

MUNICIPAL SECONDARY MARKET DISCLOSURE
INFORMATION COVER SHEET

Conduit Issuer: Geisinger Authority (Montour County, Pennsylvania)

Obligor: Geisinger Health

THIS FILING RELATES TO ALL SECURITIES ISSUED BY THE ISSUER: CUSIP # 368497

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Geisinger¹

Financial Update

For the Nine Months Ended March 31, 2018

Introduction²

Geisinger is a physician-led, integrated health services organization that has as its main components:

1. an array of health services providers, including eight acute care hospitals with multiple campuses:
 - Geisinger Medical Center (“GMC”) – a tertiary/quaternary care teaching hospital with a main campus in Danville and an acute care campus in Shamokin;
 - Geisinger Wyoming Valley Medical Center (“GWV”) – a tertiary/quaternary hospital with an acute care campus near Wilkes-Barre and an outpatient campus in Wilkes-Barre;
 - Geisinger Community Medical Center (“GCMC”) – an acute care hospital in Scranton;
 - Geisinger Bloomsburg Hospital (“GBH”) – a community hospital in Bloomsburg;
 - Geisinger Lewistown Hospital (“GLH”) – a community hospital in Lewistown;
 - Holy Spirit Hospital of the Sisters of Christian Charity, Inc. doing business as Geisinger Holy Spirit (“GHS”) – an acute care hospital in Camp Hill near Harrisburg;
 - AtlantiCare Regional Medical Center (“ARMC”) – a tertiary/quaternary care hospital with Atlantic City and Mainland campuses in southern New Jersey; and
 - Geisinger Jersey Shore Hospital (“GJSH”) a critical access hospital in Jersey Shore, Pennsylvania;
2. a multispecialty physician group practice of approximately 1,835 physicians practicing at 246 primary and specialty clinics
3. Geisinger Health Plans (“GHPs”), comprised of Geisinger Health Plan (“GHP”), Geisinger Indemnity Insurance Company (“GIIC”) and Geisinger Quality Options, Inc. (“GQO”), one of the nation’s largest rural health insurance organizations with commercial, Medicare Advantage, Medical Assistance and self-insured insurance products; and
4. Geisinger Commonwealth School of Medicine (“GCSOM”) headquartered in Scranton, currently serves 414 medical students and 98 graduate students.

Geisinger operates in 45 of Pennsylvania’s 67 counties, with a significant presence in central, south-central and northeastern Pennsylvania, outside the major metropolitan areas, and in 7 counties in southern New Jersey. As of March 31, 2018, Geisinger cared for approximately 1,169,000 patients active in the trailing twelve months and managed approximately 580,000 health plan members, approximately 336,000 of whom were both members and patients, resulting in a unique population managed of approximately 1,413,000 people.

On January 1, 2017, The Commonwealth Medical College became an affiliate of Geisinger Health and changed its name to GCSOM. On July 1, 2017, Jersey Shore Hospital and Jersey Shore Hospital Foundation became affiliates of Geisinger Health and changed their name to GJSH and Geisinger Jersey Shore Hospital Foundation (“GJSHF”), respectively. Accordingly, GCSOM, GJSH and GJSHF activities and accounts are included in the attached consolidated financial statements only since the transaction dates.

This report contains financial statement excerpts based on the interim, consolidated financial statements of Geisinger for the nine months ended March 31, 2018 and 2017.³ Geisinger management believes that the financial and operating information contained herein is complete and accurate as of the date of this report.⁴ This report and the attachments hereto have been provided to EMMA.⁵

Please contact Kevin F. Brennan, CPA, FHFMA, Executive Vice President, Finance/Chief Financial Officer at (570) 271-6626 for questions or additional information.

Financial Highlights

I. Balance Sheet

The balance sheet remained strong with total assets of \$7.7 billion and \$6.9 billion as of March 31, 2018 and 2017, respectively. Assets were comprised primarily of cash and investments totaling \$4.4 billion on March 31, 2018. The unrestricted portion of cash and investments was \$4.3 billion at March 31, 2018, representing 244.1 days' cash on hand. The ratio of unrestricted cash and investments to debt was 237.0% at March 31, 2018. Liquidity has benefited from retention of profits and prompt collection of patient services receivables, with days in patient receivables of 33.9 days⁶ as of March 31, 2018.

Geisinger had \$1.8 billion of outstanding debt, including bonds, notes and capital leases, as of March 31, 2018. Leverage remains moderate with debt to total capitalization of 31.0%, as of March 31, 2018.

II. Cash Flows

Earnings before interest, depreciation and amortization excluding unrealized gains and losses and contribution (expense) from acquisitions ("EBITDA") was \$400.0 million, representing an EBITDA margin of 7.7%, both for the nine months ended March 31, 2018. Cash flow from operations, consisting of operating income before interest expense and depreciation and amortization totaled \$334.1 million, representing an operating cash flow margin of 6.5%, both for the nine months ended March 31, 2018. Moderate debt service requirements and significant cash inflows produced a debt service coverage ratio of 6.7 times for the nine months ended March 31, 2018. During the nine months ended March 31, 2018, Geisinger maintained significant liquidity and moderate leverage, while reinvesting approximately \$152.4 million into capital expenditures.

III. Statement of Revenue and Expenses

A. Operating Performance

For the nine months ended March 31, 2018, Geisinger recorded a \$145.9 million operating profit, or a 2.8% return from core operations, both of which are calculated before interest expense. Operating profitability benefited from gains related to Geisinger's performance improvement process, Achieving Excellence. During the nine months ended March 31, 2018, Geisinger experienced a 3.5% growth in discharges and a 2.8% growth in discharges and observations/23-hour stays, when compared to the year-earlier period. This growth was attributable to success in expanding clinical programs.

For the nine months ended March 31, 2018, Geisinger net revenue approximated \$5.1 billion. This represents an increase of 8.8% over prior year ended March 31, 2017. This growth is attributable to an increase in net patient service revenue after the provision for bad debts of 4.6% and an increase in premium revenue of 13.0%, both when compared with the year-earlier period. Net patient service revenue benefitted from the realization of growth plans centered on market share growth and the opportunistic capture of high-acuity, clinical service volumes. Effective January 1, 2018, average premium rates for individual, insurance exchange members increased approximately 32% and individual exchange membership increased by more than 20,000 members. GHPs' medical expense ratio was 86.8% and 87.0% for the nine months ended March 31, 2018 and 2017, respectively, including expenses paid to Geisinger clinicians and clinical facilities. Operating profit includes gains of \$17.7 million from the sale of two skilled nursing facilities during January 2018.

B. Investing and financing activities

Net investment earnings were \$260.1 million during the nine months ended March 31, 2018. Net investment earnings were comprised of \$65.9 million of realized investment earnings and a \$194.2 million unrealized gain for the nine months ended March 31, 2018. Geisinger's significant investment assets performed similarly to broad market indices representing the asset

classes to which the investments were allocated. The investment portfolio was prudently managed with an allocation to cash and fixed income securities of 35.6% at March 31, 2018. Unrestricted funds are predominantly invested in liquid vehicles with 98.0% of all unrestricted cash and investments capable of being liquidated within one month. External, professional investment management firms manage all Geisinger's investment assets. The Finance Committee of the Boards of Directors and Geisinger staff are assisted with investment decisions by a professional investment-consulting firm.

C. Excess of Revenue over Expenses

Geisinger achieved an excess of revenue over expenses of \$356.9 million and an excess margin of 6.6% for the nine months ended March 31, 2018. After excluding unrealized gains and expense from acquisitions, the excess margin was 3.3%.

IV. Variable Rate Demand Bonds ("VRDBs") and Hedging Contracts

Geisinger had \$242.3 million of VRDBs outstanding as of March 31, 2018. Risk from the VRDBs' put feature was offset by standby bond purchase agreements and unrestricted cash and investments available for liquidation within one month of \$4.3 billion or 17.4 times demand debt as of March 31, 2018. Geisinger maintained derivative instruments with notional values of \$214.4 million to partially offset the risk of cash flow changes from variable rates. The total market value of the hedging contracts was recorded on the balance sheet as a \$33.1 million liability as of March 31, 2018. No collateral was pledged to secure derivative liabilities at March 31, 2018. Management intends to hold the derivative contracts to maturity, while recording non-cash entries to account for fluctuations in their market values on the financial statements.

V. Management's Summary of Financial Performance

Cash flow from operations exceeded capital expenditures by \$181.7 million during the nine months ended March 31, 2018 and leverage remains prudently controlled with debt to capitalization of 31.0% as of March 31, 2018. The balance sheet remains highly liquid with unrestricted cash and investments representing 55.9% of all assets. Geisinger's strategic plans seek to manage the total cost of care through population health management initiatives deployed by Geisinger Health Plans and the Clinical Enterprise. Additionally, Geisinger seeks to grow high-acuity, fee-for-service business by increasing penetration for these services in Geisinger's expanded service area. Geisinger continues to consider opportunities to expand primary care and partner with other healthcare organizations. Geisinger Health Plans are expected to show per-member per-month premium growth and profitability, resulting from effective management of variables affecting medical expense ratios, including prudent underwriting and innovative care management.

Operational Highlights

I. Kevin V. Roberts Joins Geisinger as Incoming CFO

Geisinger named Kevin V. Roberts, MBA, CPA, its new executive vice president, finance and chief financial officer. Roberts will oversee all financial activities of the integrated health care delivery system and will serve on Geisinger's executive leadership team. He joins Geisinger from BJC HealthCare, St. Louis, Missouri, a 15-hospital health system that includes Barnes-Jewish Hospital and St. Louis Children's Hospital and its academic partner, Washington University School of Medicine, where he served as senior vice president and chief financial officer. During his more than 30 years of professional experience, Roberts has also held executive-level finance positions at University Hospitals Health System and the Cleveland Clinic, both in Cleveland, Ohio, and Proctor Hospital in Peoria, Illinois. Roberts succeeds Kevin Brennan, CPA, FHFMA, who announced his retirement after more than 20 years with the health system. Brennan will remain at Geisinger through June 2018 when he will become chair of the Healthcare Financial Management Association.

II. Geisinger and St. Luke's University Health Network to Build New Hospital in Schuylkill County

Geisinger and St. Luke's are partnering to build a new acute care hospital in Schuylkill County. The 80-bed hospital will include an emergency department and a full range of specialties and services. Groundbreaking will occur this spring and the hospital will open late next year. The three-story, 120,000-square-foot hospital will be located near Orwigsburg. This is the first time in Pennsylvania

that two health care systems have agreed to build and equally co-own a new hospital. The two systems enjoy a history of collaboration, including an insurance partnership. Also beginning July 1, 2018, Geisinger's Life Flight service will provide emergency medical air transportation for the entire St. Luke's system. Both organizations have provided services to Schuylkill, Berks, and Carbon county residents for years.

III. Harvard Business Review Article Describes Geisinger's MyCode Community Health Initiative

In a recent Harvard Business Review article, Geisinger leaders say MyCode Community Health Initiative with deoxyribonucleic acid ("DNA") sequencing of patient samples begins a new era of care for patients with inherited risks for conditions such as cancer and heart disease. The article was written by Geisinger executives Huntington F. Willard, Director, Geisinger National Precision Health; David T. Feinberg, MD, President and Chief Executive Officer and David H. Ledbetter, Executive Vice President and Chief Scientific Officer. The authors explain that standard screening tests such as colonoscopy, mammography, and cholesterol measurement are inadequate for people whose genetic profiles put them at higher risk. Thanks to the MyCode program, genetic sequencing is becoming a clinical reality for all patients in the community, not just as a diagnostic test for patients already sick. Geisinger's DNA sequencing project has the potential to identify patients who are at increased risk for diseases such as early onset, inherited cancer and cardiac events. While currently Geisinger anticipates about three percent of MyCode participants will be found to have genetic variants associated with a high risk of disease, that number is expected to rise to as high as 10 percent to 15 percent in the future as the roles of additional genes and variants in disease are understood.

Management's Summary

Geisinger's leadership continues to focus the Clinical Enterprise on prudent growth initiatives and innovative care redesign intended to ensure Geisinger's long term success. GHPs deliver diversified product offerings and care management initiatives to improve members' health and reduce cost trends. It is anticipated that ongoing initiatives will result in maintenance of a strong balance sheet and operating success. These plans resulted in sustained profitability from core operations. We continue to plan for a level of financial performance that will, for decades to come, support our purpose: "Everything we do is about caring – for our patients, our members, our Geisinger family of physicians and employees, and our communities".

Attachments: Geisinger financial statement excerpts and utilization statistics for the nine months ended March 31, 2018 and 2017

Notes:

¹ Definition of Geisinger

Throughout this document and the attachments hereto, Geisinger refers to the entire health system, comprised of Geisinger Health as parent and all subsidiary corporate entities comprising the System.

² Disclaimer

This narrative contains certain forward-looking statements. These forward-looking statements are subject to numerous assumptions, risks and uncertainties that change over time. This report is issued as of May 16, 2018. Geisinger assumes no duty to update any information contained in this document, even if delivered after the original date of issuance. Actual results could differ materially from those anticipated and future results could differ materially from historical performance.

³ Omission of Certain Financial Statements

Generally accepted accounting principles require financial statements to include a balance sheet, a statement of operations and changes in net assets, a statement of cash flows and notes to the financial statements. The statement of changes in net assets and statement of cash flows have been included only in an abbreviated form. Complete notes have not been included in the attached financial statement excerpts.

⁴ Estimates in Financial Statements

The preparation of financial statements in accordance with generally accepted accounting principles requires Geisinger management to make assumptions, estimates and judgments that affect the amounts reported in financial statements, including the notes thereto and related disclosures, if any. Geisinger considers critical accounting policies to be those that require the more significant judgments and estimates in the preparation of financial statements, including the following: recognition of patient service revenue that includes contractual allowances and provisions for bad debt, reserves for losses and expenses related to insurance claims and healthcare professional risks. At the time judgments are made, management relies on historical experience, available information and assumptions believed to be reasonable under the circumstances in making its judgments and estimates. Actual results could differ materially from those estimates.

⁵ Distribution through EMMA

This report is being distributed on a quarterly basis, and may be discontinued at any time. It is anticipated that such quarterly information will be made available through the Electronic Municipal Market Access system ("EMMA"), a service of the Municipal Securities Rulemaking Board.

⁶ Days in Patient Receivables

Days in patient receivables are calculated in accordance with the terms of the Healthcare Financial Management Association's Key Performance Indicators. Days in patient receivables include only the accounts of Geisinger Clinic; GMC; GWV; GCMC; GBH; GLH; Family Health Associates of Geisinger Lewistown Hospital; GHS; Spirit Physicians Services, Inc. doing business as Geisinger Holy Spirit Medical Group, ARMC, AtlantiCare Physician Group P.A., GJSH, and Geisinger Jersey Shore Hospital Foundation (collectively referred to as the "Clinical Enterprise"), including activity between the Clinical Enterprise and Geisinger Health Plans. Calculations are based on average daily revenue for the three months prior to statement date.

GEISINGER
CONSOLIDATED BALANCE SHEETS
March 31,
(Dollars In Thousands, Unaudited)

	2018	2017
ASSETS		
Current assets:		
Cash and cash equivalents (a)	\$ 447,541	\$ 291,589
Investments (a)	863,938	780,810
Assets limited as to use - externally designated	8,945	14,425
Accounts receivable, net	616,242	537,055
Inventories and other	184,188	161,346
Total current assets	2,120,854	1,785,225
Long-term investments (a)	2,725,426	2,397,653
Assets limited as to use:		
By Board (a)	277,557	286,757
Externally restricted by donors	112,206	104,990
Other - externally designated	12,406	7,982
Total assets limited as to use, noncurrent	402,169	399,729
Property and equipment	3,562,391	3,326,564
Less: accumulated depreciation and amortization	1,507,549	1,301,556
Net property and equipment	2,054,842	2,025,008
Other assets	372,867	291,324
Assets held in trust	35,865	33,088
Total assets	\$ 7,712,023	\$ 6,932,027
LIABILITIES AND NET ASSETS		
Current liabilities:		
Current installments of long-term debt	\$ 23,033	\$ 22,772
Estimated third-party payor settlements	107,611	125,505
Accounts payable	79,669	75,558
Medical claims payable	181,365	173,371
Accrued expenses and other	693,260	675,384
Total current liabilities	1,084,938	1,072,590
Long-term debt, net of current installments	1,797,614	1,513,359
Other liabilities and contingencies	590,404	648,711
Total liabilities	3,472,956	3,234,660
Net assets:		
Unrestricted	4,061,348	3,527,284
Unrestricted - noncontrolling interest	11,535	13,631
Temporarily and permanently restricted	166,184	156,452
Total net assets	4,239,067	3,697,367
Total liabilities and net assets	\$ 7,712,023	\$ 6,932,027

(a) Unrestricted cash, investments and designated by Board total \$4,314,462 and \$3,756,809, respectively at March 31, 2018 and 2017.

GEISINGER
CONSOLIDATED STATEMENTS OF OPERATIONS AND
CHANGES IN NET ASSETS

For the Nine Months Ended March 31,
(Dollars In Thousands, Unaudited)

	2018	2017
Unrestricted net assets		
Revenue		
Patient service revenue, net of contractual allowances and discounts	\$ 2,753,703	\$ 2,577,025
Provision for bad debts	(96,902)	(37,433)
Net patient service revenue less provision for bad debts	2,656,801	2,539,592
Premium revenue	2,260,683	2,000,554
Other revenue	212,484	172,873
	5,129,968	4,713,019
 Expenses		
Salaries and benefits	2,163,787	2,001,587
Medical Claims	1,261,261	1,124,816
Supplies and other	1,370,859	1,315,317
Depreciation and amortization	188,200	165,554
	4,984,107	4,607,274
 Operating income	\$ 145,861	\$ 105,745

GEISINGER
CONSOLIDATED STATEMENTS OF OPERATIONS AND
CHANGES IN NET ASSETS

For the Nine Months Ended March 31,

(Dollars In Thousands, Unaudited)

	<u>2018</u>	<u>2017</u>
Operating income (brought forward)	\$ 145,861	\$ 105,745
Investing and financing activities:		
Net realized investment earnings	65,945	(4,833)
Net unrealized investment earnings	194,155	229,562
Net investment earnings	260,100	224,729
Interest expense	(42,899)	(31,516)
Unrealized gain on derivatives	5,737	9,048
Contribution (expense) from acquisitions	(11,854)	47,617
Loss on extinguishment of debt	-	(2,829)
Gain from investing and financing activities	211,084	247,049
Nonoperating losses, net	(35)	(35)
Excess of revenue and gains over expenses and losses	356,910	352,759
Other changes in unrestricted net assets:		
Unrealized gain on derivatives	4,014	10,315
Net assets released from restriction, capital purchases	2,361	3,244
Net asset transfers for underwater endowments	4	(39)
Net (distributions) contributions from noncontrolling interest	(3,055)	(3,106)
Changes in equity-based compensation	343	295
Other	(2,841)	-
Increase in unrestricted net assets	357,736	363,468
<u>Changes in restricted net assets:</u>		
Contributions, net of uncollectibles	5,765	9,328
Contribution from acquisitions	17	12,218
Net investment gains	8,468	6,979
Net asset transfers for underwater endowments	(4)	39
Net assets released from restriction, fund operations	(2,391)	(10,286)
Net assets released from restriction, capital purchases	(2,361)	(3,244)
Increase (decrease) in restricted net assets	9,494	15,034
Increase in net assets	367,230	378,502
Net assets at beginning of year	3,871,837	3,318,865
Net assets at end of year	<u>\$ 4,239,067</u>	<u>\$ 3,697,367</u>

GEISINGER
CONSOLIDATED STATEMENTS OF CASH FLOW
For the Nine Months Ended March 31,
(Dollars In Thousands, Unaudited)

	<u>2018</u>	<u>2017</u>
Operating activities		
Increase in net assets	\$ 367,230	\$ 378,502
Change in net assets attributable to noncontrolling interest	890	1,105
Change in net assets attributable to Geisinger	368,120	379,607
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	188,200	165,554
Provision for bad debts	97,194	37,467
Change in value of derivatives	(9,751)	(19,363)
Net realized loss (gain) on investments	(67,655)	35,612
Net unrealized gain on investments	(200,952)	(237,091)
(Contribution) expense from acquisition, net of cash received	12,423	(49,485)
Restricted contributions	(5,765)	(16,307)
Noncontrolling interest	2,166	2,001
Net change in working capital	(167,282)	(84,401)
Other	(66,138)	(2,496)
Net cash provided by operating activities	<u>150,560</u>	<u>211,098</u>
Investing activities		
Additions to property and equipment, net	(152,390)	(214,325)
Sales (purchases) of investments and assets limited as to use	187,647	114,787
Cash paid for acquisitions	-	(29,000)
Net cash provided by (used in) investing activities	<u>35,257</u>	<u>(128,538)</u>
Financing activities		
Proceeds from issuance of debt	13,622	34,750
Repayment of debt	(37,538)	(54,544)
Net distribution to noncontrolling interest	(3,056)	(3,106)
Proceeds from restricted contributions	5,765	16,307
Net cash used in financing activities	<u>(21,207)</u>	<u>(6,593)</u>
Increase in cash and cash equivalents	164,610	75,967
Cash and cash equivalents at beginning of period	282,931	215,622
Cash and cash equivalents at end of period	<u>\$ 447,541</u>	<u>\$ 291,589</u>

GEISINGER
UTILIZATION & PAYOR MIX STATISTICS
For the Nine Months Ended March 31,

	2018	2017
<u>Consolidated Utilization Statistics</u>		
Physically Available Beds (a) (d)	2,050	2,011
Discharges (a) (d)	77,428	74,795
Observations (d)	16,236	16,360
Patient Service Days (a) (d)	344,811	339,142
Average Length of Stay (days) (a) (d)	4.5	4.5
Percent of Occupancy Based on Physically Available Beds (a) (61.4%	61.5%
Outpatient Emergency Room Visits (d)	274,195	259,315
Clinic Outpatient Visits (b) (d)	2,711,134	2,601,944
Patients Active in the Trailing Twelve Months (d)	1,168,902	1,069,851
Managed Care Membership at Period End	580,378	586,693
Population Managed (c) (d)	1,413,464	1,371,261
<u>Consolidated Payor Source (gross) (e)</u>		
Medicare	32.8%	33.0%
Medicaid	9.5%	9.6%
Commercial:		
Highmark Blue Cross/Blue Shield	9.2%	9.7%
Capital Blue Cross	2.6%	2.8%
Blue Cross Horizon	2.8%	3.0%
Aetna	1.3%	0.9%
Other Commercial	7.1%	7.1%
Subtotal Commercial	<u>23.0%</u>	<u>23.5%</u>
Self-pay	1.8%	1.7%
Other	3.5%	4.4%
Total non Geisinger Insurance Operations	<u>70.6%</u>	<u>72.2%</u>
Geisinger Health Plans:		
Commercial/TPA	9.6%	9.2%
Medicaid	8.7%	8.2%
Medicare Advantage	11.1%	10.4%
Subtotal Geisinger Health Plans	<u>29.4%</u>	<u>27.8%</u>
Total	<u><u>100.0%</u></u>	<u><u>100.0%</u></u>

- (a) Acute care statistics exclude psychiatry, nursery and skilled nursing and include neonatal intensive care unit activity
- (b) Includes outpatient consultations
- (c) Population managed equals active patients plus members less overlap between patients and members
- (d) Prior year restated
- (e) Only includes Patient Service Revenue of the Clinical Enterprise