments. The fair value of the System's investments in funds generally represents the amount the System would expect to receive if it were to liquidate its investments in funds excluding any redemption charges that may apply.

Note 6. Investments and Fair Value Measurements (Continued)

For the System's investments in U.S. treasury bonds where quoted prices are not available for identical securities in an active market, the System determines fair value utilizing vendors who apply matrix pricing for similar bonds where no price is observable or may compile prices from various sources. These models are primarily industry-standard models that consider various assumptions including time value, yield curve, volatility factors, prepayment speeds, default rates, loss severity, current market and contractual prices for the underlying financial instruments, as well as other relevant economic measures. Substantially all of these assumptions are observable in the market place, can be derived from observable data or are supported by observable levels at which transactions are executed in the market place. Fair values from these models are verified, where possible, to quoted prices for recent trading activity of assets with similar characteristics to the security being valued. Such methods are classified as level 2.

There have been no changes in valuation techniques used for any assets measured at fair value during the year ended June 30, 2014.

Assets recorded at fair value on a recurring basis:

The following tables summarize assets measured at fair value on a recurring basis as of June 30, 2014 and 2013, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

	Investments at Fair Value as of June 30, 2014			
	Fair Value	Level 1	Level 2	Level 3
Common Stocks:				
Healthcare	$ 11,260,181	$ 11,260,181	$ -	$ -
Financial	9,044,094	9,044,094	-	-
Consumer Discretionary	14,319,289	14,319,289	-	-
Energy	7,508,129	7,508,129	-	-
Information Technology	19,273,558	19,273,558	-	-
Industrials	4,972,678	4,972,678	-	-
ADR's (American Depository Receipts)	3,400,027	3,400,027	-	-
Materials	3,107,112	3,107,112	-	-
Consumer Staples	5,037,134	5,037,134	-	-
Utilities	312,885	312,885	-	-
Telecommunication Services	1,338,988	1,338,988	-	-
Equity Mutual Funds:				
PIMCO Cayman U.S. Total Return Fund	12,057,804	-	12,057,804	-
MFS Global Equity Fund	9,184,374	9,184,374	-	-
Lazard International Strategic Fund	23,008,766	23,008,766	-	-
Other, primarily those held in deferred			-	-
compensation plan assets	21,399,548	21,399,548	-	-
Equity Collective Investment Funds:				
JP Morgan Core Bond Trust	50,716,618	-	50,716,618	-
JP Morgan U.S. Aggregate Bond Fund	10,211,229	-	10,211,229	-
Fixed Income:				
Nuveen Short-Term Bond Fund	12,126,792	12,126,792	-	-
U.S. Treasury Bonds	132,709,117	-	132,709,117	-
Metropolitan West Total Return Bond Fund	4,455,460	4,455,460	-	-
Other	1,328,408	1,328,408	-	-
	$ 356,772,191	$ 151,077,423	$ 205,694,768	$ -

Note 6. Investments and Fair Value Measurements (Continued)

	Investments at Fair Value as of June 30, 2013			
	Fair Value	Level 1	Level 2	Level 3
Common Stocks:				
Healthcare	$ 10,550,883	$ 10,550,883	$ -	$ -
Financial	9,823,738	9,823,738	-	-
Consumer Discretionary	13,062,861	13,062,861	-	-
Energy	5,725,189	5,725,189	-	-
Information Technology	17,438,242	17,438,242	-	-
Industrials	6,589,594	6,589,594	-	-
ADR's (American Depository Receipts)	3,394,069	3,394,069	-	-
Materials	3,006,119	3,006,119	-	-
Consumer Staples	4,386,391	4,386,391	-	-
Utilities	602,687	602,687	-	-
Telecommunication Services	1,512,618	1,512,618	-	-
Equity Mutual Funds:				
Thornburg International Value Fund	20,603,408	20,603,408	-	-
PIMCO Cayman U.S. Total Return Fund	13,210,549	-	13,210,549	-
MFS Global Equity Fund	7,500,015	7,500,015	-	-
Other, primarily those held in deferred compensation plan assets	17,198,162	17,198,162	-	-
Equity Collective Investment Funds:				
JP Morgan Core Bond Trust	37,862,337	-	37,862,337	-
JP Morgan U.S. Aggregate Bond Fund	10,756,681	-	10,756,681	-
Fixed Income Mutual Funds:				
PIMCO Total Return Fund	44,130,302	44,130,302	-	-
Nuveen Short-Term Bond Fund	11,781,429	11,781,429	-	-
Other	690,500	690,500	-	-
	$ 239,825,774	$ 177,996,207	$ 61,829,567	$ -

There were no transfers between levels of the fair value hierarchy during the years ended June 30, 2014 and 2013.

Note 6. Investments and Fair Value Measurements (Continued)

The following table sets forth additional disclosure of the System's investments whose fair value is estimated using net asset value (NAV) per share (or its equivalent) as of June 30, 2014 and 2013:

	Fair Value 2014	Fair Value 2013	Unfunded Commitment	Redemption Frequency	Redemption Notice Period
Investments:					
Equity Mutual Fund, PIMCO Cayman U.S. Total Return Fund (A)	$ 12,057,804	$ 13,210,549	$ -	Daily	Daily
Equity Collective Investment Funds:					
JP Morgan Core Bond Trust (B)	50,716,618	37,862,337	-	Daily	Daily
JP Morgan U.S. Aggregate Bond Fund (C)	10,211,229	10,756,681	-	Daily	Trade date, minus 3 days
	$ 72,985,651	$ 61,829,567	$ -		

(A) PIMCO Cayman U.S. Total Return Fund is an open-end investment fund incorporated in the Cayman Islands. The Fund's objective is maximum total return, consistent with preservation of capital and prudent investment management. The System has used the NAV as the practical expedient to measure fair value.

(B) The JP Morgan Core Bond Trust fund seeks to maximize total return by investing primarily in a diversified portfolio of intermediate and long-term debt securities. The System has used the NAV as the practical expedient to measure fair value.

(C) JP Morgan U.S. Aggregate Bond Fund is an open-end investment fund incorporated in Luxembourg. The Fund's objective is to achieve return in excess of U.S. bond markets by investing primarily in U.S. fixed and floating rate debt securities. The System has used the NAV as the practical expedient to measure fair value.

Note 7. Property and Equipment

Property and equipment as of June 30, 2014 and 2013 consists of the following:

	2014	2013
Land and land improvements (A)	$ 33,136,340	$ 30,479,557
Buildings (B)	345,889,375	344,507,404
Leasehold improvements	21,511,310	21,100,926
Equipment (C)	356,318,402	338,462,522
Construction in process	39,400,169	14,779,569
	796,255,596	749,329,978
Less accumulated depreciation, including accumulated depreciation on capital assets 2014 $25,903,237; 2013 $24,340,038	530,430,082	497,039,692
	$ 265,825,514	$ 252,290,286

(A) Land and land improvements include assets under capital lease as of June 30, 2014 and 2013 of $1,153,678.

(B) Buildings include assets under capital lease as of June 30, 2014 and 2013 of $22,272,145.

(C) Equipment includes assets under capital lease as of June 30, 2014 and 2013 of $9,467,994.

Note 8. Long-Term Debt and Pledged Assets

Long-term debt and pledged assets as of June 30, 2014 and 2013 consist of the following:

	2014	2013
GHS Iowa:		
Revenue bonds, Series 2010 (A)	$ 67,040,000	$ 73,435,000
Revenue bonds, Series 2013 (B)	121,000,000	-
Unamortized bond premium, Series 2010 and 2013 (A)(B)	5,924,159	3,216,984
Capital lease obligation (C)	2,392,808	3,622,895
GHS Iowa subtotal	196,356,967	80,274,879
GHS Illinois, capital lease obligations (D)	6,375,000	7,070,000
Obligated Group subtotal (E)	202,731,967	87,344,879
GenVentures, note payable, bank (F)	248,276	349,750
	202,980,243	87,694,629
Less current maturities	8,861,422	8,421,389
	$ 194,118,821	$ 79,273,240

(A) During fiscal year 2010, GHS Iowa issued Iowa Finance Authority Healthcare Revenue Bonds, Series 2010. The Series 2010 bonds, which had an original principal balance of $90,995,000 and were issued at a premium of $3,799,486, have payments due July 1, annually, and mature in varying amounts through July 1, 2026 and bear interest at 5.0%. The Series 2010 bonds are secured by a pledge of the Obligated Group’s unrestricted receivables. The proceeds of the bonds were used to extinguish the 1997 and 2000 Series bonds.

There are a number of limitations and restrictions contained in the Master Trust Indenture, the most significant of which is for the Obligated Group to maintain a minimum debt service coverage ratio of 1.10 to 1.

(B) During fiscal year 2014, GHS Iowa issued Iowa Finance Authority Healthcare Revenue Bonds, Series 2013. The Series 2013 bonds, which had an original principal balance of $121,000,000 and were issued at a premium of $3,950,091, have payments due July 1, annually, and mature in varying amounts through July 1, 2033 and bear interest at rates between 4.0% and 5.5%. The Series 2013 bonds are secured by a pledge of the Obligated Group’s unrestricted receivables. The proceeds of the bonds are restricted to be used for capital acquisitions and improvements.

There are a number of limitations and restrictions contained in the Master Trust Indenture, the most significant of which is for the Obligated Group to maintain a minimum debt service coverage ratio of 1.10 to 1.

(C) The lease is due in monthly installments of $122,135, including interest at 7.68% with final payment due in March 2016. The lease is secured by equipment. The depreciated cost of the equipment under this capital lease is approximately $1,611,000 as of June 30, 2014.

Note 8. Long-Term Debt and Pledged Assets (Continued)

(D) GMC – Silvis leases its land, land improvements and buildings from Illini Hospital District, a related party, under a capital lease agreement which requires payment in an amount sufficient to pay all principal and interest on outstanding Series 2010 general obligation bonds (alternative revenue source).

The Series 2010 general obligation bonds (alternative revenue source) have an outstanding principal balance of $6,375,000. These bonds were issued to advance refund $8,740,000 of the outstanding Series 2001 general obligation bonds (alternative revenue source). The Series 2010 bonds bear interest at rates varying from 2.12% to 4.53%, which is payable on January 1 and July 1. The bonds mature in varying amounts from $710,000 to $905,000 through January 2022.

The depreciated cost of land, land improvements and buildings under this capital lease is approximately $5,332,000 as of June 30, 2014.

(E) Genesis Health System – Iowa, Genesis Health System – Illinois, Genesis Medical Center – Aledo and Genesis Senior Living - Aledo, collectively, represent the Obligated Group on the revenue bond obligations.

(F) GenVentures' bank note is due in monthly payments of $10,200, including interest at a variable rate, 6.95% as of June 30, 2014, through August 2016, secured by building and land. Under this agreement, GenVentures is required to maintain certain restrictive covenants including a minimum tangible net worth and a minimum debt service coverage ratio.

The following is a schedule of approximate future minimum lease payments due under capital leases together with the present value of future minimum lease payments as of June 30, 2014:

Year ending June 30:	
2015	$ 2,296,000
2016	2,045,000
2017	949,000
2018	949,000
2019	951,000
Thereafter	2,845,000
	10,035,000
Less the amount representing interest	1,267,000
Present value of future minimum lease payments	$ 8,768,000

Note 8. Long-Term Debt and Pledged Assets (Continued)

The aggregate principal maturities of the long-term debt, including the maturities of capital leases and excluding unamortized bond premium, as of June 30, 2014 over the next five years and thereafter are approximately as follows:

Year ending June 30:	
2015	$ 8,861,000
2016	8,961,000
2017	8,559,000
2018	8,955,000
2019	9,405,000
Thereafter	152,315,000
	$197,056,000

Note 9. Employee Retirement Plans

All employees of the System and affiliates participate in the Genesis Health System Retirement Plans. The plans consist of both a defined benefit pension plan and an employer paid match on employee contributions to a defined contribution plan. Retirement expense for the employer paid match to the defined contribution plan was approximately $4,939,000 and $5,413,000 for the years ended June 30, 2014 and 2013, respectively.

Effective July 1, 2005, current participants in the defined benefit pension plan were given the option to remain in the defined benefit pension plan or to elect to move to the Genesis Retirement Account program, at which time their benefits in the defined benefit pension plan were frozen at current levels. All new full and part-time employees that have worked more than 1,000 hours during a prior calendar year will participate in the new defined contribution plan, with contributions made by the System as specified in the plan based on years of service.

Effective December 31, 2006, the Board of Directors of the System adopted a resolution to freeze the defined benefit pension plan (Plan). Under terms of the freeze, employees with at least five years of service and a combination of age and years of service of 70 were grandfathered. As of December 31, 2011, benefits for all previously grandfathered employees were frozen and there will be no future benefits accrued to the participants in the defined benefit plan. As a result of the plan amendment which was effective December 31, 2011, the System elected to amortize the remaining actuarial gains and losses using the average remaining lifetime of participants expected to receive benefits under the Plan.

The Compensation – Retirement Benefits Topic of the FASB Accounting Standards Codification requires balance sheet recognition of the overfunded or underfunded status of pension and postretirement benefit plans. Actuarial gains and losses, prior service costs or credits and any remaining transition assets or obligations that have not been recognized under previous accounting standards, must be recognized in the changes in unrestricted net assets. As a result, the System has recognized the overfunded status of the defined benefit pension plan in the accompanying consolidated balance sheets as of June 30, 2014 and 2013. The accrual for the defined benefit pension plan asset or liability is based on a comparison of the fair value of Plan assets to the Plan’s projected benefit obligation.

Note 9. Employee Retirement Plans (Continued)

The defined benefit pension plan is measured annually at June 30. Information about the Plan follows:

	2014	2013
Projected benefit obligation at beginning of year	$ (181,241,980)	$ (187,533,433)
Interest cost	(9,037,692)	(8,736,342)
Actuarial gain (loss), impact of change in assumptions	(23,672,484)	7,622,843
Benefits paid	7,997,330	7,404,952
Projected benefit obligation at end of year	(205,954,826)	(181,241,980)
Fair value of plan assets	214,013,202	183,907,837
Funded status, plan assets in excess of benefit obligation	$ 8,058,376	$ 2,665,857
Rollforward of accrued benefit (liability):		
Accrued benefit (liability) on balance sheet, beginning of year	$ 2,665,857	$ (16,986,157)
Return on plan assets	32,102,695	14,765,513
System contributions	6,000,000	6,000,000
Change in plan liability	(32,710,176)	(1,113,499)
Accrued benefit on balance sheet, end of year	$ 8,058,376	$ 2,665,857
Components of net periodic pension cost (income), which is included as a component of employee benefits expense on the accompanying consolidated statements of operations, consist of:		
Interest cost	$ 9,037,692	$ 8,736,342
Expected return on plan assets	(12,620,222)	(11,376,496)
Amortization of unrecognized net loss	1,751,925	2,279,230
Net periodic pension (income)	$ (1,830,605)	$ (360,924)

Note 9. Employee Retirement Plans (Continued)

	2014	2013
Amounts not yet recognized as components of net periodic pension cost:		
Net actuarial (loss)	$ (62,883,059)	$ (60,459,755)
Prior service credit	-	14,777
Unrecognized amounts, end of year	(62,883,059)	(60,444,978)
Unrecognized amounts, beginning of year	(60,444,978)	(73,736,067)
Current year change	$ (2,438,081)	$ 13,291,089
Assumptions used in computations:		
In computing ending obligations:		
Discount rate	4.30%	5.10%
Rate of compensation increase	n/a	n/a
In computing net periodic benefit cost:		
Discount rate	5.10%	4.75%
Expected return on assets	7.25%	7.25%
Rate of compensation increase	n/a	n/a

The expected return on plan assets is based upon a blend of historical returns and the System’s estimate of a long-term rate of return.

Management’s objective is to maximize long-term returns while reducing losses in order to meet future benefit obligations. Management follows the policy of using historical evidence in computing expected return on assets.

Note 9. Employee Retirement Plans (Continued)

The fair values of the System's defined benefit pension plan assets as of June 30, 2014 and 2013 by asset category, segregated by the level of the valuation inputs within the fair value hierarchy as described in Note 6, are as follows:

	Fair Value	Level 1	Level 2	Level 3
	Investments at Fair Value as of June 30, 2014			
Common Stocks:				
Healthcare	$ 9,724,604	$ 9,724,604	$ -	$ -
Financial	11,241,449	11,241,449	-	-
Consumer Discretionary	15,048,609	15,048,609	-	-
Energy	6,468,807	6,468,807	-	-
Information Technology	14,927,248	14,927,248	-	-
Industrials	5,673,277	5,673,277	-	-
ADR's (American Depository Receipts)	7,412,047	7,412,047	-	-
Materials	2,971,632	2,971,632	-	-
Consumer Staples	3,305,920	3,305,920	-	-
Utilities	673,157	673,157	-	-
Telecommunication Services	789,150	789,150	-	-
Fixed Income Mutual Fund, PIMCO Total Return Fund	141,618	141,618	-	-
Fixed Income:				
U.S. Treasury Bonds	29,327,065	-	29,327,065	-
Other	4,184,820	-	4,184,820	-
Equity Mutual Funds:				
MFS Global Equity Fund	9,753,317	9,753,317	-	-
Lazard International Strategic Fund	24,498,505	24,498,505	-	-
Equity Collective Investment Fund, JP Morgan				
Extended Duration Fund	52,869,731	-	52,869,731	-
	199,010,956	$ 112,629,340	$ 86,381,616	$ -
Other plan assets, cash and cash equivalents	15,002,246			
Total plan assets	$ 214,013,202			
	Investments at Fair Value as of June 30, 2013			
Common Stocks:				
Healthcare	$ 9,713,915	$ 9,713,915	$ -	$ -
Financial	10,908,861	10,908,861	-	-
Consumer Discretionary	16,617,544	16,617,544	-	-
Energy	5,884,731	5,884,731	-	-
Information Technology	13,735,821	13,735,821	-	-
Industrials	7,632,608	7,632,608	-	-
ADR's (American Depository Receipts)	5,747,264	5,747,264	-	-
Materials	2,668,187	2,668,187	-	-
Consumer Staples	2,979,522	2,979,522	-	-
Utilities	928,387	928,387	-	-
Telecommunication Services	790,267	790,267	-	-
Fixed Income Mutual Fund, PIMCO Total Return Fund	35,427,365	35,427,365	-	-
Equity Mutual Funds:				
MFS Global Equity Fund	7,964,618	7,964,618	-	-
Thornburg International Value Fund	21,959,722	21,959,722	-	-
Equity Collective Investment Fund, JP Morgan				
Extended Duration Fund	38,602,979	-	38,602,979	-
	181,561,791	$ 142,958,812	$ 38,602,979	$ -
Other plan assets, cash and cash equivalents	2,346,046			
Total plan assets	$ 183,907,837			

Note 9. Employee Retirement Plans (Continued)

The following table sets forth additional disclosure of the System's defined benefit pension plan assets whose fair value is estimated using net asset value (NAV) per share (or its equivalent) as of June 30, 2014 and 2013:

	Fair Value		Unfunded	Redemption	Redemption
	2014	2013	Commitment	Frequency	Notice Period
Investments, Equity Collective Investment Fund, JP Morgan Extended Duration Fund (A)	$ 52,869,731	$ 38,602,979	$ -	Daily	1 Day

(A) The fund invests mainly in level 2 investments such as collateralized mortgage obligations, corporate bonds and U.S. Treasury securities. This fund can be redeemed at the current NAV of the fund by giving written notice to the Trustee one business day prior to withdrawal. The System has used the NAV as the practical expedient to measure fair value.

The following summarizes target and actual asset allocations by major asset categories as of June 30, 2014 and 2013:

	Target Allocation		Actual	
	2014	2013	2014	2013
Domestic equity securities:				
Large cap	28.5%	26.0%	34.5%	31.6%
Small cap	9.0	9.0	9.0	11.6
International equity securities	16.0	15.0	16.0	16.2
Fixed income	46.5	50.0	40.5	40.6
	100.0%	100.0%	100.0%	100.0%

Management's objective is to maintain adequate levels of diversification among plan assets. Management monitors the allocation on an ongoing basis and will allocate plan assets accordingly in the subsequent quarter.

The System does not expect to contribute to its defined benefit pension plan during the year ending June 30, 2015.

Benefit payments from the defined benefit pension plan are expected to be paid as follows:

Year ending June 30:	
2015	$ 10,500,000
2016	11,300,000
2017	12,100,000
2018	12,800,000
2019	12,800,000
2020 to 2024	64,900,000
	$124,400,000

Physician employees of the System are eligible to participate in nonqualified deferred compensation plans. The plans allow participants to defer a portion of their salary into the plans. The plan assets are held for the benefit of participating employees. The liability to these participants is recorded at the same amount as the plan assets' value. The assets, which are included in investments, and corresponding noncurrent liability of the nonqualified deferred compensation plans recorded on the accompanying consolidated balance sheets are approximately $14,362,000 and $11,616,000 as of June 30, 2014 and 2013, respectively.

Note 10. Income Tax Matters

GHS Iowa, GHS Illinois, GSL – Aledo, GMC – Aledo, the Genesis Foundation, and the Workers' Compensation Trust are exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. GenVentures is subject to income taxes. Misericordia Assurance Company, Ltd. is a foreign corporation not subject to income taxes.

In lieu of corporate income taxes, the partners of The Larson Center Partnership and members of GenGastro, LLC are taxed on their proportionate share of the respective organization's income, deductions, losses and credits. Therefore, the accompanying consolidated financial statements do not include any provision for income taxes for these entities.

Deferred taxes for GenVentures are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carryforwards, and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in the tax laws and rates on the date of enactment. The deferred taxes for GenVentures relate primarily to net operating loss carryforwards, property and equipment, allowance for doubtful accounts and accrued compensation.

Net deferred taxes consist of the following components as of June 30, 2014 and 2013:

	2014	2013
Deferred tax assets	$ 3,067,000	$ 2,648,000
Less valuation allowance	(3,067,000)	(2,648,000)
	$ -	$ -

For the years ended June 30, 2014 and 2013, there are no current income tax provisions due to the utilization of the net operating loss carryforwards.

As of June 30, 2014, GenVentures, for federal income tax purposes, has net operating loss carryforwards which are available to offset future federal taxable income and federal tax liabilities. These carryforwards expire from 2020 through 2026. The carryforwards expiring in future years are as follows:

Year ending June 30:	
2015	$ -
2016	-
2017	-
2018	-
2019	-
Thereafter	1,981,000
	$ 1,981,000

Note 10. Income Tax Matters (Continued)

Uncertainty in income taxes:

GHS Iowa, GHS Illinois, GSL – Aledo, GMC – Aledo, the Genesis Foundation and the Workers' Compensation Trust each files a Form 990 (Return of Organization Exempt from Income Tax) annually. When these returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would ultimately be sustained. Examples of tax positions common to health systems include such matters as the following: the tax exempt status of each entity, the nature, characterization and taxability of joint venture income and various positions relative to potential sources of unrelated business taxable income. Unrelated business taxable income is reported on Form 990T, as appropriate. The benefit of a tax position is recognized in the consolidated financial statements in the period during which, based on all available evidence, management believes that it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any.

Tax positions are not offset or aggregated with other positions. Tax positions that meet the "more likely than not" recognition threshold are measured as the largest amount of tax benefit that is more than 50% likely to be realized on settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for uncertain tax benefits in the accompanying consolidated balance sheets along with any associated interest and penalties that would be payable to the taxing authorities upon examination.

Forms 990 and 990T filed by GHS Iowa, GHS Illinois, GSL – Aledo, GMC – Aledo, the Genesis Foundation and the Workers' Compensation Trust are subject to examination by the Internal Revenue Service (IRS) up to three years from the extended due date of each return. Forms 990 and 990T filed by GHS Iowa, GHS Illinois, the Genesis Foundation and the Workers' Compensation Trust are no longer subject to examination for the fiscal years ended June 30, 2010 and prior. GenVentures is a taxable organization and currently files income tax returns in the U.S. federal jurisdiction and various state jurisdictions. GenVentures is no longer subject to income tax examinations for the fiscal years ended June 30, 2010 and prior. There were no uncertain tax positions as of June 30, 2014 and 2013.

Note 11. Self-Insurance, Contingent Liabilities and Commitments

Self-insured claims:

The System is primarily self-insured, up to certain limits, for general and professional liability, workers' compensation and employee group health and dental claims. The System has purchased stop-loss insurance for general and professional liability claims, which will reimburse the System for individual claims in excess of $2,000,000 annually or aggregate claims exceeding $6,000,000 annually. The System has purchased stop-loss insurance for workers' compensation claims in excess of $400,000 annually for the years ended June 30, 2014 and 2013, or aggregate claims in excess of $5,000,000. Insurance coverage is also maintained for health and dental claims in excess of $150,000.

Operations are charged with the costs of claims reported and an estimate of claims incurred but not reported. Total expense under the self-insured programs was approximately $28,223,000 and $26,454,000 for the years ended June 30, 2014 and 2013, respectively. An independent actuarial firm is utilized to assist in determining the provision for general, professional and workers' compensation losses, including incurred but not reported losses. The liabilities for estimated self-insured claims, including unpaid losses and loss adjustment expenses, recorded on the accompanying consolidated balance sheets are $39,612,000 and $37,287,000 as of June 30, 2014 and 2013, respectively, which include approximately $19,441,000 and $22,592,000, respectively, that are included in other long-term liabilities and approximately $4,403,000 and $2,010,000, respectively, included in other accrued expenses. The amount of reinsurance recoverable on unpaid losses as of June 30, 2014 and 2013 was approximately $6,301,000 and $5,369,000, respectively, that is included in other receivables.

The determination of such claims and expenses and the appropriateness of the related liability is continually reviewed and updated. It is reasonably possible that the accrued estimated liability for self-insured claims may need to be revised in the short term. In addition, participants of self-insurance programs may be required to make retrospective contributions as deemed necessary if loss experience is worse than anticipated.

GFMC participates in a cooperative of University of Iowa-affiliated medical education foundations for the purpose of professional liability insurance to cover claims on a claims-made basis with a loss limit of $2,000,000 per occurrence and an annual limit of $4,000,000 and no deductible.

Accounting for conditional asset retirement obligations:

The Conditional Asset Retirement Obligation Topic of the FASB Accounting Standards Codification clarifies when an entity is required to recognize a liability for a conditional asset retirement obligation, specifically as it relates to its legal obligation to perform asset retirement activities, such as asbestos removal, on its existing properties. Over the past ten years, management has systematically renovated, replaced or newly constructed the majority of the physical plant facilities, resulting in a relatively small portion of the facility with any remaining hazardous material. Management of the System believes that there is an indeterminate settlement date for the asset retirement obligations because the range of time over which the System may settle the obligation is unknown and does not believe that the estimate of the liability related to these asset retirement activities is a material amount as of June 30, 2014 and 2013.

Note 11. Self-Insurance, Contingent Liabilities and Commitments (Continued)

Laws and regulations:

The health care industry is subject to numerous laws and regulations of federal, state and local governments. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time. These laws and regulations include, but are not limited to, accreditation, licensure, government health care program participation requirements, reimbursement for patient services and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers. Violations of these laws and regulations could result in exclusion from government health care program participation, together with the imposition of significant fines and penalties, as well as significant repayment for past reimbursement for patient services received. The System believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing.

CMS RAC Program:

Congress passed the Medicare Modernization Act in 2003, which among other things established a demonstration of the Medicare Recovery Audit Contractor (RAC) program. The RAC's identified and corrected a significant amount of improper overpayments and/or underpayments to providers. In 2006, Congress passed the Tax Relief and Health Care Act of 2006 which authorized the expansion of the RAC program to all 50 states. The System has been subject to such audits and will continue to be subject to additional audits in the future. The System has accrued a receivable, which is included in other receivables, for amounts which have been recouped as part of the RAC program which have not yet been resolved. The System has accrued an estimated liability, which is included in due to third-party payors as of June 30, 2014 and 2013, as a reserve for such audits based on the number of RAC audit requests, the System's historical defense rate and the analysis and reviews of a consulting firm. It is reasonably possible that the recorded estimates will change materially in the near term.

Health care reform:

As a result of recently enacted federal health care reform legislation, substantial changes are anticipated in the United States health care system. Such legislation includes numerous provisions affecting the delivery of health care services, the financing of health care costs, reimbursement of health care providers and the legal obligations of health insurers, providers and employers. These provisions are currently slated to take effect at specified times over approximately the next decade.

Current economic conditions:

Current economic conditions have made it difficult for certain of the System's patients to pay for services rendered. As employers make adjustments to health insurance plans or more patients become unemployed, services provided to self-pay and other payors may significantly impact net patient service revenue, which could have an adverse impact on the System's future operating results. Further, the effect of economic conditions on the states may have an adverse effect on cash flows related to the Medicaid programs.

Note 11. Self-Insurance, Contingent Liabilities and Commitments (Continued)

Management agreement:

The System has a management agreement with Jackson County Regional Health Center (JCRHC) under which the System provides management consultation and other services to JCRHC. The arrangement does not alter the authority or responsibility of the Board of Directors of JCRHC.

Commitments:

Approximate future minimum payments required under a service contract as of June 30, 2014 are summarized below. The term of this service contract is for a period of ten years (until during the year ending June 30, 2018), unless the System terminates the contract for cause:

Year ending June 30:	
2015	$ 1,845,000
2016	1,845,000
2017	1,845,000
2018	1,691,000
	$ 7,226,000

The System has operating lease agreements for office space. Future annual minimum lease payments due under noncancelable agreements as of June 30, 2014 are as follows:

Year ending June 30:	
2015	$ 2,430,000
2016	2,739,000
2017	2,770,000
2018	2,810,000
2019	2,245,000
Thereafter	16,126,000
	$ 29,120,000

The System has signed commitments to renovate GMC – Davenport (known as campus integration) and GMC – Aledo, totaling approximately $32,768,000, of which approximately $10,977,000 is remaining as of June 30, 2014. The remaining commitments related to these projects will be funded with assets limited as to use under bond indenture and cash from operations. The System is also evaluating additional phases of the campus integration, but has not signed commitments as of October 22, 2014, other than what is described above.

Note 12. Net Asset Restrictions

Temporarily restricted net assets held by the System are restricted by donors for the following purposes as of June 30, 2014 and 2013:

	2014	2013
Cardiac research	$ 710,333	$ 467,104
Visiting nurse programs	3,987,672	3,969,431
Hospice house	1,342,888	2,229,916
Heart of Mercy financial assistance	1,065,409	665,415
Inventory and equipment for GMC - Davenport	1,883,761	1,883,761
Cancer research	940,594	171,711
Adler Fund	1,838,699	1,511,841
Employee assistance fund	753,407	618,537
Waddell regional fund for hospice and cancer care	979,909	-
Operational and educational support for GMC - Davenport	2,455,130	1,940,688
Other	4,269,308	2,716,835
	$ 20,227,110	$ 16,175,239

During the years ended June 30, 2014 and 2013, temporarily restricted net assets were released from donor restrictions by incurring expenditures satisfying their restricted purposes for property and equipment and reimbursement of operating expenses, in the amount of $1,715,776 and $1,945,409, respectively.

Permanently restricted net assets are restricted to investment in perpetuity, the income from which is expendable primarily to support the Heart of Mercy financial assistance program and the hospice house. The permanently restricted net assets held by the System are for the following purposes as of June 30, 2014 and 2013:

	2014	2013
Heart of Mercy financial assistance	$ 1,476,623	$ 1,487,299
Hospice house	1,928,530	1,925,694
Other	699,075	568,658
	$ 4,104,228	$ 3,981,651

Note 13. Minimum Future Rentals

The following is a schedule by year of approximate future minimum rentals, net of rentals from affiliates, to be received under GenVentures' noncancelable operating leases as of June 30, 2014:

Year ending June 30:	
2015	$ 1,925,000
2016	1,760,000
2017	1,328,000
2018	1,086,000
2019	1,086,000
Thereafter	4,806,000
Total approximate future minimum rentals	$ 11,991,000

Note 14. Interest in Net Assets of Foundation

The DeWitt Community Hospital Foundation (DCH Foundation), whose financial statements are not included in the accompanying consolidated financial statements since it is not under the control of the System, was established to promote and support facilities and services providing health care for sick, injured, disabled, indigent or aged persons. The support is to be provided to, or in cooperation with, other organizations including, without limitation, hospitals, ambulatory care services, nursing care facilities, and agencies or facilities providing care for persons in their homes. As of June 30, 2014 and 2013 the DCH Foundation had unaudited net assets of approximately $1,503,000 and $994,000, respectively. DCH Foundation’s assets consist primarily of cash and pledges receivable. A portion of the DCH Foundation’s net assets have been specified by their original donor to be used specifically for the benefit of Genesis Medical Center – DeWitt.

Note 15. Concentrations of Credit Risk

The System grants credit without collateral to its patients, most of whom are area residents and are insured under third-party payor agreements. The mix of the System's gross receivables from patients and third-party payors as of June 30, 2014 and 2013 was as follows:

	2014	2013
Medicare	29%	30%
Medicaid	15	12
Blue Cross	15	12
Other third-party payors	15	16
Patients	26	30
	100%	100%

As of June 30, 2014, the System had deposits exceeding the federal depository insurance limits in various major financial institutions. Management believes the credit risk related to these deposits is minimal.

The System routinely invests its surplus operating funds in money market funds. These funds generally invest in highly liquid U.S. government and agency obligations and various investment grade corporate obligations. Investments in money market funds are not insured or guaranteed by the U.S. government or by the underlying corporation; however, management believes that credit risk related to these investments is minimal.

Note 16. Pending Accounting Pronouncements

In February 2013, the FASB issued ASU No. 2013-04, *Liabilities (Topic 405): Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation Is Fixed at the Reporting Date* (a consensus of the Emerging Issues Task Force). ASU 2013-04 provides guidance for the recognition, measurement and disclosure of obligations resulting from joint and several liability arrangements for which the total amount of the obligation within the scope of this ASU is fixed at the reporting date, except for obligations addressed within existing guidance in U.S. GAAP. The guidance requires an entity to measure those obligations as the sum of the amount the reporting entity agreed to pay on the basis of its arrangement among its co-obligors and any additional amount the reporting entity expects to pay on behalf of its co-obligors. The guidance in this ASU also requires an entity to disclose the nature and amount of the obligation as well as other information about those obligations. The amendments in this ASU are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. The amendments in this ASU should be applied retrospectively to all prior periods presented for those obligations resulting from joint and several liability arrangements within the ASU's scope that exist at the beginning of an entity's fiscal year of adoption. An entity may elect to use hindsight for the comparative periods (if it changed its accounting as a result of adopting the amendments in this ASU) and should disclose that fact. Early adoption is permitted. Management is evaluating the impact this ASU may have on the System's consolidated financial statements.

In April 2013, the FASB issued ASU No. 2013-06, *Not-for-Profit Entities (Topic 958) - Services Received from Personnel of an Affiliate*. The objective of the amendments in this ASU is to specify the guidance that not-for-profit entities apply for recognizing and measuring services received from personnel of an affiliate. More specifically, the amendments in this ASU apply to not-for-profit entities, including not-for-profit, business-oriented health care entities that receive services from personnel of an affiliate that directly benefit the recipient not-for-profit entity and for which the affiliate does not charge the recipient not-for-profit entity. The amendments in this ASU require a recipient not-for-profit entity to recognize all services received from personnel of an affiliate that directly benefit the recipient not-for-profit entity. Those services should be measured at the cost recognized by the affiliate for the personnel providing those services. However, if measuring a service received from personnel of an affiliate at cost will significantly overstate or understate the value of the service received, the recipient not-for-profit entity may elect to recognize that service received at either: (a) the cost recognized by the affiliate for the personnel providing that service or; (b) the fair value of that service. The amendments in this ASU are effective prospectively for fiscal years beginning after June 15, 2014, and interim and annual periods thereafter. A recipient not-for-profit entity may apply the amendments using a modified retrospective approach under which all prior periods presented upon the date should be adjusted, but no adjustment should be made to the beginning balance of net assets of the earliest period presented. Early adoption is permitted. Management is evaluating the impact this ASU may have on the System's consolidated financial statements.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*, which provides a robust framework for addressing revenue recognition issues and replaces most of the existing revenue recognition guidance including industry-specific guidance, in current U.S. GAAP. The standard is effective for periods beginning after December 15, 2016 for public entities. Management is evaluating the impact this ASU may have on the System's consolidated financial statements.

Note 17. Functional Expenses

The System provides general health care services to residents within its geographic location. Expenses for the System's 501(c)(3) entities related to providing these services for the years ended June 30, 2014 and 2013 are as follows:

	2014	2013
Health care services	$ 434,105,208	$ 415,756,844
General, administrative and support services	96,082,172	94,110,179
Fund raising, net of intercompany contributions	728,687	923,647
	$ 530,916,067	$ 510,790,670

Included within general, administrative and support services are significant expenditures for information systems which support the delivery of health care services.

Genesis Health System and Related Organizations

Compliance Report
June 30, 2014

Contents

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*

Independent Auditor's Report

To the Audit and Compliance Committee
Genesis Health System
Davenport, Iowa

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 Genesis Health System and related organizations which comprise the consolidated balance sheet, as of June 30, 2014, and the related consolidated statements of operations, changes in net assets and cash flows for the year then ended, and the related notes to the consolidated financial statements and have issued our report thereon dated October 22, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered Genesis Health System and related organizations' 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 Genesis Health System and related organizations' internal control. Accordingly, we do not express an opinion on the effectiveness of Genesis Health System and related organizations' 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 a 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 Genesis Health System and related organizations' 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 the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

McGladrey LLP

Davenport, Iowa
October 22, 2014

McGladrey

Report on Compliance for Each Major Federal Program;
Report on Internal Control over Compliance; and
Report on Schedule of Expenditures of Federal Awards
Required by OMB Circular A-133

Independent Auditor's Report

To the Audit and Compliance Committee
Genesis Health System
Davenport, Iowa

Report on Compliance for Each Major Federal Program

We have audited Genesis Health System and related organizations' compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Genesis Health System and related organizations' major federal programs for the year ended June 30, 2014. Genesis Health System and related organizations' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Genesis Health System and related organizations' 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 a major federal program occurred. An audit includes examining, on a test basis, evidence about Genesis Health System and related organizations' 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 program. However, our audit does not provide a legal determination of Genesis Health System and related organizations' compliance.

Opinion on Each Major Federal Program

In our opinion, Genesis Health System and related organizations 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, 2014.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular No. A-133 and which is described in the accompanying schedule of findings and questioned costs as item 2014-001. Our opinion on each major federal program is not modified with respect to this matter.

Genesis Health System and related organizations' response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Genesis Health System and related organizations' response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of Genesis Health System and related organizations 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 Genesis Health System and related organizations' 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 OMB Circular A-133, 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 Genesis Health System and related organizations' 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the consolidated financial statements of Genesis Health System and related organizations as of and for the year ended June 30, 2014, and have issued our report thereon dated October 22, 2014, which contained an unmodified opinion on those consolidated financial statements. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 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 audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

McGladrey LLP

Davenport, Iowa
October 22, 2014

Genesis Health System
and Related Organizations

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2014

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number	Pass-Through Grantor's Identifying Number	Federal Expenditures
Direct:			
U.S. Department of Health and Human Services			
PPHF - 2013 - Cooperative Agreement to Support Navigators in Federally - Facilitated and State Partnership Exchanges	93.750	N/A	$ 163,633
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	N/A	199,305
Total Direct			362,938
Indirect:			
U.S. Department of Health and Human Services			
Passed through Lutheran Services in Iowa			
Affordable Care Act (ACA) - Maternal, Infant, and Early Childhood Home Visiting Program	93.505	5883CH10	276,051
Passed through Clinton County Board of Health			
Public Health Emergency Preparedness Program	93.069	5883BT70	65,617
Centers for Disease Control and Prevention Investigations and Technical Assistance	93.283	5884NB09	21,945
			87,562
Passed through Iowa Department of Public Health			
PPHF 2012 - Prevention and Public Health Fund (Affordable Care Act) - Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance Financed in part by Prevention and Public Health Funds	93.539	5884I419	13,510
Immunization Cooperative Agreements	93.268	5884I419	3,504
Centers for Disease Control and Prevention Investigations and Technical Assistance	93.283	N/A	3,000
			20,014
Passed through Scott County Board of Health			
Centers for Disease Control and Prevention Investigations and Technical Assistance	93.283	N/A	38,220
Passed through The University of Iowa			
Research on Healthcare Costs, Quality and Outcomes	93.226	W000522275	32,790
Total Indirect			454,637
Total expenditures of federal awards			$ 817,575

See Notes to Schedule of Expenditures of Federal Awards.

Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2014

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Genesis Health System and related organizations (System) and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133 *Audits of State, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

For purposes of the Schedule, federal awards include all federal assistance entered into directly between the System and the federal government and sub-awards from nonfederal organizations made under federally sponsored agreements. The Schedule does not include payments received under Medicare and Medicaid reimbursement programs. Because the Schedule presents only a selected portion of the activities of the System, it is not intended to, and does not, present the financial position, revenue and expenses, changes in net assets, and cash flows of the System.

Note 2. Significant Accounting Policies

Revenue from federal awards is recognized when the System has done everything necessary to establish its right to revenue under the accrual basis. Expenditures of federal awards are recognized in the accounting period when the liability is incurred and approved for reimbursement.

Note 3. Other Federal Awards

There were no federal awards expended for noncash assistance, insurance, or any loans, loan guarantees, or interest subsidies outstanding as of June 30, 2014.

Note 4. Subrecipients

The System did not provide federal awards to any subrecipients during the year ended June 30, 2014.

Genesis Health System
and Related Organizations

Summary Schedule of Prior Audit Findings
Year Ended June 30, 2014

There were no findings from prior years.

Schedule of Findings and Questioned Costs
Year Ended June 30, 2014

I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

• Material weakness(es) identified?		Yes	X	No
• Significant deficiency(ies) identified?		Yes	X	None reported
Noncompliance material to financial statements noted?		Yes	X	No

Federal Awards

Internal control over major programs:

• Material weakness(es) identified?		Yes	X	No
• Significant deficiency(ies) identified?		Yes	X	None reported

Type of auditor's report issued on compliance for major programs: Unmodified

• Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?	X	Yes		No

Identification of Major Programs:

CFDA Number	Name of Federal Program
93.505	Affordable Care Act (ACA) - Maternal, Infant, and Early Childhood Home Visiting Program
93.750	PPHF - 2013 - Cooperative Agreement to Support Navigators in Federally - Facilitated and State Partnership Exchanges

Dollar threshold used to distinguish between type A and type B programs $300,000

Auditee qualified as low-risk auditee?		Yes	X	No

II. Financial Statement Findings

(A) Internal Control

No matters were reported.

(B) Compliance Findings

No matters were reported.

III. Findings and Questioned Costs for Federal Awards

(A) Internal Control

No matters were reported.

(B) Compliance Findings

2014-001

U.S. Department of Health and Human Services (Direct)
PPHF - 2013 – Cooperative Agreement to Support Navigators in Federally – Facilitated and State Partnership Exchanges
(CFDA 93.750)

Finding: The System did not file reports in accordance with the Grant Agreement No. NAVCA130058-01-00.

Criteria: The grant agreement, NAVCA130058-01-00, requires the System to file the Federal Financial Report (FFR or Standard Form 425) to be submitted on a cash basis via the Payment Management System within 30 days after the end of each quarter in compliance with the guidelines provided at: www.dpm.psc.gov/grant_recipient/guides_forms/ffr_quick_reference.aspx.

Condition: Federal Financial Reports (SF-425) tested were not submitted properly. The Organization did not submit the SF-425 for the period ended December 31, 2013 and also submitted an incomplete report for the period ended March 31, 2014.

Context: Two of two quarterly reports tested were not completed in accordance with the grant agreement.

Cause: The System did not have electronic access to submit the required reports or did not obtain waivers to ensure it was in compliance with reporting requirements.

Effect: Noncompliance with federal compliance reporting requirements could result in suspension of funding.

Recommendation: We recommend the System review the grant agreement and comply with all conditions of the grant agreement or obtain waivers in writing when they are unable to access the system for submitting reports.

Response and corrective action plan: The System has communicated with the grantor and obtained both verbal and written acknowledgement of the system access limitation that prevented the filing of information at the requested date. Subsequent filings have been and are timely provided.

Genesis Health System and Related Organizations

Corrective Action Plan
Year Ended June 30, 2014

Comment Number	Comment	Corrective Action Plan	Contact Person	Anticipated Date of Completion
Compliance Findings over Federal Awards				
2014-001	The System did not complete two of the quarterly reports in accordance with the grant agreement.	See response and corrective action plan at 2014-001	Michele Cullen, Community Health Manager	June 30, 2015