

# **Lancaster General Health**

Consolidated Financial Statements,  
Supplementary Information and Schedule of  
Expenditures of Federal Awards and Reports  
in Accordance with OMB Circular A-133  
June 30, 2014 and 2013  
EIN 23-1365353

# Lancaster General Health

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## **Report of Independent Certified Public Accountants**

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We have audited the accompanying consolidated financial statements of Lancaster General Health (LG), which comprise the consolidated balance sheet as of June 30, 2014, and the related consolidated statements of operations and changes in net assets and cash flows for the year then ended, and the related notes to the consolidated financial statements.

### **Management's responsibility for the financial statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the 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 LG'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 LG's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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



### **Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Lancaster General Health as of June 30, 2014, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Supplementary information**

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The accompanying consolidating balance sheet as of June 30, 2014, the related consolidating statement of operations and changes in net assets for the year then ended, and the Schedule of Expenditures of Federal Awards, as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such supplementary 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. These additional procedures included comparing and reconciling the 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 supplementary information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

### **Other reporting required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report, dated October 23, 2014, on our consideration of LG'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 the effectiveness of 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 LG's internal control over financial reporting and compliance.

### **Other matter**

The consolidated financial statements of Lancaster General Health as of and for the year ended June 30, 2013 were audited by other auditors. Those auditors expressed an unmodified opinion on those 2013 consolidated financial statements in their report dated October 31, 2013.



The consolidating information as of June 30, 2013 and for the year then ended was audited, in relation to the June 30, 2013 consolidated financial statements, by other auditors whose report, dated October 31, 2013, stated that the 2013 consolidating information is fairly stated in all material respects, in relation to the 2013 consolidated financial statements as a whole.

*Grant Thornton LLP*

Philadelphia, Pennsylvania

October 23, 2014

**Lancaster General Health**  
**Consolidated Balance Sheets**  
**June 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 16,108,444	\$ 16,028,131
Investments	53,271,919	33,795,379
Assets limited as to use	5,408,880	6,114,536
Patient accounts receivable, net of allowance for doubtful accounts of \$31,158,146 and \$22,437,830 at June 30, 2014 and 2013, respectively	107,293,716	99,712,416
Other receivables	11,539,510	22,177,656
Inventories	14,336,084	12,340,550
Prepaid expenses and other current assets	<u>21,604,378</u>	<u>19,493,096</u>
Total current assets	229,562,931	209,661,764
Investments		
Unrestricted	836,567,456	739,460,847
Donor restricted	<u>13,271,654</u>	<u>12,794,416</u>
	849,839,110	752,255,263
Assets limited as to use, net of current portion	15,956,969	12,420,820
Investments in non-consolidated affiliates	16,156,098	15,542,898
Property, plant and equipment, net	495,655,533	505,791,692
Beneficial interest in trusts	9,551,881	8,871,389
Other assets	<u>5,245,143</u>	<u>4,698,926</u>
Total assets	<u>\$ 1,621,967,665</u>	<u>\$ 1,509,242,752</u>
<b>Liabilities and net assets</b>		
Current liabilities		
Current portion of long-term debt	\$ 6,189,253	\$ 7,107,874
Accounts payable	34,864,092	29,658,271
Accrued payroll and related benefits	46,787,779	48,518,524
Estimated settlements with third-party payors	12,583,663	12,526,000
Other current liabilities	<u>10,765,307</u>	<u>9,126,339</u>
Total current liabilities	111,190,094	106,937,008
Accrued pension liability	163,725,997	162,934,500
Other liabilities	69,955,633	73,492,969
Long-term debt, net of current portion	<u>217,627,247</u>	<u>223,398,548</u>
Total liabilities	562,498,971	566,763,025
Net assets		
Unrestricted		
Unrestricted net assets of LG	1,033,667,088	919,049,148
Non-controlling interests	<u>3,229,666</u>	<u>3,124,709</u>
Total unrestricted net assets	1,036,896,754	922,173,857
Temporarily restricted	10,834,696	9,632,839
Permanently restricted	<u>11,737,244</u>	<u>10,673,031</u>
Total net assets	1,059,468,694	942,479,727
Total liabilities and net assets	<u>\$ 1,621,967,665</u>	<u>\$ 1,509,242,752</u>

The accompanying footnotes are an integral part of the consolidated financial statements.

**Lancaster General Health**  
**Consolidated Statements of Operations and Changes in Net Assets**  
**Years Ended June 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
<b>Unrestricted net assets</b>		
Unrestricted revenue and other support		
Net patient service revenue	\$ 964,235,396	\$ 914,300,801
Less: provision for bad debts	<u>(43,875,142)</u>	<u>(41,424,713)</u>
Net patient service revenue, less provision for bad debts	920,360,254	872,876,088
Medical services	10,604,190	10,030,975
Capitation revenue	587,072	1,523,280
Other revenue	35,423,630	31,018,828
Net assets released from restrictions for operations	1,768,922	3,980,127
Contributions	<u>450,096</u>	<u>317,356</u>
Total unrestricted revenue and other support	969,194,164	919,746,654
Expenses		
Operating expenses	858,976,314	832,004,218
Depreciation and amortization	54,975,965	51,231,563
Interest	8,422,452	7,932,078
Provision for bad debts	<u>136,338</u>	<u>111,814</u>
Total expenses	<u>922,511,069</u>	<u>891,279,673</u>
Operating income	46,683,095	28,466,981
Other income (loss)		
Investment income, net	15,323,943	14,218,824
Net realized gains on sale of trading securities	19,341,127	11,742,686
Change in net unrealized gains and losses on trading securities	55,302,947	16,941,895
Change in fair value of interest rate swap agreement, net of interest	(1,142,789)	2,066,656
Income tax benefit	-	12,092,268
Other non-operating income, net	<u>12,470,992</u>	<u>15,158,998</u>
Total other income	<u>101,296,220</u>	<u>72,221,327</u>
Excess of revenue and other income over expenses	147,979,315	100,688,308
Excess of revenue attributable to non-controlling interests	<u>(1,756,207)</u>	<u>(1,984,319)</u>
Excess of revenue and other income over expenses attributable to LG	146,223,108	98,703,989

*Continued on next page*

# Lancaster General Health

## Consolidated Statements of Operations and Changes in Net Assets (continued)

Years Ended June 30, 2014 and 2013

	<u>2014</u>	<u>2013</u>
<b>Unrestricted net assets (continued)</b>		
Excess of revenue and other income over expenses attributable to LG <i>(from previous page)</i>	\$ 146,223,108	\$ 98,703,989
Other changes in unrestricted net assets		
Net assets released from restrictions - purchase of property, plant and equipment	11,768	10,654,004
Change in non-controlling interests	104,957	73,694
Change in pension liability	(31,583,741)	141,439,484
Change in other post retirement benefits	(33,195)	(977,632)
Effects of deconsolidation of affiliate	-	(2,296,579)
Increase in unrestricted net assets	<u>114,722,897</u>	<u>247,596,960</u>
<b>Temporarily restricted net assets</b>		
Restricted contributions and gifts	1,903,688	5,451,549
Investment income	185,941	187,502
Net realized gains on sale of trading securities	462,678	16,274
Change in net unrealized gains and losses on trading securities	430,240	289,129
Net assets released from restrictions	(1,780,690)	(14,634,131)
Effects of deconsolidation of affiliate	-	(212,303)
Increase (decrease) in temporarily restricted net assets	<u>1,201,857</u>	<u>(8,901,980)</u>
<b>Permanently restricted net assets</b>		
Restricted contributions and gifts	326,726	123,512
Change in net unrealized gains and losses on trading securities	413,818	400,731
Change in fair value of beneficial interest in trusts	323,669	137,951
Effects of deconsolidation of affiliate	-	(1,440,315)
Increase (decrease) in permanently restricted net assets	<u>1,064,213</u>	<u>(778,121)</u>
Increase in net assets	116,988,967	237,916,859
Net assets, beginning of year	<u>942,479,727</u>	<u>704,562,868</u>
Net assets, end of year	<u>\$1,059,468,694</u>	<u>\$ 942,479,727</u>

The accompanying footnotes are an integral part of the consolidated financial statements.

**Lancaster General Health**  
**Consolidated Statements of Cash Flows**  
**Years Ended June 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
<b>Operating activities</b>		
Increase in net assets	\$ 116,988,967	\$ 237,916,859
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Change in pension liability	31,583,741	(141,439,484)
Change in other post retirement benefits	33,195	977,632
Depreciation and amortization	54,975,965	51,231,563
Provision for bad debts	44,011,480	41,536,527
Equity earnings in non-consolidated affiliates, net	(9,392,106)	(10,395,960)
Net realized and unrealized gains on trading securities	(75,610,683)	(29,223,674)
Change in fair value of interest rate swap agreement	177,243	(2,996,097)
Change in fair value of beneficial interest in trusts	(680,492)	(338,721)
Restricted contributions, gifts, grants, and restricted income	(636,145)	(827,881)
Changes in certain assets and liabilities		
Patient accounts receivable	(51,456,442)	(31,348,121)
Other receivables	10,501,808	(7,341,303)
Inventories	(1,995,534)	(7,764,511)
Prepaid expenses and other current assets	(2,111,282)	428,375
Other assets	(620,078)	1,199,471
Accounts payable	6,026,860	(9,600,994)
Accrued payroll and related benefits	(1,730,745)	5,022,494
Estimated settlements with third-party payors	57,663	1,673,000
Accrued pension liability	(30,792,244)	13,075,058
Other liabilities	(2,108,806)	(7,570,449)
Net cash provided by operating activities before trading securities	87,222,365	104,213,784
Change in investments and assets limited as to use trading securities	(44,280,197)	(28,831,868)
Net cash provided by operating activities	<u>42,942,168</u>	<u>75,381,916</u>
<b>Investing activities</b>		
Net purchases of property, plant and equipment	(44,359,644)	(75,077,373)
Distributions from non-consolidated affiliates, net	8,778,906	9,286,483
Net cash used in investing activities	<u>(35,580,738)</u>	<u>(65,790,890)</u>
<b>Financing activities</b>		
Restricted contributions, gifts, grants, and restricted income	636,145	827,881
Repayments of long-term debt	(7,917,262)	(7,669,577)
Net cash used in financing activities	<u>(7,281,117)</u>	<u>(6,841,696)</u>
Increase in cash and cash equivalents	80,313	2,749,330
Cash and cash equivalents, beginning of year	16,028,131	13,278,801
Cash and cash equivalents, end of year	<u>\$ 16,108,444</u>	<u>\$ 16,028,131</u>
<b>Supplemental disclosure of cash flow information</b>		
Cash paid for interest, net of amounts capitalized	<u>\$ 9,408,401</u>	<u>\$ 6,025,226</u>
Cash paid for income taxes	<u>\$ 158,635</u>	<u>\$ 115,923</u>
Noncash investing and financing activities		
Capital lease obligations incurred in exchange for equipment	<u>\$ 1,227,340</u>	<u>\$ 2,313,333</u>
(Decrease) increase in accrual for the purchase of property, plant and equipment	<u>\$ (821,039)</u>	<u>\$ 2,246,653</u>

The accompanying footnotes are an integral part of the consolidated financial statements.

# Lancaster General Health

## Notes to Consolidated Financial Statements

### June 30, 2014 and 2013

#### NOTE A - ORGANIZATION

Lancaster General Health is a not-for-profit organization which provides managerial and financial support to its controlled organizations and is also responsible for undertaking activities to improve the health of the community. The related entities under the control of Lancaster General Health include:

Lancaster General Hospital (the Hospital), founded in 1893 as a private, voluntary, nonsectarian general hospital, has 630 beds and is located in the City of Lancaster, Pennsylvania. Its primary service area is comprised of Lancaster City and 14 surrounding communities. The Hospital provides a full range of primary and secondary health care services and is a major referral center. The sole member of the Hospital is Lancaster General Health. The Hospital and its controlled entities are collectively referred to as LGH.

Lancaster General Health-Columbia Center (CHC) is a not-for-profit corporation located in Columbia, Pennsylvania. It operates a primary care physician office and provides facility management for outpatient services. CHC's sole member is the Hospital.

Pennsylvania College of Health Sciences (PCHS) (formerly known as Lancaster General College of Nursing & Health Sciences) is a not-for-profit corporation that operates a college located in the City of Lancaster, Pennsylvania. The sole member of PCHS is the Hospital.

Lancaster General Imaging Corporation (LGIC) is a not-for-profit corporation located in the City of Lancaster, Pennsylvania. LGIC has a 75% ownership interest in the Lancaster PET Partnership, LLP (PET) and a 57.5% ownership interest in the MRI Group, LLP (MRI). Effective July 1, 2014, the sole membership of LGIC was transferred from the Hospital to Lancaster General Rehabilitation Services, Inc.

Lancaster General Ambulatory Surgical Services, Inc. (LGAMB) is a not-for-profit corporation which owns 50% of Physicians' Surgery Center - Lancaster General. Effective July 1, 2014, the sole membership of LGAMB was transferred from the Hospital to Lancaster General Rehabilitation Services, Inc.

Lancaster General Health Community Care Collaborative, LLC (LGHCCC) is a domestic limited liability company formed as an accountable care organization to receive and distribute shared savings from the Medicare Shared Savings Program. LGH has a 97% ownership of LGHCCC, while Lancaster General Medical Group (LGMG), The Heart Group of Lancaster General Health (THG) and CHC each own 1%.

LGMG is a not-for-profit organization which employs physicians and provides management services to physicians. The sole member of LGMG is Lancaster General Health.

Lancaster General Insurance Company, Ltd. (LGI) is a Cayman Islands captive insurance company whose sole shareholder is Lancaster General Health.

Lancaster General Services Business Trust (LGSBT) is a for-profit Pennsylvania business trust solely owned by Lancaster General Health. LGSBT owns and operates Barge-Ganse Venacare Business Trust (BGVBT) and real estate properties.

# **Lancaster General Health**

## **Notes to Consolidated Financial Statements**

### **June 30, 2014 and 2013**

Lancaster General Rehabilitation Services, Inc. (LRSI) is a not-for-profit corporation which owns 50% of Lancaster Rehabilitation Hospital. The sole member of LRSI is Lancaster General Health. Effective July 1, 2014, the name of LRSI was changed to Lancaster General Health Holdings Company.

LG Health Foundation (LGHF) is a not-for-profit corporation formed to support the development activities of the tax exempt, not-for-profit corporations within the Lancaster General Health system. The sole member of LGHF is Lancaster General Health.

THG is a not-for-profit corporation which employs cardiologists. The sole member of THG is Lancaster General Health.

Lancaster General Health Innovative Solutions, Inc. (LGHIS) is a not-for-profit corporation whose purpose is to launch novel products and services and leverage technologies as innovative solutions for health care transformation in Lancaster County, Pennsylvania and the surrounding communities. The sole member of LGHIS is Lancaster General Health.

## **NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **Basis of Presentation**

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with the accounting principles generally accepted in the United States of America.

### **Principles of Consolidation**

The consolidated financial statements include the accounts of Lancaster General Health and the related entities under its control (collectively, LG). LG, through LGIC, owns certain interests in companies at June 30, 2014 and 2013, which are included in the consolidated financial statements, with the non-controlling interests of PET and MRI reported as a component of net assets. All significant intercompany balances and transactions have been eliminated.

As of July 1, 2012, Lancaster Cleft Palate Clinic (LCPC) was no longer affiliated with LG; as such, this change in the ownership interest of LCPC required its deconsolidation during the year ended June 30, 2013.

### **Use of Estimates**

The preparation of consolidated 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 consolidated financial statements and affect the reported amounts of revenues and expenses during the reporting period. The most significant management estimates and assumptions are related to the determination of allowance for doubtful accounts and contractual allowances for patient accounts receivable, settlements with third-party payors, useful lives of property, plant and equipment, actuarial estimates for the post retirement benefit plan, self-insured reserves, including professional and general liabilities, and the reported fair values of certain assets and liabilities. Actual results could differ from those estimates.

# **Lancaster General Health**

## **Notes to Consolidated Financial Statements**

### **June 30, 2014 and 2013**

#### **Cash and Cash Equivalents**

Cash and cash equivalents include various checking, savings, and money market accounts and other investments, with initial maturity dates of three months or less.

#### **Inventories**

Inventories, which consist of prepaid supplies, are stated at the lower of cost, determined by the weighted-average cost method, or market.

#### **Investments and Assets Limited as to Use**

Investments and assets limited as to use include assets set aside by management and trustees for future purposes, including capital improvements and self-insurance trust funds. Certain investments have been restricted by donors and are designated as donor restricted. In addition, assets limited as to use include investments held by trustees under bond indenture agreements, including construction and debt service interest, principal, and reserve funds. LG has designated its investment portfolios as trading. Amounts required to meet current liabilities have been reclassified to the current portion of assets limited as to use in the consolidated balance sheets.

Direct investments in equity securities with readily determinable fair values and all direct investments in debt securities have been measured at fair value in the accompanying consolidated balance sheets. Equities that are listed on an exchange are valued at their last sales price on the date of determination on the primary exchange. Fixed income positions are generally priced at the close of market using third-party data providers; such positions will be marked at the "bid" price.

LG also invests in a variety of alternative investments carried at their net asset value per share as a practical expedient, as provided by the investment managers. Alternative investments are in private equity, real asset, absolute return and venture capital funds, in which the underlying investments are in marketable securities, currencies, limited partnerships, commodities and energy portfolios and forward and swap contracts. Because some alternative investments are not readily marketable, their estimated value is subject to uncertainty and therefore may differ from the value that would have been used had a ready market for such investments existed. These instruments may contain elements of both credit risk and market risk. Such risks include, but are not limited to: limited liquidity, absence of oversight, dependence on key individuals, emphasis on speculative investments, and nondisclosure of portfolio composition.

LG reviews and evaluates the values provided by the investment managers and agrees with the valuation methods and assumptions used in determining fair value of the alternative investments. LG requests, receives and reviews the audited financial statements from the investment managers.

Investment income or loss (including realized and unrealized gains and losses on investments, interest, and dividends) is included in excess of revenues and other income over expenses unless the income or loss is restricted by donor or law. Investment income is net of investment fees of \$2,358,442 and \$2,260,748 for the years ended June 30, 2014 and 2013, respectively.

# **Lancaster General Health**

## **Notes to Consolidated Financial Statements**

### **June 30, 2014 and 2013**

#### **Property, Plant and Equipment**

Property, plant and equipment acquisitions are recorded at cost. Donated assets are recorded at their fair value at the date of donation. Depreciation is expensed over the estimated useful lives of each depreciable asset and is computed using the straight-line method. Equipment under capital leases is amortized on the straight-line method over the shorter of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the consolidated financial statements. Interest costs incurred, net of income earned, on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. Capitalized interest amounted to \$865,322 at June 30, 2013. Repair and maintenance costs are expensed as incurred. When property, plant and equipment are retired, sold, or otherwise disposed of, the asset's carrying value and related accumulated depreciation are removed from the accounts and any gain or loss is included in operations.

#### **Long-Lived Assets**

LG continually evaluates whether events and circumstances have occurred that indicate the remaining estimated useful life of long-lived assets may warrant revision or that the remaining balance may not be recoverable. When factors indicate that long-lived assets should be evaluated for possible impairment, LG uses an estimate of the related discounted operating income over the remaining life of the long-lived asset in measuring whether the long-lived asset is recoverable. An impairment loss on these assets is measured as the excess of the carrying amount of the asset over its fair value. Fair value is based on market prices where available, or discounted cash flows. At June 30, 2013, LG recorded an impairment loss of long-lived assets of \$3,003,790 related to THG.

#### **Deferred Financing Costs**

Deferred debt issuance costs included in other assets at June 30, 2014 and 2013, totaling \$1,860,830 and \$1,934,690, respectively, are amortized over the life of the related debt.

#### **Beneficial Interest in Trusts**

LG has been named as a beneficiary of several trusts, including a charitable remainder trust, to be held in perpetuity, which are administered and controlled by independent trustees. LG has recorded its portion of the fair value of the trusts as permanently restricted, with the exception of one trust that is temporarily restricted. LG records the earnings from these investments as unrestricted or restricted investment income, based on the donor's stipulation. The fair value of the asset is measured at least annually based on the current fair value of the trust. There was no contribution revenue recognized under these trusts for the years ended June 30, 2014 and 2013.

#### **Donor-Restricted Gifts**

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received, which is then treated as cost. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets.

When a donor restriction expires, that is when a stipulated time restriction ends or purpose is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the consolidated statements of operations and changes in net assets as net assets released from restrictions.

# **Lancaster General Health**

## **Notes to Consolidated Financial Statements**

### **June 30, 2014 and 2013**

Contributions received with donor-imposed restrictions that are met in the same year as received are reported as revenues of the temporarily restricted net asset class, and a reclassification to unrestricted net assets is made to reflect the expiration of such restrictions.

#### **Charitable Gift Annuities**

Charitable gift annuities are arrangements between a donor and LG in which the donor contributes assets to LG in exchange for a promise from LG to pay the donor a fixed amount for a specified period of time. Assets received have been recognized at fair value, and an annuity payment liability has been recognized at the present value of the future cash flows expected to be paid. Unrestricted or restricted contribution revenue is recognized as the difference between these two amounts based on donor restrictions placed on the use of the assets. To calculate the present value of the charitable gift annuities, various discount rates based on donor mortality estimates were used.

Charitable gift annuity assets totaled \$2,541,755 and \$1,923,061 as of June 30, 2014 and 2013, respectively, and are included in investments - donor restricted on the consolidated balance sheets. Annuity payment liabilities total \$898,943 and \$810,652 as of June 30, 2014 and 2013, respectively, and are included in other liabilities on the consolidated balance sheets. Contribution revenue recognized under these agreements was \$101,274 and \$549,761 for the years ended June 30, 2014 and 2013, respectively.

#### **Derivative Financial Instruments**

LG recognizes all derivative financial instruments in the consolidated balance sheets at fair value. Management has elected not to designate the interest rate swap agreement as hedges for financial reporting purposes. Consequently, the change in the fair value of LG's interest rate swap agreement is included in other income (loss) as a component of excess of revenues and other income over expenses in the consolidated statements of operations and changes in net assets.

The interest rate swap agreement is used by LG to manage interest rate exposures and to hedge the changes in cash flows on variable rate revenue bonds. Derivative financial instruments involve, to a varying degree, elements of market and credit risk. The market risk associated with these instruments resulting from interest rate movements is expected to offset the market risk of the liability being hedged.

#### **Investments in Non-Consolidated Affiliates**

Investments in partnerships and limited liability companies including those with underlying interest in equity and debt securities are recorded using the equity method of accounting, with the related changes in value in earnings reported as a component of other income (loss) in the accompanying consolidated statements of operations and changes in net assets.

#### **Estimated Professional Liability**

The reserve for estimated medical malpractice claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported and is included in other liabilities in the consolidated balance sheets. The estimate for incurred but not reported claims is actuarially determined based on LG specific and industry experience data. Receivables for expected insurance recoveries are included in other assets in the accompanying consolidated balance sheets.

# **Lancaster General Health**

## **Notes to Consolidated Financial Statements**

### **June 30, 2014 and 2013**

#### **Temporarily and Permanently Restricted Net Assets**

Temporarily restricted net assets represent those assets whose use has been limited by donors to a specific time period or purpose. As the donors' intentions are met, the net assets are reclassified to unrestricted and reported in the consolidated statements of operations and changes in net assets as a component of unrestricted revenue and other support for operating purposes, and as other changes in unrestricted net assets for acquisitions of property, plant and equipment. Permanently restricted net assets have been restricted by donors to be maintained in perpetuity with income to support services in accordance with donor stipulations. Gains and losses on investments are reported as increases or decreases in unrestricted net assets unless restricted by donor stipulations or law.

#### **Net Patient Service Revenue**

Net patient service revenue is recorded at established rates, net of contractual adjustments, charity allowances, and policy discounts. Contractual revenue adjustments arising from reimbursement agreements with third-party payors are accrued on an estimated basis in the period the related services are rendered. Differences between these accruals and final third-party settlements are included in the consolidated statements of operations and changes in net assets as an adjustment to net patient service revenue in the year of final settlement.

LG recognizes bad debt expense and the allowance for doubtful accounts based upon historical experience for both third-party payors and self pay. Management regularly evaluates patient account history in determining the sufficiency of the allowance for doubtful accounts and provision for bad debts. Patient accounts receivable are charged off against the allowance for doubtful accounts when management determines that recovery is unlikely and collection efforts cease. Losses have been consistent with management's expectations.

LG has agreements with various third-party payors to provide office visits to subscribing participants. Under these agreements, LG receives monthly capitation payments based on the number of each payor's participants, regardless of services actually performed by LG.

#### **Community Care**

LG provides care to patients who meet certain criteria under its financial assistance policy without charge or at amounts less than its established rates. LG does not pursue collection of amounts determined to qualify as financial assistance; therefore, they are not reported as revenue. The estimated costs of providing community care are based on data derived from LG's cost accounting system. LG's threshold for financial assistance is 400% of the Federal Poverty Guidelines (FPG). LG uses a sliding scale to determine actual discounts to be provided to patients who have income less than 400% of the FPG. This policy results in LG's assumption of higher-than-normal patient receivable credit risk. Any additional losses realized as a result of this assumption are included in the provision for bad debt.

#### **Medical Services**

LG provides convenience pharmacy services to employees and their families as well as to patients who are discharged. Medical services revenue is recorded at the net amount collected for the services provided.

#### **Other Revenue**

Other revenue is comprised of tuition revenue, cafeteria revenue, rental income and other miscellaneous items.

# Lancaster General Health

## Notes to Consolidated Financial Statements

### June 30, 2014 and 2013

#### Electronic Health Records Incentive Program (EHR)

The American Recovery and Reinvestment Act of 2009 provides for Medicare and Medicaid incentive payments for eligible hospitals and professionals that implement and achieve meaningful use of certified electronic health record (EHR) technology. For Medicare and Medicaid EHR incentive payments, LG utilizes a grant accounting model to recognize revenue. Under this accounting policy, EHR incentive payments were recognized as revenue when attestation that the EHR meaningful use criteria for the required period of time was demonstrated. Accordingly, LG recognized \$2,672,386 and \$7,685,686 of EHR revenue for the years ended June 30, 2014 and 2013, respectively. These amounts are included in other non-operating income in the consolidated statements of operations and changes in net assets.

LG's attestation of compliance with the meaningful use criteria is subject to audit by the federal government or its designee. Additionally, Medicare EHR incentive payments received are subject to retrospective adjustment.

#### Excess of Revenue and Other Income over Expenses

The consolidated statements of operations and changes in net assets include the excess of revenue and other income over expenses. Changes in unrestricted net assets that are excluded from the excess of revenue and other income over expenses, consistent with industry practice, include contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets), changes in non-controlling interests, changes in pension liability, changes in other post retirement benefits, and the net asset effect of the deconsolidation of an affiliate.

#### Income Taxes

Except for LGSBT, subsidiaries of LGSBT, LGI and LGHCCC, Lancaster General Health and its controlled affiliates are organized and operated as not-for-profit corporations and are tax-exempt organizations as described in Internal Revenue Code (IRC) Section 501(c)(3). Except for LGHIS, Lancaster General Health and its controlled affiliates have received Section 501(c)(3) determinations from the Internal Revenue Service (IRS).

In December 2012, LGAMB and LRSI received tax-exempt status as described in IRC Section 501(c)(3), and as a result, the following table summarizes the activity related to LG's accrued uncertain tax positions:

Uncertain tax positions, June 30, 2012	\$ 10,009,621
Reversal of uncertain tax position	<u>(10,009,621)</u>
Uncertain tax positions, June 30, 2013	<u>\$ -</u>

LG accrued interest and penalties of \$2,082,268 as of June 30, 2012 related to these uncertain tax positions. After receipt of the tax-exempt letters in December 2012, the accrued interest and penalties were reversed.

The tax years subject to examination by the IRS and the Commonwealth of Pennsylvania for LG and its affiliates are 2011 through 2014.

#### Reclassifications

Certain amounts in the prior year have been reclassified to conform to the current year presentation.

**Lancaster General Health**  
**Notes to Consolidated Financial Statements**  
**June 30, 2014 and 2013**

**NOTE C - COMMUNITY CARE**

A portion of LG's overall operating expense relates to costs incurred in providing and meeting certain community needs. A standard reporting and accountability process is utilized to estimate the net cost of these services. Costs reported are net of payor reimbursement and contributions or grants that have been provided to LG and designated for these purposes.

The level of community care provided as identified in accordance with LG's accounting policies is as follows:

	<b>Year ended June 30</b>	
	<b>2014</b>	<b>2013</b>
Charitable services		
Unpaid cost of state programs to the financially disadvantaged (e.g., Medicaid)	\$ 62,019,000	\$ 66,906,000
Unpaid cost of services to other financially disadvantaged persons	8,721,000	11,789,000
Other community services		
Unpaid cost of education programs	10,716,000	10,427,000
Cost of other community services	<u>6,059,000</u>	<u>8,922,000</u>
Total community care at cost	<u>\$ 87,515,000</u>	<u>\$ 98,044,000</u>

**NOTE D - NET PATIENT SERVICE REVENUE**

LG has agreements with third-party payors that provide for payments at amounts different from established charges. Hospital inpatient acute care services and outpatient services for Medicare and Medicaid program beneficiaries are paid at prospectively determined rates per inpatient discharge or outpatient visit. These payments vary according to a patient classification system that is based on clinical, diagnostic, and other factors.

Certain services for Medicare beneficiaries are paid based on a cost reimbursement methodology, subject to certain limitations. These services are paid at a tentative rate, with final settlement determined after submission of annual cost reports and audits thereof by the programs' fiscal intermediary. Provisions for estimated adjustments resulting from audit and final settlements have been recorded. Differences between the estimated adjustments and the amounts settled are recorded in the year of settlement. Fiscal intermediaries have not audited or finalized the cost report for LGH for the years ended June 30, 2014, 2013, 2012 and 2011.

In the opinion of management, adequate provision has been made for adjustments that may result from the final settlement of cost reports and other adjustments. The consolidated financial statements include an increase to net patient service revenue related to the settlement and/or adjustments of the prior-year cost reports and other third-party settlement estimates of \$2,108,622 and \$1,642,893 for the years ended June 30, 2014 and 2013, respectively.

**Lancaster General Health**  
**Notes to Consolidated Financial Statements**  
**June 30, 2014 and 2013**

Revenues from Medicare and Medicaid programs collectively accounted for approximately 39% of net patient service revenues for the years ended June 30, 2014 and 2013. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Management 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. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretations as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs.

In December 2010, the Department of Public Welfare (DPW) received approval from the Centers of Medicare and Medicaid Services (CMS) for the Pennsylvania state plan amendments pursuant to Pennsylvania Act 49 of 2010 that, among other things, established a new inpatient hospital fee-for-service payment system (using APRDRG), established enhanced hospital payments through the state's Medical Assistance (MA) managed care program, and secured additional matching Medicaid funds through the establishment of the Quality Care Assessment. In February 2011, the DPW received the approvals necessary from CMS and the final technical language from the DPW contracts with managed care organizations. The Hospital and Healthcare Association of Pennsylvania issued hospital-specific impacts of the MA payment modernization for the years ended June 30, 2014 and 2013. LG has recorded the results in net patient revenue in the consolidated statements of operations and changes in net assets for the years ended June 30, 2014 and 2013.

LG has also entered into payment agreements with certain commercial third-party payors and administrators. The basis for payments under these agreements includes prospectively determined rates per discharge, per diems and discounts from established charges. Certain agreements have retrospective clauses allowing the payor to review and adjust claims subsequent to initial payment.

Patient service revenue for the years ended June 30, 2014 and 2013, net of contractual allowances and discounts (but before the provision for bad debts), recognized in the period from these major payor sources based on primary insurance designation, is as follows:

	<u>Third-Party Payors</u>	<u>Self-Pay</u>	<u>Total All Payors</u>
<b><u>2014 and 2013</u></b>			
Patient service revenue (net of contractual allowances and discounts)	<u>99%</u>	<u>1%</u>	<u>100%</u>

**Lancaster General Health**  
**Notes to Consolidated Financial Statements**  
**June 30, 2014 and 2013**

**NOTE E - OTHER REVENUE**

The composition of other revenue is presented in the following table:

	<b>Year ended June 30</b>	
	<b><u>2014</u></b>	<b><u>2013</u></b>
Tuition	\$ 18,505,371	\$ 16,877,615
Cafeteria	4,026,034	3,999,486
Rental income	5,215,723	5,329,004
Other	<u>7,676,502</u>	<u>4,812,723</u>
	<b><u>\$ 35,423,630</u></b>	<b><u>\$ 31,018,828</u></b>

**NOTE F - OPERATING EXPENSES**

The composition of operating expenses is presented in the following table:

	<b>Year ended June 30</b>	
	<b><u>2014</u></b>	<b><u>2013</u></b>
Salaries and benefits	\$ 508,851,340	\$ 508,129,982
Medical and surgical supplies	145,502,225	131,114,024
Other	<u>204,622,749</u>	<u>192,760,212</u>
	<b><u>\$ 858,976,314</u></b>	<b><u>\$ 832,004,218</u></b>

**Lancaster General Health**  
**Notes to Consolidated Financial Statements**  
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**NOTE G - INVESTMENTS AND ASSETS LIMITED AS TO USE**

The composition of investments is presented in the following table:

	<b>June 30</b>	
	<u><b>2014</b></u>	<u><b>2013</b></u>
Money market funds	\$ 23,366,188	\$ 16,667,798
Equity		
Domestic	93,276,119	86,061,223
Mutual funds		
Domestic	102,054,832	87,195,541
International	114,357,547	59,097,214
Fixed income	1,048,017	720,053
Government securities	137,428,225	114,752,080
Fixed income		
Domestic	206,833,365	198,912,508
International	1,047,570	1,463,493
Common collective funds		
Equity - domestic	613,785	4,050,348
Equity - international	414,134	35,280,940
Fixed income	104,308,542	88,608,317
Alternative strategies		
Real assets	69,346,525	54,451,298
Absolute return	33,352,892	27,694,711
Venture capital	<u>15,663,288</u>	<u>11,095,118</u>
Total investments	903,111,029	786,050,642
Less current portion	<u>(53,271,919)</u>	<u>(33,795,379)</u>
Total investments, net of current portion	<u>\$849,839,110</u>	<u>\$752,255,263</u>

**Lancaster General Health**  
**Notes to Consolidated Financial Statements**  
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The composition of assets limited as to use is presented in the following table:

	<b>June 30</b>	
	<u><b>2014</b></u>	<u><b>2013</b></u>
Money market funds	\$ 5,726,363	\$ 6,435,931
Mutual funds		
Domestic	9,192,526	7,484,865
International	1,015,022	-
Government securities	920,616	274,292
Fixed income		
Domestic	1,142,912	734,350
Common collective funds		
Equity - domestic	200,702	281,982
Equity - international	135,413	34,219
Cash surrender value life insurance	<u>3,032,295</u>	<u>3,289,717</u>
Total investments	21,365,849	18,535,356
Less current portion	<u>(5,408,880)</u>	<u>(6,114,536)</u>
Total investments, net of current portion	<u>\$ 15,956,969</u>	<u>\$ 12,420,820</u>

LG holds assets limited as to use for the following purposes:

	<b>June 30</b>	
	<u><b>2014</b></u>	<u><b>2013</b></u>
Under bond indenture agreements	\$ 5,369,293	\$ 6,059,680
Supplemental executive retirement plan	12,424,673	8,631,103
Split dollar life compensation plan	3,032,296	3,289,717
Board designated	500,000	500,000
Other restricted	<u>39,587</u>	<u>54,856</u>
	<u>\$ 21,365,849</u>	<u>\$ 18,535,356</u>

**NOTE H - FAIR VALUE MEASUREMENTS**

LG measures fair value as the price that would be received to sell an asset or paid to transfer a liability (the exit price) in an orderly transaction between market participants at the measurement date. The accounting guidance outlines a valuation framework and creates a fair value hierarchy in order to increase the consistency and comparability of fair value measurements and the related disclosures.

The fair value hierarchy is broken down into three levels based on the source of inputs: Level 1 - defined as observable inputs such as quoted prices in active markets; Level 2 - defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3 - defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

**Lancaster General Health**  
**Notes to Consolidated Financial Statements**  
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In determining fair value, LG uses the market approach, which utilizes prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.

A financial instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurements as well as the ability to access funds within 90 days from the measurement date.

The following fair value hierarchy tables present information about each major category of LG's financial assets and liabilities measured at fair value on a recurring basis as of:

<u>Description</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<b>June 30, 2014</b>				
Money market funds	\$ -	\$ 29,092,551	\$ -	\$ 29,092,551
Equity				
Domestic	93,276,119	-	-	93,276,119
Mutual funds				
Domestic	111,247,358	-	-	111,247,358
International	115,372,569	-	-	115,372,569
Fixed income	1,048,017	-	-	1,048,017
Government securities	-	138,348,841	-	138,348,841
Fixed income				
Domestic	-	207,976,277	-	207,976,277
International	-	1,047,570	-	1,047,570
Common collective funds				
Equity - domestic	814,487	-	-	814,487
Equity - international	549,547	-	-	549,547
Fixed income	1,020,138	103,288,404	-	104,308,542
Alternative strategies				
Real assets	36,292,499	33,054,026	-	69,346,525
Absolute return	-	16,682,278	16,670,614	33,352,892
Venture capital	-	-	15,663,288	15,663,288
Cash surrender value life insurance	-	3,032,295	-	3,032,295
Beneficial interest in trusts	-	-	9,551,881	9,551,881
Total assets	<u>\$359,620,734</u>	<u>\$532,522,242</u>	<u>\$ 41,885,783</u>	<u>\$ 934,028,759</u>
Interest rate swap	\$ -	\$ 5,914,964	\$ -	\$ 5,914,964
Total liabilities	<u>\$ -</u>	<u>\$ 5,914,964</u>	<u>\$ -</u>	<u>\$ 5,914,964</u>

**Lancaster General Health**  
**Notes to Consolidated Financial Statements**  
**June 30, 2014 and 2013**

<u>Description</u>				
<b>June 30, 2013</b>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market funds	\$ -	\$ 23,103,729	\$ -	\$ 23,103,729
Equity				
Domestic	86,061,223	-	-	86,061,223
Mutual funds				
Domestic	94,680,406	-	-	94,680,406
International	59,097,214	-	-	59,097,214
Fixed income	720,053	-	-	720,053
Government securities	-	115,026,372	-	115,026,372
Fixed income				
Domestic	-	199,646,858	-	199,646,858
International	-	1,463,493	-	1,463,493
Common collective funds				
Equity - domestic	1,685,610	-	2,646,720	4,332,330
Equity - international	164,687	35,150,472	-	35,315,159
Fixed income	-	88,608,317	-	88,608,317
Alternative strategies				
Real assets	-	54,451,298	-	54,451,298
Absolute return	-	13,000,732	14,693,979	27,694,711
Venture capital	-	-	11,095,118	11,095,118
Cash surrender value life insurance	-	3,289,717	-	3,289,717
Beneficial interest in trusts	-	-	8,871,389	8,871,389
Total assets	<u>\$242,409,193</u>	<u>\$533,740,988</u>	<u>\$ 37,307,206</u>	<u>\$813,457,387</u>
Interest rate swap	\$ -	\$ 5,737,721	\$ -	\$ 5,737,721
Total liabilities	<u>\$ -</u>	<u>\$ 5,737,721</u>	<u>\$ -</u>	<u>\$ 5,737,721</u>

There were no transfers between fair value Levels 1 and 2 for the years ended June 30, 2014 and 2013.

**Lancaster General Health**  
**Notes to Consolidated Financial Statements**  
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Fair value measurements of investments in certain entities that calculate net asset value per share (or its equivalent) are as follows:

<u>Category</u>		<u>Fair value at June 30,</u>		<u>Redemption</u>	<u>Redemption</u>	<u>Lock</u>
		<u>2014</u>	<u>2013</u>	<u>frequency</u>	<u>notice period</u>	<u>period</u>
Common collective trusts:						
Domestic equity fund	(a)	\$ -	\$ 3,271,720	N/A	65-95 days	N/A
International equity fund	(b)	-	35,150,472	N/A	30 days	N/A
Alternative strategies						
Real asset						
Strategy fund	(c)	-	27,330,156	Monthly	Less than 30 days	N/A
Diversified inflation fund	(d)	68,958,290	26,841,415	Monthly	10 days	N/A
Absolute return						
Diversified non-taxable offshore fund	(e)	16,670,614	14,693,979	Semi- annually	95 days	N/A
Financial instrument and debt fund	(f)	16,682,278	13,000,732	Quarterly	65 days	N/A

(a) *Domestic equity fund.* Holdings in this category invest in marketable domestic United States equity funds.

(b) *International equity fund.* Holdings in this category invest in marketable international equity funds excluding the United States.

(c) *Real asset strategy fund.* Holdings in this category invest in various collective fund-of-funds focusing on global real-estate investment trusts, domestic and foreign securities, U.S. government obligations, emerging market equities and commodity funds.

(d) *Real asset diversified inflation fund.* Holdings in this category include swap and futures contracts, inflation protected securities and marketable fixed income and international equity funds.

(e) *Absolute return diversified non-taxable offshore fund.* Investments in this fund focus on multi-strategy investing including, but not limited to, a variety of investee funds with investment strategies in limited partnerships, private equity, commodity funds and managed foreign currency futures.

(f) *Absolute return financial instrument and debt fund.* This fund's investments include any interest in or vehicle relating to foreign financial instruments and the debt of financially distressed and/or highly leveraged companies. Fund strategies include, but are not limited to, fixed income arbitrage, convertible securities, managed futures and event-driven funds that attempt to capitalize on situations such as spin-offs, recapitalizations and asset sales.

LG has unfunded commitments of \$10,464,801 as of June 30, 2014 for venture capital investments.

**Lancaster General Health**  
**Notes to Consolidated Financial Statements**  
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The following table presents additional information regarding assets measured at fair value on a recurring basis and for which LG has utilized Level 3 inputs to determine fair value for the years ended June 30, 2014 and 2013:

Balance, June 30, 2012	\$ 29,296,469
Purchases	6,804,162
Change in net unrealized gains and losses	<u>1,206,575</u>
Balance, June 30, 2013	37,307,206
Purchases	3,326,873
Transfer from Level 3 to Level 2	(2,646,720)
Change in net unrealized gains and losses	<u>3,898,424</u>
Balance, June 30, 2014	<u>\$ 41,885,783</u>

**NOTE I - PROPERTY, PLANT AND EQUIPMENT**

	<u>Range of useful lives</u>	<b>June 30</b>	
		<u>2014</u>	<u>2013</u>
Land		\$ 36,807,728	\$ 34,539,948
Land improvements	10 to 25 years	16,817,289	15,677,957
Equipment	5 to 20 years	563,631,249	555,623,806
Buildings and building improvements	25 to 40 years	427,571,080	392,077,080
Construction in progress		<u>19,397,538</u>	<u>75,582,680</u>
		1,064,224,884	1,073,501,471
Less accumulated depreciation and amortization		<u>(568,569,351)</u>	<u>(567,709,779)</u>
		<u>\$ 495,655,533</u>	<u>\$ 505,791,692</u>

Total depreciation and amortization expense for property, plant and equipment for the years ended June 30, 2014 and 2013 was \$54,902,105 and \$51,250,717, respectively.

Construction in progress relates to building renovations and construction, information systems and medical equipment. At June 30, 2014, LGH has commitments for these projects of \$830,454.

The following equipment is held under capital lease and is included in the equipment category of property, plant and equipment:

	<b>June 30</b>	
	<u>2014</u>	<u>2013</u>
Equipment	\$ 11,999,391	\$ 14,127,763
Less accumulated amortization	<u>(5,694,348)</u>	<u>(5,670,113)</u>
	<u>\$ 6,305,043</u>	<u>\$ 8,457,650</u>

**Lancaster General Health**  
**Notes to Consolidated Financial Statements**  
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**NOTE J - LONG-TERM DEBT**

Long-term debt consists of the following:

	<b>June 30</b>	
	<u><b>2014</b></u>	<u><b>2013</b></u>
Bonds payable - \$25,250,000, Hospital Revenue Bonds, Series 2012A, with annual payments beginning on July 1, 2014 ranging from \$550,000 to \$1,400,000 through 2042, with interest rates varying monthly (1.00% and 1.04% at June 30, 2014 and 2013, respectively).	\$ 25,250,000	\$ 25,250,000
Bonds payable - \$93,755,000, Hospital Revenue Bonds, Series 2012B, with annual principal payments on July 1 ranging from \$760,000 to \$10,165,000 through 2043, with interest rate varying from 2.0% to 5.0% due on January 1 and July 1. Amounts include original issue net premium of \$3,498,237 and \$4,066,446 at June 30, 2014 and 2013, respectively.	93,213,237	97,821,446
Bonds payable - \$96,825,000, Hospital Revenue Bonds, Series 2007, with principal payments beginning on March 15, 2019 ranging from \$3,480,000 to \$7,760,000 through 2036 with interest rates varying from 4.25% to 5.0% due on March 15 and September 15. Amounts include original issue premium of \$2,117,122 and \$2,214,461 at June 30, 2014 and 2013, respectively.	98,942,122	99,039,461
Note payable, collateralized by MRI accounts receivable, inventory, and equipment, matures September 2018, in monthly installments of \$19,881 including interest at a fixed rate of 5.8% through March 2018, then at LIBOR plus 1.5% through September 2018 (1.65% and 1.69% at June 30, 2014 and 2013, respectively).	894,423	1,074,728
Note payable PCHS, collateralized by the Hospital, matures July 2015, monthly principal of \$6,250 with a balloon payment of \$1,018,750 and interest at LIBOR plus 1.15% (1.31% and 1.34% at June 30, 2014 and 2013, respectively).	1,093,750	1,168,750
Capital lease obligations, with various interest rates, secured by leased equipment. Amounts included original issue premium of \$3,753 and \$7,435 at June 30, 2014 and 2013, respectively.	<u>4,422,968</u>	<u>6,152,037</u>
	223,816,500	230,506,422
Less current portion	<u>(6,189,253)</u>	<u>(7,107,874)</u>
	<u><b>\$217,627,247</b></u>	<u><b>\$223,398,548</b></u>

# Lancaster General Health

## Notes to Consolidated Financial Statements

### June 30, 2014 and 2013

Proceeds from the revenue bonds and notes payable were used to finance various capital and information technology projects, as well as refinancing of previously existing long-term debt.

Covenants under the Master Trust Indenture for the bonds include requirements as to the permitted level of indebtedness, restrictions on the sale of certain assets, mergers, and other significant transactions, including a requirement that the Obligated Group (the Hospital and Lancaster General Health - Parent Only) generate funds available for debt service (as defined) equivalent to at least 110% of maximum annual debt service. At June 30, 2014 and 2013, the Obligated Group is in compliance with all financial covenants related to the bonds.

LG uses current quoted market prices in estimating the fair value of its Revenue Bonds. The carrying value of the other long-term debt approximates fair value. The fair value of long-term debt, excluding capital lease obligations, at June 30, 2014 and 2013 is \$222,712,435 and \$216,876,089, respectively.

Annual maturities of long-term debt and capital leases (net of bond and lease premiums of \$5,619,112) are as follows:

2015	\$ 6,189,253
2016	6,821,474
2017	5,591,177
2018	5,443,690
2019	1,511,794
Thereafter	<u>192,640,000</u>
	<u>\$218,197,388</u>

#### NOTE K - LETTERS AND LINES OF CREDIT

LG maintains various letters of credit totaling \$17,374,129 and \$22,163,440 at June 30, 2014 and 2013, respectively, to cover balances due on construction projects and reinsurance agreements. No amounts are outstanding under the letters of credit at June 30, 2014 and 2013.

PCHS maintains a \$1,500,000 line of credit with a bank, which may be used for various items. The line of credit expires on July 1, 2015. The interest rate is LIBOR plus 1.75%. No amounts were outstanding at June 30, 2014 and 2013.

MRI maintains a demand note payable to a bank which remains open for advances up to the sum of \$1,000,000. The interest rate is LIBOR plus 2.50%. No amounts were outstanding at June 30, 2014 and 2013.

#### NOTE L - DERIVATIVE FINANCIAL INSTRUMENTS

LG has an interest rate swap agreement to manage its risk relating to the changes in cash flow associated with a portion of its variable rate debt. LG does not use derivative financial instruments for trading or speculative purposes. The interest rate swap allows LG to raise long-term borrowings at variable rates and effectively swap the rates into a fixed rate that is lower than that available to LG if fixed-rate borrowings were made directly.

# Lancaster General Health

## Notes to Consolidated Financial Statements

### June 30, 2014 and 2013

Under the interest rate swap, LG agrees to exchange monthly the difference between fixed rate and variable rate interest amounts calculated by reference to the agreed notional amount.

The following table indicates the terms of the interest rate swap and the weighted-average interest rate. The variable rate is based on rates implied in the yield curve at the reporting date; those may change significantly, affecting future cash flows:

Fixed swap - notional amount	\$25,000,000
Fixed rate	3.98%
Variable rate at June 30, 2014	0.10%
Variable rate at June 30, 2013	0.14%
Maturity date	July 1, 2041

The change in the fair value of LG's interest rate swap is comprised of an increase in the liability of \$177,243 and interest expense paid of \$965,546 for the year ended June 30, 2014 and a decrease in the liability of \$2,996,097 and interest expense paid of \$929,441 for the year ended June 30, 2013. The change is included in other income (loss) as a component of excess of revenues and other income over expenses in the consolidated statements of operations and changes in net assets. At June 30, 2014 and 2013, the fair value of the interest rate swap represented a liability of \$5,914,964 and \$5,737,721, respectively, and is included in other liabilities.

LG has established policies and procedures to limit the potential for counterparty credit risk, including establishing limits for credit exposure and continually assessing the creditworthiness of counterparties. As a matter of practice, LG will enter into transactions only with counterparties whose obligations are rated "A-" or above as rated by Standard & Poor's, or "A3" or above as rated by Moody's.

LG's exposure to credit risk, associated with its interest rate swap, is measured on an individual counterparty basis, as well as by groups of counterparties that share similar attributes. In the opinion of management as of June 30, 2014 and 2013, LG was not exposed to any risk of loss.

#### **NOTE M - POST RETIREMENT BENEFIT PLANS**

Lancaster General Health has a defined benefit noncontributory pension plan (Pension benefits) covering all eligible employees of Lancaster General Health and its controlled affiliates. Certain related entities controlled by Lancaster General Health make annual contributions to the plan to the extent permitted under applicable federal regulations. The plan was amended to freeze benefit accruals for all participants effective June 30, 2013.

Lancaster General Health has an unfunded defined contribution supplemental executive retirement plan (SERP) and a post retirement welfare plan (Welfare Plan) for the benefit of certain employees. Lancaster General Health makes annual contributions to the plans to the extent permitted under applicable federal regulations.

**Lancaster General Health**  
**Notes to Consolidated Financial Statements**  
**June 30, 2014 and 2013**

Lancaster General Health uses a June 30 measurement date for the Pension, SERP and Welfare Plan. The following table summarizes information about the Pension, SERP and Welfare Plan.

	<b>June 30, 2014</b>		
	<u><b>Pension</b></u>	<u><b>SERP</b></u>	<u><b>Welfare Plan</b></u>
Weighted-average assumptions to determine benefit obligations			
Discount rate	4.62%	3.46%	4.62%
Rate of compensation increase	N/A	3.00%	N/A
Changes in benefit obligations			
Projected benefit obligations, beginning of year	\$ 636,999,466	\$ 13,674,422	\$ 1,116,907
Service cost	1,400,000	-	-
Interest cost	33,168,123	527,936	57,350
Actuarial loss	78,820,652	474,776	23,835
Benefits paid	<u>(18,898,803)</u>	<u>(400,798)</u>	<u>(71,641)</u>
Project benefit obligations, end of year	<u>\$ 731,489,438</u>	<u>\$ 14,276,336</u>	<u>\$ 1,126,451</u>
Changes in plan assets			
Fair value of plan assets, beginning of year	\$ 474,064,966	\$ -	\$ -
Actual return on plan assets	72,597,278	-	-
Employer contributions	40,000,000	400,798	71,641
Benefits paid	<u>(18,898,803)</u>	<u>(400,798)</u>	<u>(71,641)</u>
Fair value of plan assets, end of year	<u>\$ 567,763,441</u>	<u>\$ -</u>	<u>\$ -</u>
Funded status of plan at end of year - recognized in consolidated balance sheets as:			
Accrued pension liability	<u>\$ (163,725,997)</u>	<u>\$ -</u>	<u>\$ -</u>
Other liabilities (current and non-current)	<u>\$ -</u>	<u>\$ (14,276,336)</u>	<u>\$ (1,126,451)</u>
Accumulated benefit obligation	<u>\$ 731,489,438</u>	<u>\$ 13,027,591</u>	<u>\$ -</u>
Amounts recognized in the unrestricted net assets consist of:			
Actuarial loss	\$ 221,927,199	\$ 4,185,979	\$ 548,985
Prior service credit	<u>-</u>	<u>-</u>	<u>(1,964,861)</u>
	<u>\$ 221,927,199</u>	<u>\$ 4,185,979</u>	<u>\$ (1,415,876)</u>

**Lancaster General Health**  
**Notes to Consolidated Financial Statements**  
**June 30, 2014 and 2013**

	<b>June 30, 2014</b>		
	<u><b>Pension</b></u>	<u><b>SERP</b></u>	<u><b>Welfare Plan</b></u>
Amounts expected to be recognized in net periodic benefit cost in the following year:			
Actuarial loss	\$ 13,969,789	\$ 689,586	\$ 30,599
Prior service credit	<u>-</u>	<u>-</u>	<u>(147,512)</u>
	<u>\$ 13,969,789</u>	<u>\$ 689,586</u>	<u>\$ (116,913)</u>
Components of net periodic benefit cost (income)			
Service cost	\$ 1,400,000	\$ -	\$ -
Interest cost	33,168,123	527,936	57,350
Expected return on assets	(37,141,159)	-	-
Amortization of unrecognized prior service credit	-	-	(147,512)
Amortization of unrecognized net actuarial loss	<u>11,780,792</u>	<u>582,967</u>	<u>29,961</u>
Net periodic benefit cost (income)	<u>\$ 9,207,756</u>	<u>\$ 1,110,903</u>	<u>\$ (60,201)</u>
Other changes in pension liability and other post retirement benefits recognized in unrestricted net assets consist of:			
Net actuarial loss	\$ 43,364,533	\$ 474,776	\$ 23,835
Prior service credit	-	-	147,512
Amortization of net actuarial loss	<u>(11,780,792)</u>	<u>(582,967)</u>	<u>(29,961)</u>
	<u>\$ 31,583,741</u>	<u>\$ (108,191)</u>	<u>\$ 141,386</u>
Total recognized in net benefit cost and other changes in pension liability and other post retirement benefits recognized in unrestricted net assets	<u>\$ 40,791,497</u>	<u>\$ 1,002,712</u>	<u>\$ 81,185</u>
Weighted-average assumptions used to determine net periodic benefit cost (income) for the year ended			
Discount rate	5.28%	3.99%	5.28%
Rate of compensation increase	N/A	3.00%	N/A
Expected return on the plan assets	7.50%	N/A	N/A

**Lancaster General Health**  
**Notes to Consolidated Financial Statements**  
**June 30, 2014 and 2013**

	<b>June 30, 2013</b>		
	<u>Pension</u>	<u>SERP</u>	<u>Welfare Plan</u>
Weighted-average assumptions to determine benefit obligations			
Discount rate	5.28%	3.99%	5.28%
Rate of compensation increase	N/A	3.00%	N/A
Changes in benefit obligations			
Projected benefit obligations, beginning of year	\$ 713,821,055	\$ 11,945,808	\$ 1,166,949
Service cost	24,007,666	-	-
Interest cost	34,178,362	579,179	55,061
Actuarial (gain) loss	(48,775,010)	1,550,233	(59,311)
Benefits paid	(16,566,831)	(400,798)	(45,792)
Gain due to curtailment	<u>(69,665,776)</u>	<u>-</u>	<u>-</u>
Project benefit obligations, end of year	<u>\$ 636,999,466</u>	<u>\$ 13,674,422</u>	<u>\$ 1,116,907</u>
Changes in plan assets			
Fair value of plan assets, beginning of year	\$ 422,522,129	\$ -	\$ -
Actual return on plan assets	36,728,771	-	-
Employer contributions	31,380,897	400,798	45,792
Benefits paid	<u>(16,566,831)</u>	<u>(400,798)</u>	<u>(45,792)</u>
Fair value of plan assets, end of year	<u>\$ 474,064,966</u>	<u>\$ -</u>	<u>\$ -</u>
Funded status of plan at end of year - recognized in consolidated balance sheets as:			
Accrued pension liability	\$(162,934,500)	\$ -	\$ -
Other liabilities (current and non-current)	<u>\$ -</u>	<u>\$ (13,674,422)</u>	<u>\$ (1,116,907)</u>
Accumulated benefit obligation	<u>\$ 636,999,466</u>	<u>\$ 11,714,867</u>	<u>\$ -</u>
Amounts recognized in the unrestricted net assets consist of:			
Actuarial loss	\$ 190,343,458	\$ 4,294,170	\$ 555,111
Prior service credit	<u>-</u>	<u>-</u>	<u>(2,112,373)</u>
	<u>\$ 190,343,458</u>	<u>\$ 4,294,170</u>	<u>\$ (1,557,262)</u>

**Lancaster General Health**  
**Notes to Consolidated Financial Statements**  
**June 30, 2014 and 2013**

	<b>June 30, 2013</b>		
	<u>Pension</u>	<u>SERP</u>	<u>Welfare Plan</u>
Components of net periodic benefit cost (income)			
Service cost	\$ 24,007,666	\$ -	\$ -
Interest cost	34,178,362	579,179	55,061
Expected return on assets	(33,089,827)	-	-
Amortization of unrecognized prior service credit	(441,318)	239,714	(147,512)
Amortization of unrecognized net actuarial loss	<u>23,889,106</u>	<u>386,331</u>	<u>34,757</u>
Net periodic benefit cost (income)	48,543,989	1,205,224	(57,694)
Curtailment income	<u>(4,088,034)</u>	<u>-</u>	<u>-</u>
Total expense (income)	<u>\$ 44,455,955</u>	<u>\$ 1,205,224</u>	<u>\$ (57,694)</u>
Other changes in pension liability and other post retirement benefits recognized in unrestricted net assets consist of:			
Net actuarial (gain) loss	\$(122,079,730)	\$ 1,550,233	\$ (59,311)
Prior service credit	4,529,352	-	147,512
Amortization of prior service credit	-	(239,714)	(34,757)
Amortization of net actuarial loss	<u>(23,889,106)</u>	<u>(386,331)</u>	<u>-</u>
	<u>\$(141,439,484)</u>	<u>\$ 924,188</u>	<u>\$ 53,444</u>
Total recognized in net benefit cost and other changes in pension liability and other post retirement benefits recognized in unrestricted net assets	<u>\$ (96,983,529)</u>	<u>\$ 2,129,412</u>	<u>\$ (4,250)</u>
Weighted-average assumptions used to determine net periodic benefit cost (income) for the year ended			
Discount rate	4.84%	4.84%	4.84%
Rate of compensation increase	3.00%	3.00%	3.00%
Expected return on the plan assets	7.50%	N/A	N/A

# Lancaster General Health

## Notes to Consolidated Financial Statements

### June 30, 2014 and 2013

To develop the expected long-term rate of return on the pension plan assets assumption, Lancaster General Health considered the historical returns and the future expectations for returns for each asset class, as well as the target allocation of the pension portfolio. This resulted in the selection of the 7.50% expected return on plan assets for both the years ended June 30, 2014 and 2013.

#### Plan Assets

The pension plan's target asset allocations, by asset category, are as follows:

<u>Asset category</u>	<u>Target asset allocation</u>
Domestic equity	20-30%
Non-U.S. equity	14-20%
Fixed income	32-48%
Real assets	10-14%
Absolute return	5-7%

Management and the Investment Subcommittee of the Board of Trustees monitor plan assets and maintain plan assets as close as practical to target allocations. The Investment Subcommittee approved the actual allocation being outside the targeted levels during the fiscal year based on the market conditions.

The investment policy and strategy for the pension plan assets has established guidelines for an asset mix that provides long-term capital appreciation with a secondary objective of moderate income generation. The guidelines are designed to reduce volatility, by allocating assets in varying amounts among equities, fixed income, commodities, absolute return and cash equivalents.

**Lancaster General Health**  
**Notes to Consolidated Financial Statements**  
**June 30, 2014 and 2013**

Fair Value of the Plan Assets

The following fair value hierarchy table presents information about each major category of the pension plan's financial assets measured at fair value on a recurring basis, using the market approach, and actual weighted-average asset allocation, as of June 30:

<u>Description</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Asset allocation</u>
<b>June 30, 2014</b>					
Money market fund	\$ 42,587,187	\$ -	\$ 42,587,187	\$ -	7%
Government securities	28,154,623	-	28,154,623	-	5%
Fixed income	87,715,089	-	87,715,089	-	15%
Equities	63,961,862	63,961,862	-	-	11%
Mutual funds					
Domestic	83,831,827	83,831,827	-	-	15%
International	61,453,892	61,453,892	-	-	11%
Common collective funds					
Fixed income	100,866,320	-	100,866,320	-	18%
Alternative strategies					
Real asset	67,150,715	-	67,150,715	-	12%
Absolute return	<u>32,041,926</u>	<u>-</u>	<u>15,825,732</u>	<u>16,216,194</u>	<u>6%</u>
Total assets	<u>\$567,763,441</u>	<u>\$209,247,581</u>	<u>\$342,299,666</u>	<u>\$ 16,216,194</u>	<u>100%</u>

<u>Description</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Asset allocation</u>
<b>June 30, 2013</b>					
Money market fund	\$ 15,324,593	\$ -	\$ 15,324,593	\$ -	3%
Government securities	18,328,724	-	18,328,724	-	4%
Fixed income	73,861,257	-	73,861,257	-	16%
Equities	64,221,048	64,221,048	-	-	14%
Mutual funds					
Domestic	82,874,956	82,874,956	-	-	18%
International	52,857,550	52,857,550	-	-	11%
Common collective funds					
Fixed income	67,625,907	-	67,625,907	-	14%
Equity funds-international	30,441,441	-	30,441,441	-	6%
Alternative strategies					
Real asset	42,481,555	-	42,481,555	-	9%
Absolute return	<u>26,047,935</u>	<u>-</u>	<u>13,020,350</u>	<u>13,027,585</u>	<u>5%</u>
Total assets	<u>\$474,064,966</u>	<u>\$199,953,554</u>	<u>\$261,083,827</u>	<u>\$ 13,027,585</u>	<u>100%</u>

**Lancaster General Health**  
**Notes to Consolidated Financial Statements**  
**June 30, 2014 and 2013**

The following table presents additional information about assets measured at fair value on a recurring basis and for which LG has utilized Level 3 inputs to determine fair value for the year ended June 30:

Balance, June 30, 2012	\$ 23,581,000
Transfer from Level 3 to Level 2	(11,686,768)
Change in net unrealized gains and losses	<u>1,133,353</u>
Balance, June 30, 2013	13,027,585
Purchases	1,999,997
Change in net unrealized gains and losses	<u>1,188,612</u>
Balance, June 30, 2014	<u>\$ 16,216,194</u>

Amounts transferred from Level 3 to Level 2 during the year ended June 30, 2013 was due to the lock-up period being less than a year.

Cash Flows

*Contributions*

LG expects to contribute \$18,800,000 to the Pension benefits and \$1,508,660 for the SERP and Welfare Plan during fiscal year 2015.

*Estimated Future Benefit Payments*

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

	<b>June 30, 2014</b>		<b>Welfare Plan</b>
	<b>Pension</b>	<b>SERP</b>	
2015	\$ 21,277,000	\$ 1,446,660	\$ 62,000
2016	24,854,000	572,145	65,000
2017	27,190,000	484,953	67,000
2018	29,927,000	486,835	70,000
2019	32,203,000	488,900	72,000
2020-2024	193,024,000	5,102,106	381,000

LG is a contributing employer to a defined contribution plan under 403(b) of the Internal Revenue Code. For those employees hired between March 29, 2008 and December 31, 2010, LG has an employer matching contribution equal to 100% of the first 3% contributed to the plan for participants who elected this option. For those hired after December 31, 2010, LG has an employer matching contribution equal to 50% on the first 6% plus a 2% employer basic contribution. Total expenses under this plan for the years ended June 30, 2014 and 2013 were \$23,971,393 and \$6,352,052, respectively.

MRI has a 401(k) plan for its eligible employees to contribute to their respective retirement accounts. Total expense under the plan for the years ended June 30, 2014 and 2013, was \$234,334 and \$45,677, respectively.

# **Lancaster General Health**

## **Notes to Consolidated Financial Statements**

### **June 30, 2014 and 2013**

Additionally, LG provides an unfunded defined contribution supplemental executive retirement plan for the benefit of certain employees. Employer contributions for the years ended June 30, 2014 and 2013 were \$1,138,017 and \$815,554, respectively.

#### **NOTE N - MALPRACTICE AND GENERAL LIABILITY INSURANCE**

All LG entities are insured through a self-insured malpractice insurance program with Lancaster General Insurance Company, Ltd. (LGI), Lancaster General Health's wholly owned captive insurance company, except for certain employed physicians, who are commercially insured. The Hospital, LGMG and employed physicians participate in the Medical Care Availability and Reduction of Error (MCARE) Fund. LG is self-insured up to certain amounts, including excess coverage for professional liability losses. In addition, LG obtains excess coverage from the MCARE Fund and other commercial carriers.

The MCARE Act was enacted by the legislature of the Commonwealth of Pennsylvania (Commonwealth) in 2002. This Act created the MCARE Fund, which replaced The Pennsylvania Medical Professional Liability Catastrophe Loss Fund (the Medical CAT Fund), as the agency for the Commonwealth to facilitate the payment of medical malpractice claims exceeding the primary layer of professional liability insurance carried by LG and other health care providers practicing in the Commonwealth.

The MCARE Fund is funded on a "pay as you go basis" and assesses health care providers, based on a percentage of the rates established by the Joint Underwriting Association (also a Commonwealth agency) for basic coverage. The MCARE Act of 2002 provides for a further reduction to the current MCARE coverage of \$500,000 per occurrence to \$250,000 per occurrence and the eventual phase-out of the MCARE Fund, subject to the approval of the Pennsylvania Insurance Commissioner. To date, the Pennsylvania Insurance Commissioner has deferred the change in coverage and eventual phase-out of the MCARE Fund to future years.

Professional and general liability indemnity losses and loss adjustment expenses are determined using individual case-based evaluations and statistical analyses and represent an estimate of reported claims and claims incurred but not reported. Those estimates are subject to the effects of trends in loss severity and frequency. Although considerable variability is inherent in such estimates, management believes that the reserves for professional and general liability losses and loss adjustment expenses are reasonable. The estimates are reviewed and adjusted as necessary as experience develops or new information becomes known. Such adjustments are included in current operations.

**Lancaster General Health**  
**Notes to Consolidated Financial Statements**  
**June 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
Provision for outstanding claims at beginning of year	\$ 34,834,036	\$ 31,499,689
Less provision for claims recoverable from reinsurance	<u>(5,039,715)</u>	<u>(4,947,387)</u>
Net provision for outstanding claims at beginning of year	29,794,321	26,552,302
Incurred claims related to:		
Current fiscal year	342,412	2,253,587
Prior fiscal years	<u>2,437,109</u>	<u>3,077,886</u>
	2,779,521	5,331,473
Paid claims related to:		
Current fiscal year	(109,267)	(119,437)
Prior fiscal years	<u>(5,556,770)</u>	<u>(1,970,017)</u>
	<u>(5,666,037)</u>	<u>(2,089,454)</u>
Net provision for outstanding claims at end of year	26,907,805	29,794,321
Add provision for claims recoverable from reinsurance	<u>5,086,944</u>	<u>5,039,715</u>
Provision for outstanding claims at end of year	<u>\$ 31,994,749</u>	<u>\$ 34,834,036</u>
Other current liabilities	\$ 3,282,725	\$ 2,831,475
Other long-term liabilities	<u>28,712,024</u>	<u>32,002,561</u>
	<u>\$ 31,994,749</u>	<u>\$ 34,834,036</u>

A self-insurance trust is maintained in amounts equal to periodic estimates of losses and expenses to be incurred, as a component of investments.

# Lancaster General Health

## Notes to Consolidated Financial Statements

### June 30, 2014 and 2013

#### NOTE O - LEASES

LG leases certain buildings, equipment, and vehicles under operating lease agreements with initial terms expiring at various dates through fiscal year 2028. In addition, the leases generally contain renewal options that give LG the right to extend the leases for varying additional periods. Rental expense under operating leases for the years ended June 30, 2014 and 2013 was \$10,574,841 and \$9,295,539, respectively.

Future minimum rental payments are as follows for the years ended June 30:

2015	\$ 8,150,660
2016	7,159,421
2017	6,418,249
2018	4,004,916
2019	3,259,329
Thereafter	<u>13,519,003</u>
	<u>\$ 42,511,578</u>

LG acts as lessor for certain office space under operating lease agreements with initial lease terms expiring at various dates through fiscal year 2062. In addition, the leases generally contain renewal options that give the lessee the right to extend the leases for varying additional periods. Rental revenue under operating leases where LG acts as lessor for the years ended June 30, 2014 and 2013 was \$3,623,594 and \$3,584,552, respectively, and is classified as other revenue in the consolidated statements of operations and changes in net assets.

Future minimum rental receipts are as follows for the years ended June 30:

2015	\$ 2,852,492
2016	2,380,983
2017	1,806,228
2018	1,597,528
2019	1,360,001
Thereafter	<u>3,852,922</u>
	<u>\$ 13,850,154</u>

**Lancaster General Health**  
**Notes to Consolidated Financial Statements**  
**June 30, 2014 and 2013**

**NOTE P - INVESTMENTS IN NON-CONSOLIDATED AFFILIATES**

LG and its controlled affiliates and subsidiaries participate in the following joint ventures, which are accounted for under the equity method of accounting. LG does not maintain significant influence over the joint ventures. The balances of these investments are included on the consolidated balance sheets as investments in non-consolidated affiliates, and the related income (loss) is included on the consolidated statements of operations and changes in net assets as a component of other non-operating income, net.

<u>Name</u>	<u>LG entity</u>	<u>% Ownership</u>	<u>June 30</u>		<u>Year ended June 30</u>	
			<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Lancaster Emergency Medical Services Association	The Hospital	50%	\$ 3,932,346	\$ 3,587,487	\$ 344,859	\$ 413,081
Central Pennsylvania Alliance Laboratory, LLP	The Hospital	20%	350,273	350,273	-	(99)
Quest Behavioral Health, Inc.	The Hospital	20%	74,817	44,225	30,593	(29,370)
The NeuroSpine Center, LP	The Hospital	49.5%	259,121	166,593	358,459	546,074
The Neurological Surgery Center of LNSA, LLC	The Hospital	50%	456	-	-	1,207
Physicians' Surgery Center Lancaster General, LLC	LGAMB	50%	2,136,945	3,072,385	4,712,097	5,600,636
Lancaster Rehabilitation Hospital, LLP	LRSI	50%	-	-	3,068,000	2,370,500
Preferred Health Care	LGH	50%	567,128	572,677	(5,549)	33,066
Affilia Home Health	LGH	44.1%	6,073,510	5,837,054	236,457	779,802
Horizon Healthcare Services, Inc.	BGVBT	25%	1,330,478	1,404,866	700,613	599,985
LinkEHR, LLC	LGBST	50%	503,287	431,078	72,209	81,078
Allspire	LG	14.3%	874,368	-	(125,632)	-
Other entities	Various	Less than 10%	53,369	76,260	-	-
			<u>\$ 16,156,098</u>	<u>\$ 15,542,898</u>	<u>\$ 9,392,106</u>	<u>\$ 10,395,960</u>

**NOTE Q - FUNCTIONAL EXPENSES**

LG and affiliates provide general health care and educational services to residents within their geographic locations. Expenses related to providing these services are as follows:

	<u>Year ended June 30</u>	
	<u>2014</u>	<u>2013</u>
Health care services	\$ 655,707,624	\$ 654,052,826
Health education services	12,604,506	12,037,595
General and administrative	<u>254,198,939</u>	<u>225,189,252</u>
	<u>\$ 922,511,069</u>	<u>\$ 891,279,673</u>

**Lancaster General Health**  
**Notes to Consolidated Financial Statements**  
**June 30, 2014 and 2013**

**NOTE R - TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS**

Temporarily restricted net assets are available for the following purposes:

	<b>June 30</b>	
	<u><b>2014</b></u>	<u><b>2013</b></u>
Health care programs	\$ 10,478,620	\$ 9,267,838
Health education services	<u>356,076</u>	<u>365,001</u>
	<u>\$ 10,834,696</u>	<u>\$ 9,632,839</u>

Permanently restricted net assets are restricted to:

	<b>June 30</b>	
	<u><b>2014</b></u>	<u><b>2013</b></u>
Investments to be held in perpetuity, the income of which is temporarily restricted (reported as temporarily restricted income)	\$ 5,099,328	\$ 5,880,339
Beneficial interest in perpetual trusts	<u>6,637,916</u>	<u>4,792,692</u>
	<u>\$ 11,737,244</u>	<u>\$ 10,673,031</u>

During 2014 and 2013, net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose of health care services, health care education, and purchase of property, plant and equipment in the amounts of \$1,780,690 and \$14,634,131, respectively.

**Lancaster General Health**  
**Notes to Consolidated Financial Statements**  
**June 30, 2014 and 2013**

**NOTE S - ENDOWMENT**

Changes in restricted endowment net assets for the years ended June 30, 2014 and 2013 are as follows:

	<u>Temporarily restricted</u>	<u>Permanently restricted</u>	<u>Total</u>
Net assets, June 30, 2012	\$ 2,137,173	\$ 6,746,691	\$ 8,883,864
Effects of deconsolidation of affiliate	(124,255)	(1,440,315)	(1,564,570)
Investment return			
Investment income	160,196	-	160,196
Net realized and unrealized gains	<u>218,894</u>	<u>400,732</u>	<u>619,626</u>
Net investment return	379,090	400,732	779,822
New gifts	-	123,512	123,512
Appropriation of endowment assets for expenditure	(31,483)	-	(31,483)
Income distributed or drawn on permanently restricted endowments	(60,298)	-	(60,298)
Other	(1,805)	-	(1,805)
Adjustment for fair value deficiencies	<u>(9,801)</u>	<u>-</u>	<u>(9,801)</u>
Net assets, June 30, 2013	2,288,621	5,830,620	8,119,241
Investment return			
Investment income	162,018	-	162,018
Net realized and unrealized gains	<u>664,547</u>	<u>413,818</u>	<u>1,078,365</u>
Net investment return	826,565	413,818	1,240,383
New gifts	-	326,726	326,726
Appropriation of endowment assets for expenditure	(151,951)	-	(151,951)
Income distributed or drawn on permanently restricted endowments	(190,519)	-	(190,519)
Other	<u>(2,144)</u>	<u>-</u>	<u>(2,144)</u>
Net assets, June 30, 2014	<u>\$ 2,770,572</u>	<u>\$ 6,571,164</u>	<u>\$ 9,341,736</u>

Net assets associated with endowment, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

LG operates in the Commonwealth of Pennsylvania and could elect a total return spending policy under the applicable state laws. However, LG has not adopted a total return spending policy. LG has adopted a policy of appropriating for distribution all of its endowment fund's income, which includes interest, dividends and realized gains earned. LG classifies as permanently restricted net assets the original gift donated to the permanent endowment and the original value of the subsequent gifts to the permanent endowment. This is regarded as the "historic dollar value" of the endowed fund. The remaining portion of the endowed fund that is not classified in permanently restricted net assets and is regarded as "net appreciation" is classified as temporarily restricted net assets.

**Lancaster General Health**  
**Notes to Consolidated Financial Statements**  
**June 30, 2014 and 2013**

From time to time, the fair value of certain donor-restricted endowment funds may fall below the level that the donor requires the organization to retain as a fund of perpetual duration. LG is not aware of any material deficiencies of this nature and is in compliance with its investment policy as of June 30, 2014.

LG has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. The endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results of the S&P 500 index while assuming a moderate level of investment risk. LG expects its endowment funds, over time, to provide an average annual rate of return that approximates market returns on similar investment portfolios. Actual returns in any given year may vary from this amount.

**NOTE T - CONCENTRATION OF CREDIT RISK**

LG and its affiliates grant credit without collateral to their patients, most of whom are local residents and are insured under third-party payor agreements. The composition of receivables from patients and third-party payors was as follows:

	<b>June 30</b>	
	<u><b>2014</b></u>	<u><b>2013</b></u>
Medicare	35%	35%
Medicaid	10	10
Commercial/HMO	39	39
Self-pay	9	10
Other	<u>7</u>	<u>6</u>
	<u>100%</u>	<u>100%</u>

LG invests a portion of its operating and board-designated cash and cash equivalents in various checking, savings, and certificates of deposit accounts with several commercial banks. Certain deposits with these banks exceeded Federal Depository Insurance Corporation limits.

**Lancaster General Health**  
**Notes to Consolidated Financial Statements**  
**June 30, 2014 and 2013**

**NOTE U - COMMITMENTS AND CONTINGENCIES**

LG has commitments for laboratory reagent purchases. At June 30, 2014, the remaining amount on these commitments is \$5,496,462, and they are expected to be completed through fiscal year 2019.

LG is involved in various legal actions, other than malpractice actions, arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on LG's consolidated financial position, results of operations or liquidity.

**NOTE V - SUBSEQUENT EVENTS**

LG has evaluated its June 30, 2014 consolidated financial statements for subsequent events through October 23, 2014, the date the consolidated financial statements were issued. LG is not aware of any subsequent events which require recognition or disclosure in the consolidated financial statements.

## **Supplementary information**

**Lancaster General Health**  
**Consolidating Balance Sheet**  
**June 30, 2014**

	Lancaster	Consolidated	Lancaster	The Heart	Lancaster	Lancaster	LG Health	Lancaster	Lancaster	Eliminations		Lancaster
	General Health	Lancaster Hospital	General Medical Group	Group of LG	General Services Business Trust	General Insurance Company, Ltd.	Foundation	General Rehabilitation Services, Inc.	General Health Innovative Solutions, Inc.	Dr.	Cr.	General Health
<b>Assets</b>												
<b>Current assets</b>												
Cash and cash equivalents	\$ -	\$ 6,695,739	\$ 5,436,377	\$ 766,654	\$ 670,441	\$ 2,534,376	\$ -	\$ -	\$ 4,857	\$ -	\$ -	\$ 16,108,444
Investments	-	45,307,221	-	-	-	3,282,725	-	-	4,681,973	-	-	53,271,919
Assets limited as to use	-	5,408,880	-	-	-	-	-	-	-	-	-	5,408,880
Patient accounts receivable, net	-	101,818,508	4,177,699	1,297,509	-	-	-	-	-	-	-	107,293,716
Other receivables	1,488,489	8,512,167	459,540	384,175	132,525	186,840	27,867	-	-	347,907	-	11,539,510
Inventories	-	14,092,163	51,479	-	192,442	-	-	-	-	-	-	14,336,084
Due from (to) related organizations, net	14,290,428	2,532,171	(1,782,930)	(305,672)	288,200	(14,723,009)	48,719	-	-	-	347,907	-
Prepaid expenses and other current assets	21,185	13,441,940	1,100,768	504,332	44,347	6,491,806	-	-	-	-	-	21,604,378
<b>Total current assets</b>	<b>15,800,102</b>	<b>197,808,789</b>	<b>9,442,933</b>	<b>2,646,998</b>	<b>1,327,955</b>	<b>(2,227,262)</b>	<b>76,586</b>	<b>-</b>	<b>4,686,830</b>	<b>347,907</b>	<b>347,907</b>	<b>229,562,931</b>
<b>Investments</b>												
Unrestricted	718,071,309	62,039,042	-	-	-	44,031,001	12,426,104	-	-	-	-	836,567,456
Donor restricted	2,541,755	10,729,899	-	-	-	-	-	-	-	-	-	13,271,654
	<b>720,613,064</b>	<b>72,768,941</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>44,031,001</b>	<b>12,426,104</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>849,839,110</b>
<b>Interest in net assets of Lancaster General Health</b>												
Assets limited as to use, net of current portion	15,409,907	500,000	-	-	-	-	47,062	-	-	-	-	15,956,969
Investments in non-consolidated affiliates	7,539,501	6,753,960	-	-	1,862,637	-	-	-	-	-	-	16,156,098
Property, plant and equipment, net	-	481,516,238	5,836,775	4,605,026	3,697,494	-	-	-	-	-	-	495,655,533
Beneficial interest in trusts	370,551	9,181,330	-	-	-	-	-	-	-	-	-	9,551,881
Other assets	-	6,575,143	1,980,000	-	-	-	-	-	-	-	3,310,000	5,245,143
<b>Total assets</b>	<b>\$ 759,733,125</b>	<b>\$ 776,619,119</b>	<b>\$ 17,259,708</b>	<b>\$ 7,252,024</b>	<b>\$ 6,888,086</b>	<b>\$ 41,803,739</b>	<b>\$ 12,611,289</b>	<b>\$ -</b>	<b>\$ 4,686,830</b>	<b>\$ 347,907</b>	<b>\$ 5,234,162</b>	<b>\$ 1,621,967,665</b>
<b>Liabilities and net assets</b>												
<b>Current liabilities</b>												
Current portion of long-term debt	\$ -	\$ 6,189,253	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,189,253
Accounts payable	-	32,457,239	2,145,625	58,969	95,406	106,853	-	-	-	-	-	34,864,092
Accrued payroll and related benefits	-	37,169,512	7,002,645	2,515,570	100,052	-	-	-	-	-	-	46,787,779
Estimated settlements with third-party payors	-	12,583,663	-	-	-	-	-	-	-	-	-	12,583,663
Other current liabilities	58,420	5,948,405	-	-	29,097	3,282,725	-	-	-	-	1,446,660	10,765,307
<b>Total current liabilities</b>	<b>58,420</b>	<b>94,348,072</b>	<b>9,148,270</b>	<b>2,574,539</b>	<b>224,555</b>	<b>3,389,578</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,446,660</b>	<b>111,190,094</b>
Accrued pension liability	163,725,997	-	-	-	-	-	-	-	-	-	-	163,725,997
Other liabilities	16,595,701	20,878,494	2,339,026	576,411	117,500	34,205,161	-	-	-	4,756,660	-	69,955,633
Long-term debt, net of current portion	-	217,627,247	-	-	-	-	-	-	-	-	-	217,627,247
<b>Total liabilities</b>	<b>180,380,118</b>	<b>332,853,813</b>	<b>11,487,296</b>	<b>3,150,950</b>	<b>342,055</b>	<b>37,594,739</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,756,660</b>	<b>1,446,660</b>	<b>562,498,971</b>
<b>Net assets</b>												
<b>Unrestricted</b>												
Unrestricted net assets LG	577,497,472	417,852,833	5,772,412	4,101,074	6,546,031	4,209,000	12,564,227	-	4,686,830	61,536	498,745	1,033,667,088
Non-controlling interests	-	3,229,666	-	-	-	-	-	-	-	-	-	3,229,666
<b>Total unrestricted net assets</b>	<b>577,497,472</b>	<b>421,082,499</b>	<b>5,772,412</b>	<b>4,101,074</b>	<b>6,546,031</b>	<b>4,209,000</b>	<b>12,564,227</b>	<b>-</b>	<b>4,686,830</b>	<b>61,536</b>	<b>498,745</b>	<b>1,036,896,754</b>
Temporarily restricted	1,435,266	11,316,115	-	-	-	-	47,062	-	-	1,963,747	-	10,834,696
Permanently restricted	420,269	11,366,692	-	-	-	-	-	-	-	49,717	-	11,737,244
<b>Total net assets</b>	<b>579,353,007</b>	<b>443,765,306</b>	<b>5,772,412</b>	<b>4,101,074</b>	<b>6,546,031</b>	<b>4,209,000</b>	<b>12,611,289</b>	<b>-</b>	<b>4,686,830</b>	<b>2,075,000</b>	<b>498,745</b>	<b>1,059,468,694</b>
<b>Total liabilities and net assets</b>	<b>\$ 759,733,125</b>	<b>\$ 776,619,119</b>	<b>\$ 17,259,708</b>	<b>\$ 7,252,024</b>	<b>\$ 6,888,086</b>	<b>\$ 41,803,739</b>	<b>\$ 12,611,289</b>	<b>\$ -</b>	<b>\$ 4,686,830</b>	<b>\$ 6,831,660</b>	<b>\$ 1,945,405</b>	<b>\$ 1,621,967,665</b>

**Lancaster General Health**  
**Consolidating Statement of Operations and Changes in Net Assets**  
**Year Ended June 30, 2014**

	Lancaster	Consolidated	Lancaster	The Heart	Lancaster	Lancaster	LG Health	Lancaster	Lancaster	Eliminations		Consolidated
	General Health	Lancaster Hospital	General Medical Group	Group of LG	General Services Business Trust	General Insurance Company, Ltd.	Foundation	General Rehabilitation Services, Inc.	General Health Innovative Solutions, Inc.	Dr.	Cr.	Lancaster General Health
<b>Unrestricted net assets</b>												
Unrestricted revenue and other support												
Net patient service revenue	\$ -	\$ 886,835,880	\$ 63,099,908	\$ 14,299,608	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 964,235,396
Less: provision for bad debts	-	(41,990,195)	(1,299,004)	(585,943)	-	-	-	-	-	-	-	(43,875,142)
Net patient service revenue, less provision for bad debts	-	844,845,685	61,800,904	13,713,665	-	-	-	-	-	-	-	920,360,254
Medical services	-	9,039,689	-	-	1,564,501	-	-	-	-	-	-	10,604,190
Capitation revenue	-	426,935	160,137	-	-	-	-	-	-	-	-	587,072
Other revenue	3,497,363	48,087,343	8,717,277	1,587,026	810,881	691,211	61,537	-	-	28,029,008	-	35,423,630
Net assets released from restrictions for operations	-	1,768,922	-	-	-	-	-	-	-	-	-	1,768,922
Contributions	61,537	339,391	-	-	-	-	49,168	-	-	-	-	450,096
Total unrestricted revenue and other support	3,558,900	904,507,965	70,678,318	15,300,691	2,375,382	691,211	110,705	-	-	28,029,008	-	969,194,164
<b>Expenses</b>												
Operating expenses	(21,302,030)	769,688,535	98,130,522	29,960,939	2,671,225	5,978,698	827,704	75,085	941,275	-	27,995,639	858,976,314
Depreciation and amortization	-	53,344,846	935,593	537,484	158,042	-	-	-	-	-	-	54,975,965
Interest	-	8,422,218	-	-	234	-	-	-	-	-	-	8,422,452
Provision for bad debts	-	136,338	-	-	-	-	-	-	-	-	-	136,338
Total expenses	(21,302,030)	831,591,937	99,066,115	30,498,423	2,829,501	5,978,698	827,704	75,085	941,275	-	27,995,639	922,511,069
Operating income (loss)	24,860,930	72,916,028	(28,387,797)	(15,197,732)	(454,119)	(5,287,487)	(716,999)	(75,085)	(941,275)	28,029,008	27,995,639	46,683,095
<b>Other income (loss)</b>												
Investment income, net	12,811,643	1,260,472	-	-	25	1,064,646	178,942	-	8,215	-	-	15,323,943
Net realized gains (losses) on sale of trading securities	15,704,555	(66,561)	-	-	-	2,435,683	1,267,450	-	-	-	-	19,341,127
Change in net unrealized gains and losses on trading securities	51,865,725	1,408,002	-	-	-	1,787,158	378,395	-	(136,333)	-	-	55,302,947
Change in fair value of interest rate swap agreement, net	-	(1,142,789)	-	-	-	-	-	-	-	-	-	(1,142,789)
Other non-operating income, net	94,714	6,994,738	1,245,700	295,018	772,822	-	-	3,068,000	-	-	-	12,470,992
Total other income (loss)	80,476,637	8,453,862	1,245,700	295,018	772,847	5,287,487	1,824,787	3,068,000	(128,118)	-	-	101,296,220
Excess of (deficiency in) revenue and other income over expenses	105,337,567	81,369,890	(27,142,097)	(14,902,714)	318,728	-	1,107,788	2,992,915	(1,069,393)	28,029,008	27,995,639	147,979,315
Excess of revenue attributable to non-controlling interests	-	(1,756,207)	-	-	-	-	-	-	-	-	-	(1,756,207)
Excess of (deficiency in) revenue and other income over expenses attributable to LG	105,337,567	79,613,683	(27,142,097)	(14,902,714)	318,728	-	1,107,788	2,992,915	(1,069,393)	28,029,008	27,995,639	146,223,108
<b>Other changes in unrestricted net assets</b>												
Net assets released from restrictions - purchase of property, plant and equipment	-	11,768	-	-	-	-	-	-	-	-	-	11,768
Change in non-controlling interests	-	104,957	-	-	-	-	-	-	-	-	-	104,957
Equity contributions from (to) related organizations	45,953,719	(95,466,783)	30,014,250	17,083,986	(775,000)	-	432,187	(2,992,915)	5,778,723	28,167	-	-
Change in pension liability	(31,583,741)	-	-	-	-	-	-	-	-	-	-	(31,583,741)
Change in other post retirement benefits	108,191	(141,386)	-	-	-	-	-	-	-	-	-	(33,195)
Increase (decrease) in unrestricted net assets	119,815,736	(15,877,761)	2,872,153	2,181,272	(456,272)	-	1,539,975	-	4,709,330	28,057,175	27,995,639	114,722,897
<b>Temporarily restricted net assets</b>												
Restricted contributions and gifts	332,021	1,524,605	-	-	-	-	47,062	-	-	-	-	1,903,688
Investment income	-	185,941	-	-	-	-	-	-	-	-	-	185,941
Net realized gains on sale of trading securities	-	462,678	-	-	-	-	-	-	-	-	-	462,678
Change in net unrealized gains and losses on trading securities	-	430,240	-	-	-	-	-	-	-	-	-	430,240
Net assets released from restrictions	-	(1,780,690)	-	-	-	-	-	-	-	-	-	(1,780,690)
Change in interest in net assets of Lancaster General Health	-	332,021	-	-	-	-	-	-	-	332,021	-	-
Increase in temporarily restricted net assets	332,021	1,154,795	-	-	-	-	47,062	-	-	332,021	-	1,201,857
<b>Permanently restricted net assets</b>												
Restricted contributions and gifts	-	326,726	-	-	-	-	-	-	-	-	-	326,726
Change in net unrealized gains and losses on trading securities	-	413,818	-	-	-	-	-	-	-	-	-	413,818
Change in fair value of beneficial interest in trusts	31,729	291,940	-	-	-	-	-	-	-	-	-	323,669
Increase in permanently restricted net assets	31,729	1,032,484	-	-	-	-	-	-	-	-	-	1,064,213
Increase (decrease) in net assets	120,179,486	(13,690,482)	2,872,153	2,181,272	(456,272)	-	1,587,037	-	4,709,330	28,389,196	27,995,639	116,988,967
Net assets, beginning of year	459,173,521	457,455,788	2,900,259	1,919,802	7,002,303	4,209,000	11,024,252	-	(22,500)	65,376,960	64,194,262	942,479,727
Net assets, end of year	\$ 579,353,007	\$ 443,765,306	\$ 5,772,412	\$ 4,101,074	\$ 6,546,031	\$ 4,209,000	\$ 12,611,289	\$ -	\$ 4,686,830	\$ 93,766,156	\$ 92,189,901	\$ 1,059,468,694

**Lancaster General Health  
Consolidating Balance Sheet  
June 30, 2013**

	Lancaster	Consolidated	Lancaster	Lancaster	The Heart	Lancaster	Lancaster	LG Health	Lancaster	Lancaster	Eliminations		Consolidated
	General Health	Lancaster General Hospital	Cleft Palate Clinic	General Medical Group	Group of LG	General Services Business Trust	General Insurance Company, Ltd.		Rehabilitation Services, Inc.	General Health Innovative Solutions, Inc.	Dr.	Cr.	
<b>Assets</b>													
<b>Current assets</b>													
Cash and cash equivalents	\$ -	\$ 9,431,069	\$ -	\$ 3,271,543	\$ 730,837	\$ 936,571	\$ 1,658,111	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 16,028,131
Investments	-	30,963,904	-	-	-	-	2,831,475	-	-	-	-	-	33,795,379
Assets limited as to use	-	6,114,536	-	-	-	-	-	-	-	-	-	-	6,114,536
Patient accounts receivable, net	-	93,903,460	-	4,133,298	1,572,802	102,856	-	-	-	-	-	-	99,712,416
Other receivables	1,596,091	19,271,635	-	210,779	400,678	-	252,504	28,517	-	-	417,452	-	22,177,656
Inventories	-	12,150,409	-	10,828	-	179,313	-	-	-	-	-	-	12,340,550
Due from (to) related organizations, net	11,859,225	2,630,966	-	(1,189,888)	(843,480)	211,872	(12,228,743)	-	-	-	(22,500)	417,452	-
Prepaid expenses and other current assets	15,465	11,147,641	-	1,061,450	499,369	248,107	6,521,064	-	-	-	-	-	19,493,096
<b>Total current assets</b>	<b>13,470,781</b>	<b>185,613,620</b>	<b>-</b>	<b>7,498,010</b>	<b>2,360,206</b>	<b>1,678,719</b>	<b>(965,589)</b>	<b>28,517</b>	<b>-</b>	<b>(22,500)</b>	<b>417,452</b>	<b>417,452</b>	<b>209,661,764</b>
<b>Investments</b>													
Unrestricted	604,183,840	78,467,697	-	-	-	-	45,813,575	10,995,735	-	-	-	-	739,460,847
Donor restricted	1,923,061	10,871,355	-	-	-	-	-	-	-	-	-	-	12,794,416
	<b>606,106,901</b>	<b>89,339,052</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>45,813,575</b>	<b>10,995,735</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>752,255,263</b>
Interest in net assets of Lancaster General Health	-	1,182,698	-	-	-	-	-	-	-	-	-	1,182,698	-
Assets limited as to use, net of current portion	11,920,820	500,000	-	-	-	-	-	-	-	-	-	-	12,420,820
Investments in non-consolidated affiliates	6,434,226	7,243,857	-	-	-	1,864,815	-	-	-	-	-	-	15,542,898
Property, plant and equipment, net	-	494,121,485	-	4,906,430	2,919,435	3,844,342	-	-	-	-	-	-	505,791,692
Beneficial interest in trusts	338,822	8,532,567	-	-	-	-	-	-	-	-	-	-	8,871,389
Other assets	-	8,283,926	-	3,905,000	-	-	-	-	-	-	-	7,490,000	4,698,926
<b>Total assets</b>	<b>\$ 638,271,550</b>	<b>\$ 794,817,205</b>	<b>\$ -</b>	<b>\$ 16,309,440</b>	<b>\$ 5,279,641</b>	<b>\$ 7,387,876</b>	<b>\$ 44,847,986</b>	<b>\$ 11,024,252</b>	<b>\$ -</b>	<b>\$ (22,500)</b>	<b>\$ 417,452</b>	<b>\$ 9,090,150</b>	<b>\$ 1,509,242,752</b>
<b>Liabilities and net assets</b>													
<b>Current liabilities</b>													
Current portion of long-term debt	\$ -	\$ 7,107,874	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7,107,874
Accounts payable	-	28,361,429	-	1,131,322	15,192	55,642	94,686	-	-	-	-	-	29,658,271
Accrued payroll and related benefits	-	37,652,365	-	7,967,600	2,809,104	89,455	-	-	-	-	-	-	48,518,524
Estimated settlements with third-party payors	-	12,526,000	-	-	-	-	-	-	-	-	-	-	12,526,000
Other current liabilities	124,987	5,308,567	-	-	-	18,776	2,831,475	-	-	-	-	842,534	9,126,339
<b>Total current liabilities</b>	<b>124,987</b>	<b>90,956,235</b>	<b>-</b>	<b>9,098,922</b>	<b>2,824,296</b>	<b>163,873</b>	<b>2,926,161</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>842,534</b>	<b>106,937,008</b>
Accrued pension liability	162,934,500	-	-	-	-	-	-	-	-	-	-	-	162,934,500
Other liabilities	16,038,542	23,006,634	-	4,310,259	535,543	221,700	37,712,825	-	-	-	8,332,534	-	73,492,969
Long-term debt, net of current portion	-	223,398,548	-	-	-	-	-	-	-	-	-	-	223,398,548
<b>Total liabilities</b>	<b>179,098,029</b>	<b>337,361,417</b>	<b>-</b>	<b>13,409,181</b>	<b>3,359,839</b>	<b>385,573</b>	<b>40,638,986</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>8,332,534</b>	<b>842,534</b>	<b>566,763,025</b>
<b>Net assets</b>													
<b>Unrestricted</b>													
Unrestricted net assets LG	457,681,736	433,835,551	-	2,900,259	1,919,802	7,002,303	4,209,000	11,024,252	-	(22,500)	19,236	517,981	919,049,148
Non-controlling interests	-	3,124,709	-	-	-	-	-	-	-	-	-	-	3,124,709
<b>Total unrestricted net assets</b>	<b>457,681,736</b>	<b>436,960,260</b>	<b>-</b>	<b>2,900,259</b>	<b>1,919,802</b>	<b>7,002,303</b>	<b>4,209,000</b>	<b>11,024,252</b>	<b>-</b>	<b>(22,500)</b>	<b>19,236</b>	<b>517,981</b>	<b>922,173,857</b>
Temporarily restricted	1,103,245	10,161,320	-	-	-	-	-	-	-	-	1,631,726	-	9,632,839
Permanently restricted	388,540	10,334,208	-	-	-	-	-	-	-	-	49,717	-	10,673,031
<b>Total net assets</b>	<b>459,173,521</b>	<b>457,455,788</b>	<b>-</b>	<b>2,900,259</b>	<b>1,919,802</b>	<b>7,002,303</b>	<b>4,209,000</b>	<b>11,024,252</b>	<b>-</b>	<b>(22,500)</b>	<b>1,700,679</b>	<b>517,981</b>	<b>942,479,727</b>
<b>Total liabilities and net assets</b>	<b>\$ 638,271,550</b>	<b>\$ 794,817,205</b>	<b>\$ -</b>	<b>\$ 16,309,440</b>	<b>\$ 5,279,641</b>	<b>\$ 7,387,876</b>	<b>\$ 44,847,986</b>	<b>\$ 11,024,252</b>	<b>\$ -</b>	<b>\$ (22,500)</b>	<b>\$ 10,033,213</b>	<b>\$ 1,360,515</b>	<b>\$ 1,509,242,752</b>

**Lancaster General Health**  
**Consolidating Statement of Operations and Changes in Net Assets**  
**Year Ended June 30, 2013**

	Lancaster	Consolidated	Lancaster	Lancaster	The Heart	Lancaster	Lancaster	LG Health	Lancaster	Lancaster	Eliminations		Consolidated
	General Health	Lancaster Hospital	Cleft Palate Clinic	General Medical Group	Group of LG	General Services Business Trust	General Insurance Company, Ltd.	Foundation	General Rehabilitation Services, Inc.	General Health Innovative Solutions, Inc.	Dr.	Cr.	Lancaster General Health
<b>Unrestricted net assets</b>													
Unrestricted revenue and other support													
Net patient service revenue	\$ -	\$ 842,990,651	\$ -	\$ 56,489,653	\$ 14,820,497	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 914,300,801
Less: provision for bad debts	-	(39,532,633)	-	(1,188,420)	(703,660)	-	-	-	-	-	-	-	(41,424,713)
Net patient service revenue, less provision for bad debts	-	803,458,018	-	55,301,233	14,116,837	-	-	-	-	-	-	-	872,876,088
Medical services	-	8,353,185	-	-	-	1,677,790	-	-	-	-	-	-	10,030,975
Capitation revenue	-	589,539	-	933,741	-	-	-	-	-	-	-	-	1,523,280
Other revenue	(791,692)	43,047,217	-	5,773,385	872,871	799,924	880,891	-	17	-	19,583,021	19,236	31,018,828
Net assets released from restrictions for operations	-	3,905,127	-	75,000	-	-	-	-	-	-	-	-	3,980,127
Contributions	-	258,145	-	6,000	-	-	-	53,211	-	-	-	-	317,356
Total unrestricted revenue and other support	(791,692)	859,611,231	-	62,089,359	14,989,708	2,477,714	880,891	53,211	17	-	19,583,021	19,236	919,746,654
<b>Expenses</b>													
Operating expenses	21,205,212	708,167,331	-	86,570,897	27,890,782	2,558,992	4,335,056	543,345	81,033	456,888	35,420	19,840,738	832,004,218
Depreciation and amortization	-	49,501,189	-	1,007,140	560,841	162,393	-	-	-	-	-	-	51,231,563
Interest	-	7,931,555	-	-	523	-	-	-	-	-	-	-	7,932,078
Provision for bad debts	-	111,814	-	-	-	-	-	-	-	-	-	-	111,814
Total expenses	21,205,212	765,711,889	-	87,578,037	28,452,146	2,721,385	4,335,056	543,345	81,033	456,888	35,420	19,840,738	891,279,673
Operating (loss) income	(21,996,904)	93,899,342	-	(25,488,678)	(13,462,438)	(243,671)	(3,454,165)	(490,134)	(81,016)	(456,888)	19,618,441	19,859,974	28,466,981
<b>Other income (loss)</b>													
Investment income, net	11,145,878	1,685,716	-	-	-	936	1,182,621	203,673	-	-	-	-	14,218,824
Net realized gains on sale of trading securities	9,908,955	124,847	-	-	-	-	1,674,709	34,175	-	-	-	-	11,742,686
Change in net unrealized gains and losses on trading securities	16,707,448	(1,417,667)	-	-	-	-	596,835	1,055,279	-	-	-	-	16,941,895
Change in fair value of interest rate swap agreement, net	-	2,066,656	-	-	-	-	-	-	-	-	-	-	2,066,656
Income tax benefit	-	8,231,123	-	-	-	-	-	-	3,861,145	-	-	-	12,092,268
Other non-operating income (loss), net	806,908	12,001,808	-	1,937,052	(2,416,036)	681,063	-	-	-	-	222,297	-	15,158,998
Total other income (loss)	38,569,189	22,692,483	-	1,937,052	(2,416,036)	681,999	3,454,165	1,293,127	6,231,645	-	222,297	-	72,221,327
Excess of (deficiency in) revenue and other income over expenses	16,572,285	116,591,825	-	(23,551,626)	(15,878,474)	438,328	-	802,993	6,150,629	(456,888)	19,840,738	19,859,974	100,688,308
Excess of revenue attributable to non-controlling interests	-	(1,984,319)	-	-	-	-	-	-	-	-	-	-	(1,984,319)
Excess of (deficiency in) revenue and other income over expenses attributable to LG	16,572,285	114,607,506	-	(23,551,626)	(15,878,474)	438,328	-	802,993	6,150,629	(456,888)	19,840,738	19,859,974	98,703,989
<b>Other changes in unrestricted net assets</b>													
Net assets released from restrictions - purchase of property, plant and equipment	-	10,654,004	-	-	-	-	-	-	-	-	-	-	10,654,004
Change in non-controlling interests	-	73,694	-	-	-	-	-	-	-	-	-	-	73,694
Equity contributions from (to) related organizations	87,235,040	(120,815,090)	-	23,553,587	11,895,433	(300,000)	-	286,126	(2,289,484)	434,388	-	-	-
Change in pension liability	141,439,484	-	-	-	-	-	-	-	-	-	-	-	141,439,484
Change in other post retirement benefits	(924,188)	(53,444)	-	-	-	-	-	-	-	-	-	-	(977,632)
Effects of deconsolidation of affiliate	-	-	(2,296,579)	-	-	-	-	-	-	-	-	-	(2,296,579)
Increase (decrease) in unrestricted net assets	244,322,621	4,466,670	(2,296,579)	1,961	(3,983,041)	138,328	-	1,089,119	3,861,145	(22,500)	19,840,738	19,859,974	247,596,960
<b>Temporarily restricted net assets</b>													
Restricted contributions and gifts	358,296	5,018,253	-	75,000	-	-	-	-	-	-	-	-	5,451,549
Investment income	-	187,502	-	-	-	-	-	-	-	-	-	-	187,502
Net realized gains on sale of trading securities	-	16,274	-	-	-	-	-	-	-	-	-	-	16,274
Change in net unrealized gains and losses on trading securities	-	289,129	-	-	-	-	-	-	-	-	-	-	289,129
Net assets released from restrictions	-	(14,559,131)	-	(75,000)	-	-	-	-	-	-	-	-	(14,634,131)
Change in interest in net assets of Lancaster General Health	(175,204)	358,296	-	-	-	-	-	-	-	-	183,092	-	-
Effects of deconsolidation of affiliate	-	-	(212,303)	-	-	-	-	-	-	-	-	-	(212,303)
Increase (decrease) in temporarily restricted net assets	183,092	(8,689,677)	(212,303)	-	-	-	-	-	-	-	183,092	-	(8,901,980)
<b>Permanently restricted net assets</b>													
Restricted contributions and gifts	-	123,512	-	-	-	-	-	-	-	-	-	-	123,512
Change in net unrealized gains and losses on trading securities	-	400,731	-	-	-	-	-	-	-	-	-	-	400,731
Change in fair value of beneficial interest in trusts	21,645	116,306	-	-	-	-	-	-	-	-	-	-	137,951
Effects of deconsolidation of affiliate	-	-	(1,440,315)	-	-	-	-	-	-	-	-	-	(1,440,315)
Increase (decrease) in permanently restricted net assets	21,645	640,549	(1,440,315)	-	-	-	-	-	-	-	-	-	(778,121)
Increase (decrease) in net assets	244,527,358	(3,582,458)	(3,949,197)	1,961	(3,983,041)	138,328	-	1,089,119	3,861,145	(22,500)	20,023,830	19,859,974	237,916,859
Net assets, beginning of year	214,646,163	461,038,246	3,949,197	2,898,298	5,902,843	6,863,975	4,209,000	9,935,133	(3,861,145)	-	45,353,130	44,334,288	704,562,868
Net assets, end of year	\$ 459,173,521	\$ 457,455,788	\$ -	\$ 2,900,259	\$ 1,919,802	\$ 7,002,303	\$ 4,209,000	\$ 11,024,252	\$ -	\$ (22,500)	\$ 65,376,960	\$ 64,194,262	\$ 942,479,727

**Lancaster General Hospital**  
**Consolidating Balance Sheet**  
**June 30, 2014**

	Lancaster General Hospital	Lancaster General Health - Columbia Center	Lancaster General Imaging Corporation	Pennsylvania College of Health Sciences	Lancaster General Ambulatory Services	LG Health Community Care Collaborative	Eliminations		Consolidated Lancaster General Hospital
							Dr.	Cr.	
<b>Assets</b>									
<b>Current assets</b>									
Cash and cash equivalents	\$ 4,116,542	\$ 5,198	\$ 1,198,266	\$ 1,375,733	\$ -	\$ -	\$ -	\$ -	\$ 6,695,739
Investments	41,237,593	-	-	4,069,628	-	-	-	-	45,307,221
Assets limited as to use	5,369,293	-	-	39,587	-	-	-	-	5,408,880
Patient accounts receivable, net	99,833,646	146,185	1,838,677	-	-	-	-	-	101,818,508
Other receivables	7,729,395	-	6,704	896,499	-	-	3,469	123,900	8,512,167
Inventories	14,092,163	-	-	-	-	-	-	-	14,092,163
Due from (to) related organizations, net	2,631,732	(45,214)	(69,011)	(132,142)	-	-	146,806	-	2,532,171
Prepaid expenses and other current assets	12,196,958	48,609	299,023	897,350	-	-	-	-	13,441,940
Total current assets	187,207,322	154,778	3,273,659	7,146,655	-	-	150,275	123,900	197,808,789
<b>Investments</b>									
Unrestricted	60,204,040	-	-	1,835,002	-	-	-	-	62,039,042
Donor restricted	10,729,899	-	-	-	-	-	-	-	10,729,899
	70,933,939	-	-	1,835,002	-	-	-	-	72,768,941
<b>Interest in net assets of Lancaster General Health</b>									
Assets limited as to use, net of current portion	1,442,293	-	-	72,425	-	-	-	-	1,514,718
Investments in non-consolidated affiliates	-	-	-	500,000	-	-	-	-	500,000
Property, plant and equipment, net	4,617,015	-	-	-	2,136,945	-	-	-	6,753,960
Beneficial interest in trusts	463,056,110	1,855,271	9,613,333	6,991,524	-	-	-	-	481,516,238
Other assets	7,459,918	-	-	1,721,412	-	-	-	-	9,181,330
Total assets	5,569,914	-	802,195	203,034	-	-	-	-	6,575,143
<b>Total assets</b>	<b>\$ 740,286,511</b>	<b>\$ 2,010,049</b>	<b>\$ 13,689,187</b>	<b>\$ 18,470,052</b>	<b>\$ 2,136,945</b>	<b>\$ -</b>	<b>\$ 150,275</b>	<b>\$ 123,900</b>	<b>\$ 776,619,119</b>
<b>Liabilities and net assets</b>									
<b>Current liabilities</b>									
Current portion of long-term debt	\$ 4,866,105	\$ -	\$ 1,248,148	\$ 75,000	\$ -	\$ -	\$ -	\$ -	\$ 6,189,253
Accounts payable	31,907,119	15,900	262,497	271,723	-	-	-	-	32,457,239
Accrued payroll and related benefits	35,562,558	392,540	374,279	840,135	-	-	-	-	37,169,512
Estimated settlements with third-party payors	12,583,663	-	-	-	-	-	-	-	12,583,663
Other current liabilities	4,072,819	993	750,396	1,039,449	-	-	-	84,748	5,948,405
Total current liabilities	88,992,264	409,433	2,635,320	2,226,307	-	-	-	84,748	94,348,072
<b>Other liabilities</b>									
Long-term debt, net of current portion	20,663,636	16,388	28,140	232,172	-	-	61,842	-	20,878,494
Total liabilities	213,762,486	-	2,846,011	1,018,750	-	-	-	-	217,627,247
	323,418,386	425,821	5,509,471	3,477,229	-	-	61,842	84,748	332,853,813
<b>Net assets</b>									
<b>Unrestricted</b>									
Unrestricted net assets LG	397,604,458	1,584,228	4,950,050	11,573,683	2,136,945	-	-	3,469	417,852,833
Non-controlling interests	-	-	3,229,666	-	-	-	-	-	3,229,666
Total unrestricted net assets	397,604,458	1,584,228	8,179,716	11,573,683	2,136,945	-	-	3,469	421,082,499
Temporarily restricted	10,937,330	-	-	378,785	-	-	-	-	11,316,115
Permanently restricted	8,326,337	-	-	3,040,355	-	-	-	-	11,366,692
Total net assets	416,868,125	1,584,228	8,179,716	14,992,823	2,136,945	-	-	3,469	443,765,306
<b>Total liabilities and net assets</b>	<b>\$ 740,286,511</b>	<b>\$ 2,010,049</b>	<b>\$ 13,689,187</b>	<b>\$ 18,470,052</b>	<b>\$ 2,136,945</b>	<b>\$ -</b>	<b>\$ 61,842</b>	<b>\$ 88,217</b>	<b>\$ 776,619,119</b>

**Lancaster General Hospital**  
**Consolidating Statement of Operations and Changes in Net Assets**  
**Year Ended June 30, 2014**

	Lancaster	Lancaster	Lancaster	Pennsylvania	Lancaster	LG Health	Eliminations		Consolidated
	General Hospital	General Health - Columbia Center	General Imaging Corporation	College of Health Sciences	General Ambulatory Services	Community Care Collaborative	Dr.	Cr.	
<b>Unrestricted net assets</b>									
Unrestricted revenue and other support									
Net patient service revenue	\$ 860,454,970	\$ 3,394,283	\$ 22,986,627	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 886,835,880
Less: provision for bad debts	(41,180,000)	(116,397)	(693,798)	-	-	-	-	-	(41,990,195)
Net patient service revenue, less provision for bad debts	819,274,970	3,277,886	22,292,829	-	-	-	-	-	844,845,685
Medical services	9,039,689	-	-	-	-	-	-	-	9,039,689
Capitation revenue	382,020	44,915	-	-	-	-	-	-	426,935
Other revenue	37,641,824	817,074	-	20,385,835	-	-	10,757,390	-	48,087,343
Net assets released from restrictions for operations	1,544,022	-	-	224,900	-	-	-	-	1,768,922
Contributions	103,335	-	-	236,056	-	-	-	-	339,391
Total unrestricted revenue and other support	867,985,860	4,139,875	22,292,829	20,846,791	-	-	10,757,390	-	904,507,965
Expenses									
Operating expenses	735,297,900	5,181,651	15,842,098	22,793,272	44,963	1,286,041	-	10,757,390	769,688,535
Depreciation and amortization	50,432,939	260,515	1,844,717	806,675	-	-	-	-	53,344,846
Interest	8,194,320	-	212,637	15,261	-	-	-	-	8,422,218
Provision for bad debts	9,290	-	-	127,048	-	-	-	-	136,338
Total expenses	793,934,449	5,442,166	17,899,452	23,742,256	44,963	1,286,041	-	10,757,390	831,591,937
Operating income (loss)	74,051,411	(1,302,291)	4,393,377	(2,895,465)	(44,963)	(1,286,041)	10,757,390	10,757,390	72,916,028
Other income (loss)									
Investment income, net	1,225,680	-	453	34,339	-	-	-	-	1,260,472
Net realized (losses) gains on sale of trading securities	(143,291)	-	-	76,730	-	-	-	-	(66,561)
Change in net unrealized gains and losses on trading securities	1,256,621	-	-	151,381	-	-	-	-	1,408,002
Change in fair value of interest rate swap agreement, net	(1,142,789)	-	-	-	-	-	-	-	(1,142,789)
Other non-operating income, net	2,185,424	41,547	55,670	-	4,712,097	-	-	-	6,994,738
Total other income	3,381,645	41,547	56,123	262,450	4,712,097	-	-	-	8,453,862
Excess of (deficiency in) revenue and other income over expenses	77,433,056	(1,260,744)	4,449,500	(2,633,015)	4,667,134	(1,286,041)	10,757,390	10,757,390	81,369,890
Excess of revenue attributable to non-controlling interests	-	-	(1,756,207)	-	-	-	-	-	(1,756,207)
Excess of (deficiency in) revenue and other income over expenses attributable to LG	77,433,056	(1,260,744)	2,693,293	(2,633,015)	4,667,134	(1,286,041)	10,757,390	10,757,390	79,613,683
Other changes in unrestricted net assets									
Net assets released from restrictions - purchase of property, plant and equipment	11,768	-	-	-	-	-	-	-	11,768
Change in non-controlling interests	-	-	104,957	-	-	-	-	-	104,957
Equity contributions (to) from related organizations	(93,142,392)	720,713	(2,528,572)	3,800,000	(5,602,573)	1,286,041	-	-	(95,466,783)
Change in other post retirement benefits	(141,386)	-	-	-	-	-	-	-	(141,386)
(Decrease) increase in unrestricted net assets	(15,838,954)	(540,031)	269,678	1,166,985	(935,439)	-	10,757,390	10,757,390	(15,877,761)
<b>Temporarily restricted net assets</b>									
Restricted contributions and gifts	1,373,828	-	-	150,777	-	-	-	-	1,524,605
Investment income	161,841	-	-	24,100	-	-	-	-	185,941
Net realized gains on sale of trading securities	398,873	-	-	63,805	-	-	-	-	462,678
Change in net unrealized gains and losses on trading securities	430,240	-	-	-	-	-	-	-	430,240
Net assets released from restrictions	(1,555,790)	-	-	(224,900)	-	-	-	-	(1,780,690)
Change in interest in net assets of Lancaster General Health	332,021	-	-	-	-	-	-	-	332,021
Increase in temporarily restricted net assets	1,141,013	-	-	13,782	-	-	-	-	1,154,795
<b>Permanently restricted net assets</b>									
Restricted contributions and gifts	130,679	-	-	196,047	-	-	-	-	326,726
Change in net unrealized gains and losses on trading securities	413,818	-	-	-	-	-	-	-	413,818
Change in fair value of beneficial interest in trusts	161,948	-	-	129,992	-	-	-	-	291,940
Increase in permanently restricted net assets	706,445	-	-	326,039	-	-	-	-	1,032,484
(Decrease) increase in net assets	(13,991,496)	(540,031)	269,678	1,506,806	(935,439)	-	10,757,390	10,757,390	(13,690,482)
Net assets, beginning of year	430,859,621	2,124,259	7,910,038	13,486,017	3,072,384	-	86,782,536	86,786,005	457,455,788
Net assets, end of year	\$ 416,868,125	\$ 1,584,228	\$ 8,179,716	\$ 14,992,823	\$ 2,136,945	\$ -	\$ 97,539,926	\$ 97,543,395	\$ 443,765,306

**Lancaster General Hospital**  
**Consolidating Balance Sheet**  
**June 30, 2013**

	Lancaster General Hospital	Lancaster General Health - Columbia Center	Lancaster General Imaging Corporation	Pennsylvania College of Health Sciences	Lancaster General Ambulatory Services	Eliminations		Consolidated Lancaster General Hospital
						Dr.	Cr.	
<b>Assets</b>								
<b>Current assets</b>								
Cash and cash equivalents	\$ 6,852,287	\$ 10,135	\$ 1,824,286	\$ 744,361	\$ -	\$ -	\$ -	\$ 9,431,069
Investments	26,502,447	-	-	4,461,457	-	-	-	30,963,904
Assets limited as to use	6,059,680	-	-	54,856	-	-	-	6,114,536
Patient accounts receivable, net	91,724,369	360,995	1,818,096	-	-	-	-	93,903,460
Other receivables	18,553,129	581	10,209	712,123	-	3,469	7,876	19,271,635
Inventories	12,150,409	-	-	-	-	-	-	12,150,409
Due from (to) related organizations, net	2,924,409	(36,129)	(16,784)	(273,919)	-	33,389	-	2,630,966
Prepaid expenses and other current assets	10,180,356	48,708	280,343	638,234	-	-	-	11,147,641
Total current assets	174,947,086	384,290	3,916,150	6,337,112	-	36,858	7,876	185,613,620
<b>Investments</b>								
Unrestricted	78,467,697	-	-	-	-	-	-	78,467,697
Donor restricted	9,369,527	-	-	1,501,828	-	-	-	10,871,355
	87,837,224	-	-	1,501,828	-	-	-	89,339,052
<b>Interest in net assets of Lancaster General Health</b>								
Assets limited as to use, net of current portion	1,110,273	-	-	72,425	-	-	-	1,182,698
Investments in non-consolidated affiliates	-	-	-	500,000	-	-	-	500,000
Property, plant and equipment, net	4,171,473	-	-	-	3,072,384	-	-	7,243,857
Beneficial interest in trusts	475,597,621	2,060,169	9,691,614	6,772,081	-	-	-	494,121,485
Other assets	6,941,147	-	-	1,591,420	-	-	-	8,532,567
Total assets	7,299,690	-	802,195	182,041	-	-	-	8,283,926
	\$ 757,904,514	\$ 2,444,459	\$ 14,409,959	\$ 16,956,907	\$ 3,072,384	\$ 36,858	\$ 7,876	\$ 794,817,205
<b>Liabilities and net assets</b>								
<b>Current liabilities</b>								
Current portion of long-term debt	\$ 4,895,355	\$ -	\$ 2,137,519	\$ 75,000	\$ -	\$ -	\$ -	\$ 7,107,874
Accounts payable	27,823,912	12,984	230,992	293,541	-	-	-	28,361,429
Accrued payroll and related benefits	36,098,208	279,971	352,377	921,809	-	-	-	37,652,365
Estimated settlements with third-party payors	12,526,000	-	-	-	-	-	-	12,526,000
Other current liabilities	3,672,435	2,707	752,571	855,341	-	-	25,513	5,308,567
Total current liabilities	85,015,910	295,662	3,473,459	2,145,691	-	-	25,513	90,956,235
<b>Other liabilities</b>								
Long-term debt, net of current portion	22,731,163	24,538	19,484	231,449	-	-	-	23,006,634
Total liabilities	219,297,820	-	3,006,978	1,093,750	-	-	-	223,398,548
	327,044,893	320,200	6,499,921	3,470,890	-	-	25,513	337,361,417
<b>Net assets</b>								
<b>Unrestricted</b>								
Unrestricted net assets LG	413,443,412	2,124,259	4,785,329	10,406,698	3,072,384	-	3,469	433,835,551
Non-controlling interests	-	-	3,124,709	-	-	-	-	3,124,709
Total unrestricted net assets	413,443,412	2,124,259	7,910,038	10,406,698	3,072,384	-	3,469	436,960,260
Temporarily restricted	9,796,317	-	-	365,003	-	-	-	10,161,320
Permanently restricted	7,619,892	-	-	2,714,316	-	-	-	10,334,208
Total net assets	430,859,621	2,124,259	7,910,038	13,486,017	3,072,384	-	3,469	457,455,788
Total liabilities and net assets	\$ 757,904,514	\$ 2,444,459	\$ 14,409,959	\$ 16,956,907	\$ 3,072,384	\$ -	\$ 28,982	\$ 794,817,205

**Lancaster General Hospital**  
**Consolidating Statement of Operations and Changes in Net Assets**  
**Year Ended June 30, 2013**

	Lancaster General Hospital	Lancaster General Health - Columbia Center	Lancaster General Imaging Corporation	Pennsylvania College of Health Sciences	Lancaster General Ambulatory Services	Eliminations		Consolidated Lancaster General Hospital
						Dr.	Cr.	
<b>Unrestricted net assets</b>								
Unrestricted revenue and other support								
Net patient service revenue	\$ 816,234,553	\$ 3,110,793	\$ 23,645,305	\$ -	\$ -	\$ -	\$ -	\$ 842,990,651
Less: provision for bad debts	(38,700,071)	(161,627)	(670,935)	-	-	-	-	(39,532,633)
Net patient service revenue, less provision for bad debts	777,534,482	2,949,166	22,974,370	-	-	-	-	803,458,018
Medical services	8,353,185	-	-	-	-	-	-	8,353,185
Capitation revenue	419,665	169,874	-	-	-	-	-	589,539
Other revenue	32,960,195	754,223	-	21,688,160	-	12,355,361	-	43,047,217
Net assets released from restrictions for operations	3,722,289	-	-	182,838	-	-	-	3,905,127
Contributions	27,332	-	-	230,813	-	-	-	258,145
Total unrestricted revenue and other support	823,017,148	3,873,263	22,974,370	22,101,811	-	12,355,361	-	859,611,231
<b>Expenses</b>								
Operating expenses	680,205,849	5,068,759	15,776,373	19,415,737	55,974	-	12,355,361	708,167,331
Depreciation and amortization	46,628,558	272,250	1,928,779	671,602	-	-	-	49,501,189
Interest	7,632,949	-	288,383	16,833	-	-	6,610	7,931,555
Provision for bad debts	28,338	-	-	83,476	-	-	-	111,814
Total expenses	734,495,694	5,341,009	17,993,535	20,187,648	55,974	-	12,361,971	765,711,889
Operating income (loss)	88,521,454	(1,467,746)	4,980,835	1,914,163	(55,974)	12,355,361	12,361,971	93,899,342
<b>Other income (loss)</b>								
Investment income, net	1,658,321	-	334	33,671	-	6,610	-	1,685,716
Net realized gains on sale of trading securities	117,481	-	-	7,366	-	-	-	124,847
Change in net unrealized gains and losses on trading securities	(1,567,770)	-	-	150,103	-	-	-	(1,417,667)
Change in fair value of interest rate swap agreement, net	2,066,656	-	-	-	-	-	-	2,066,656
Income tax benefit	-	-	-	-	8,231,123	-	-	8,231,123
Other non-operating income, net	6,231,735	134,928	34,509	-	5,600,636	-	-	12,001,808
Total other income	8,506,423	134,928	34,843	191,140	13,831,759	6,610	-	22,692,483
Excess of (deficiency in) revenue and other income over expenses	97,027,877	(1,332,818)	5,015,678	2,105,303	13,775,785	12,361,971	12,361,971	116,591,825
Excess of revenue attributable to non-controlling interests	-	-	(1,984,319)	-	-	-	-	(1,984,319)
Excess of (deficiency in) revenue and other income over expenses attributable to LG	97,027,877	(1,332,818)	3,031,359	2,105,303	13,775,785	12,361,971	12,361,971	114,607,506
<b>Other changes in unrestricted net assets</b>								
Net assets released from restrictions - purchase of property, plant and equipment	10,654,004	-	-	-	-	-	-	10,654,004
Change in non-controlling interests	-	-	73,694	-	-	-	-	73,694
Equity contributions (to) from related organizations	(114,931,778)	1,218,752	(2,886,621)	1,519,328	(5,734,771)	-	-	(120,815,090)
Change in other post retirement benefits	(53,444)	-	-	-	-	-	-	(53,444)
(Decrease) increase in unrestricted net assets	(7,303,341)	(114,066)	218,432	3,624,631	8,041,014	12,361,971	12,361,971	4,466,670
<b>Temporarily restricted net assets</b>								
Restricted contributions and gifts	4,878,930	-	-	139,323	-	-	-	5,018,253
Investment income	164,322	-	-	23,180	-	-	-	187,502
Net realized gains on sale of trading securities	7,988	-	-	8,286	-	-	-	16,274
Change in net unrealized gains and losses on trading securities	289,129	-	-	-	-	-	-	289,129
Net assets released from restrictions	(14,376,293)	-	-	(182,838)	-	-	-	(14,559,131)
Change in interest in net assets of Lancaster General Health	358,296	-	-	-	-	-	-	358,296
Decrease in temporarily restricted net assets	(8,677,628)	-	-	(12,049)	-	-	-	(8,689,677)
<b>Permanently restricted net assets</b>								
Restricted contributions and gifts	84,660	-	-	38,852	-	-	-	123,512
Change in net unrealized gains and losses on trading securities	400,731	-	-	-	-	-	-	400,731
Change in fair value of beneficial interest in trusts	78,875	-	-	37,431	-	-	-	116,306
Increase in permanently restricted net assets	564,266	-	-	76,283	-	-	-	640,549
(Decrease) increase in net assets	(15,416,703)	(114,066)	218,432	3,688,865	8,041,014	12,361,971	12,361,971	(3,582,458)
Net assets, beginning of year	446,276,324	2,238,325	7,691,606	9,797,152	(4,968,630)	74,420,565	74,424,034	461,038,246
Net assets, end of year	\$ 430,859,621	\$ 2,124,259	\$ 7,910,038	\$ 13,486,017	\$ 3,072,384	\$ 86,782,536	\$ 86,786,005	\$ 457,455,788

**Lancaster General Health**  
**Schedule of Expenditures of Federal Awards**  
**Year ended June 30, 2014**

Federal Grantor/Pass-through Grantor/ Program or Cluster title	Federal CFDA number	Pass-through Grantor number	Student Financial Assistance Cluster	Other Federal Expenditures	Total Federal Expenditures
U.S. Department of Education:					
Federal Direct Student Loans	84.268	N/A	\$ 7,949,398	\$ -	\$ 7,949,398
Federal Pell Grant Program	84.063	N/A	1,711,603	-	1,711,603
Federal Supplemental Educational Opportunity Grants	84.007	N/A	<u>30,000</u>	<u>-</u>	<u>30,000</u>
Total U.S. Department of Education			9,691,001	-	9,691,001
U.S. Department of Health and Human Services:					
Nursing Student Loans	93.364	N/A	31,000	-	31,000
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease - Passed through Health Resources and Services (HRSA)	93.918	N/A	-	389,165	389,165
National Bioterrorism Hospital Preparedness Program - Passed through Pennsylvania Department of Health	93.889	2U90TP316967-11	-	48,011	48,011
Maternal and Child Health Services Block Grant to the States - Passed through Pennsylvania Department of Health	93.994	B04MC23405	-	112,179	112,179
Maternal and Child Health Services Block Grant to the States - Passed through Family Health Council of Central Pennsylvania	93.994	B04MC23405	<u>-</u>	<u>634</u>	<u>634</u>
			-	112,813	112,813
Family Planning Services - Passed through Family Health Counsel of Central Pennsylvania	93.217	5H25PS001401-04	-	6,647	6,647
Social Services Block Grant - Passed through Family Health Counsel of Central Pennsylvania	93.667	2B09SM010044-12	-	957	957
Cooperative Agreements for State-Based Comprehensive Breast and Cervical Cancer Early Detection Programs - Passed through Family Health Counsel of Central Pennsylvania	93.919	1U58DP004108-01	-	92,028	92,028
PPHF - Community Transformation Grants and National Dissemination and Support for Community Transformation Grants - Passed through Centers for Disease Control and Prevention	93.531	N/A	-	191,190	191,190
Affordable Care Act (ACA) Tribal Maternal, Infant and Early Childhood Home Visiting Program - Passed through United Way of Lancaster County	93.508	D89MC23535	-	194,573	194,573
Cardiovascular Diseases Research - Passed through University of Pennsylvania	93.837	5U10HL110338-02	-	70,157	70,157
Cardiovascular Diseases Research - Passed through University of Rochester	93.837	U01HL096607	<u>-</u>	<u>34,155</u>	<u>34,155</u>
			<u>-</u>	<u>104,312</u>	<u>104,312</u>
Total U.S. Department of Health and Human Services			31,000	1,139,696	1,170,696
Total Expenditures of Federal Awards			<u>\$ 9,722,001</u>	<u>\$ 1,139,696</u>	<u>\$10,861,697</u>

See the accompanying notes to the Schedule of Expenditures of Federal Awards.

# **Lancaster General Health**

## **Notes to Schedule of Expenditures of Federal Awards**

**June 30, 2014 and 2013**

### **NOTE A - BASIS OF ACCOUNTING**

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) summarizes the expenditures of Lancaster General Hospital (the Hospital) and its consolidated affiliate, the Pennsylvania College of Health Sciences (PCHS) (collectively, LGH), for the year ended June 30, 2014. LGH is a controlled affiliate of Lancaster General Health (LG). Because the Schedule presents only a selected portion of the operations of LG, it is not intended to and does not present the financial position, statements of operations and changes in net assets or cash flows of LG.

The Schedule is presented using the accrual method of accounting. The amounts reported in this Schedule as expenditures may differ from certain financial reports submitted to federal funding agencies due to these reports being submitted on either a cash or modified accrual basis of accounting.

### **NOTE B - FEDERAL STUDENT LOAN PROGRAMS**

During the year ended June 30, 2014, PCHS processed \$31,000 of new loans under the Nursing Student Loan Program (CFDA No. 93.364). The new loans made in the year ended June 30, 2014 are reported in the Schedule. The balance of loans outstanding under the Nursing Student Loan Program at June 30, 2014 was \$195,286.

PCHS is responsible only for the performance of certain administrative duties with respect to federal loans disbursed by external lenders or the Department of Education to or on behalf of PCHS' students under the guaranteed loan program (CFDA No. 84.268 for the Direct Student Loan Program). It is not practical to determine the balance of loans outstanding to students and former students of PCHS under this federally guaranteed loan program at June 30, 2014. Loans issued under this program for the year ended June 30, 2014 were \$7,949,398.

**Report of Independent Certified Public Accountants  
on Internal Control Over Financial Reporting and on  
Compliance and Other Matters Required by  
Government Auditing Standards**

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Board of Trustees  
Lancaster General Health

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the consolidated financial statements of Lancaster General Health (LG), which comprise the consolidated balance sheet as of June 30, 2014, and the related consolidated statements of operations and changes in net assets and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated October 23, 2014.

**Internal control over financial reporting**

In planning and performing our audit of the consolidated financial statements, we considered LG's internal control over financial reporting (internal control) to design 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 internal control. Accordingly, we do not express an opinion on the effectiveness of LG's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of LG's consolidated 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 LG's 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 LG's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Intended purpose**

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 LG's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering LG's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

Philadelphia, Pennsylvania

October 23, 2014

**Report of Independent Certified Public Accountants  
on Compliance for Each Major Federal Program and  
on Internal Control Over Compliance Required by  
OMB Circular A-133**

Board of Trustees  
Lancaster General Health

**Report on compliance for each major federal program**

We have audited the compliance of Lancaster General Health (LG) with the types of compliance requirements described in the U.S. Office of Management and Budget's *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on its major federal program for the year ended June 30, 2014. LG's major federal program is 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 LG's federal programs.

**Auditor's responsibility**

Our responsibility is to express an opinion on compliance for LG's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

The above-mentioned 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 LG's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

**Opinion on each major federal program**

In our opinion, LG complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2014.

**Report on internal control over compliance**

Management of LG is responsible for designing, implementing, 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 LG's internal control over compliance with the types of compliance requirements that could have a direct and material effect on the major federal program to design audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with 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 LG's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a 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. Given these limitations, during our audit we did not identify any deficiencies in LG's internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



# Grant Thornton

**Intended purpose**

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.

Philadelphia, Pennsylvania

October 23, 2014

**Lancaster General Health**  
**Schedule of Findings and Questioned Costs**  
**June 30, 2014 and 2013**

**Section 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  no
- Significant deficiency(s) identified that are not considered to be material weakness(es)?  yes  none reported
- Noncompliance material to financial statements noted?  yes  no

Federal Awards

Internal control over major program:

- Material weakness(es) identified?  yes  no
- Significant deficiency(s) identified that are not considered to be material weakness(es)?  yes  none reported

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

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?  yes  no

Identification of major program:

*CFDA Numbers*

*Name of Federal Program or Cluster*

84.268  
 84.063  
 84.007  
 93.364

**Student Financial Assistance Cluster:**  
 Federal Direct Student Loans  
 Federal Pell Grant Program  
 Federal Supplemental Education Opportunity Grants  
 Nursing Student Loans

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

Auditee qualified as low-risk auditee?  yes  no

# **Lancaster General Health**

**Schedule of Findings and Questioned Costs  
June 30, 2014 and 2013**

## **Section II - Financial Statement Findings**

None.

## **Section III - Findings and Questioned Costs for Federal Awards**

None.

# Lancaster General Health

## Summary of Prior Year Audit Findings

### June 30, 2014 and 2013

#### **Finding #2013-001**

##### Ensure Segregation of Duties Among Individuals Responsible for Creating and Posting Manual Journal Entries

##### Finding

In connection with our review of management's financial close process, the predecessor auditors noted that the current duties for creating and posting journal entries are not segregated within the General Accounting department. Furthermore, there is no formal documented process in place to review manual journal entries initiated by General Accounting prior to the entries being posted in the general ledger. All individuals in the General Accounting department have access to create and post manual journal entries, and there is no formal compensating control in place to review manual journal entries. The manual entries recorded in the general ledger should have been reviewed and approved by an independent individual, without create and post access.

##### Correction Action

Through fiscal year 2013, the existing process at LG included various levels of review across the Finance organization. However, to alleviate the segregation of duties matter, effective June 2013, journal entry create and post access was removed for managers and above (including the Director of Accounting). In addition, beginning July 2013, on a monthly basis and prior to close and issuing final financial statements, the Director of Accounting will review a system generated Journal Control Report and Transaction Listing to identify users are appropriate and authorized and that there are no unexpected transactions. In addition, supporting documentation for certain journal entries will be reviewed.

##### Status

LG has implemented additional internal controls as discussed above. We noted no exceptions during our audit. This matter has been resolved.

#### **Finding #2013-002**

##### Compliance – Special Tests and Provisions CFDA #84.268/84.063/84.007/93.364 – Student Financial Assistance Cluster U.S. Department of Education

##### Summary

##### A. Verification

During the predecessor auditors' testing of 25 students, they identified one student whose Institutional Student Information Record (ISIR) was not updated to reflect the adjusted gross income per the Internal Revenue Service Tax Return Transcript.

# **Lancaster General Health**

## **Summary of Prior Year Audit Findings**

### **June 30, 2014 and 2013**

#### **B. Student Status Changes**

A total sample of 60 students was selected by the predecessor auditors for testing (43 graduated and 17 other). Out of the 43 graduated students tested, 19 students were reported to the 17 ten days late. Additionally, these 19 students were reported as “withdrawn” and not as “graduated.”

Out of the 17 other student status changes submitted, three students were reported to the NSLDS in excess of 60 days, ranging from two to 112 days late.

#### **C. Other**

**Leave of Absence Policy:** During the predecessor auditors’ testing of Student Status Changes, they noted that PCHS’ Leave of Absence Policy does not meet federal requirements. PCHS’ leave of absence policy states it must not exceed one year.

**Student withdrawal dates:** During the predecessor auditors’ testing of Title IV refunds, they noted that management’s policy to determine the date when a student withdraws identifies the withdrawal date as being the end of the semester, unless a withdrawal date is clearly communicated by the student.

**Student loan repayments:** During the predecessor auditors’ testing of controls over student loan repayments, they noted that management lacks adequate monitoring of the service provider for the Student Nursing Loans Program.

#### Corrective Action

##### **A. Verification**

Effective December 2013, PCHS has implemented an improved process to monitor compliance with verification requirements, including routine review of all aspects of the verification process. Management has updated written procedures and notified appropriate staff, and will monitor this issue regularly during the year to ensure compliance.

##### **B. Student Status Changes**

PCHS has corrected reporting related to graduated students. All students that graduated in May 2013 were reported appropriately and timely. PCHS will continue to monitor other status changes to ensure accurate and timely reporting.

##### **C. Other**

Current PCHS policy dictates that students on a leave of absence should be reported as withdrawn in accordance with federal requirements. PCHS will review its leave of absence policy and make any changes deemed appropriate. This review will be completed by February 2014. Management will monitor this issue to ensure reporting is compliant with federal regulations.

PCHS will commence a review of withdraw policies and procedures with the intention of improving internal controls. This review will be completed by February 2014.

# **Lancaster General Health**

## **Summary of Prior Year Audit Findings**

### **June 30, 2014 and 2013**

PCHS will implement a procedure to review the SSAE 16 report provided by the third-party service provider for the Student Nursing Loans Program. In November 2013, this review was completed for the period of July 1, 2012 - June 30, 2013, with no issues noted. Future reviews will be completed timely upon receipt of the report.

#### Status

PCHS has implemented the items discussed above. We noted no exceptions during our audit. This matter has been resolved.