



**Quarterly Report Disclosure Information
(Unaudited)**

**Three Months Ended
December 31, 2019**

**In Compliance with Certificates to
Provide Continuing Disclosure and with SEC Rule 15c2-12**



Prisma Health (the "Corporation") provides quarterly disclosure of specified financial information (the "Quarterly Report") in compliance with the Continuing Disclosure Agreements ("CDAs") related to certain bonds issued for the benefit of the Corporation, as well as certain bonds issued by Greenville Health System or Greenville Hospital System Board of Trustees (now known as Greenville Health Authority ("GHA"), as required by Rule 15c2-12 under the Securities Exchange Act of 1934, as amended (the "Rule"). The Quarterly Report disclosure information is filed with the Municipal Securities Rulemaking Board ("MSRB") on its Electronic Municipal Market Access ("EMMA") website.

The consolidated entity includes the parent company, Prisma Health, and its subsidiaries, Prisma Health–Upstate and Subsidiaries and Prisma Health–Midlands and Subsidiaries. The Obligated Group includes Prisma Health, Prisma Health–Upstate, Prisma Health–University Medical Group, Prisma Health–Midlands, and Prisma Health Tuomey.

In September 2019, Prisma Health created a wholly owned captive insurance company, HCD Indemnity Company, LLC. (HCD), for medical stop loss coverage. HCD is included in the consolidated financial statements but is not part of the Obligated Group.

The Quarterly Report includes the following unaudited information for the Corporation:

- Management's Discussion and Analysis
- Consolidated Balance Sheets
- Consolidated Statements of Operations (Revenues and Expenses) and Changes in Net Assets
- Consolidated Statements of Cash Flows
- Summary Utilization Statistics
- Gross Patient Charges (by Type of Third-Party Payor)
- Consolidating Balance Sheet Information
- Consolidating Statement of Operations and Changes in Net Assets Information



Management's Discussion and Analysis

Balance Sheet

The balance sheet remained stable with total assets of \$4.4 billion at December 31, 2019 and \$4.3 billion at December 31, 2018. Assets were comprised primarily of cash and investments, net property and equipment and net patient accounts receivable balances. The unrestricted portion of cash and investments was \$1.7 billion at December 31, 2019 and \$1.5 billion at December 31, 2018, representing 145.9 and 134.4 days' cash on hand, respectively. The increase in days cash on hand was primarily due to approximately \$96.0 million of cash received in February 2019 from the State for the Supplemental Teaching Physician Payment Program. Days in accounts receivable were 56.9 and 56.6 at December 31, 2019 and at December 31, 2018, respectively.

As of December 31, 2019, unrestricted cash and investment assets were primarily invested in liquid vehicles with 100% of all unrestricted cash and 84% of long-term investments available for liquidation within one month. Prisma Health uses external, institutional investment managers and an independent investment consultant to assist in managing and monitoring its long-term investments.

Prisma Health's long-term debt balances (including capital leases) were \$1.5 billion at both December 31, 2019 and December 31, 2018. Leverage remained moderate with debt to total capitalization of 42.5% as of December 31, 2019 compared to 44.9% as of December 31, 2018. Funds held by trustee increased to \$95.4 million at December 31, 2019 compared to \$85.2 million at December 31, 2018. The increase was primarily attributable to interest rate swap collateral balance increases from \$23.6 million at December 31, 2018 to \$59.9 million at December 31, 2019, the result of unfavorable interest rate swap mark-to-market price movements over the year. This increase was partially offset by a \$24.7 million decrease to a funded interest account for routine bondholder interest payments.

Prisma Health has a \$75.0 million revolving credit agreement. At December 31, 2019, no amount is outstanding on the agreement.

Other long-term liabilities were \$529.6 million and \$467.2 million at December 31, 2019 and 2018, respectively. The increase is primarily due to the fair market value of derivative financial instruments and an increase in the net pension liability due to the most recent actuarial analysis of the pension plan. The actuarial analysis at September 30, 2019 reflected a decrease in the discount rate assumption used to determine the pension obligation as a result of lower market interest rates.

Statement of Operations

Prisma Health produced a loss from operations of \$9.3 million for the three months ended December 31, 2019 compared to a \$13.8 million loss for the three months ended December 31, 2018. This resulted in an operating margin of (0.8%) and (1.3%) for the three months ended December 31, 2019 and 2018, respectively.

Total operating revenues were \$88.7 million (8.3%) higher than the prior year primarily as a result of higher patient volumes and collections in the Greenville market. Outpatient visits



were 32,504 (4.9%) higher than prior year but patient days decreased 6,414 (3.9%) compared to prior year. The operating expenses were \$84.2 million (7.8%) higher compared to the prior year primarily due to increased salaries and higher benefits costs associated with market adjustments implemented to better align with industry averages and to be competitive in the market. In addition, supplies and other expense increased, driven by outpatient retail pharmacy spend and higher patient volumes, partially offset by the timing of purchased services.

In January 2020 Prisma Health announced additional measures to improve operating efficiencies and streamline the organization, including eliminating 327 staff from a workforce of 32,000. Since October 1, 2019 management already eliminated 200 positions through attrition, vacancies and consolidation, for a total of 527 positions.

Nonoperating activities had a gain of \$82.9 million for the three months ended December 31, 2019 compared to a loss of \$123.7 million for the three months ended December 31, 2018. The current period gain was primarily attributable to net investment income of \$66.9 million as well as an \$18.6 million unrealized gain in derivative financial instruments. In comparison to the same period last year, the three months ended December 31, 2018 included \$114.8 million of net investment losses, as well as a \$5.8 million unrealized loss on derivative financial instruments.

The net rate of return for investments was +4.3% and -7.5% for the three months ended December 31, 2019 and 2018, respectively. Net investment income of \$66.9 million during the three months ended December 31, 2019 was comprised of \$90.7 million in realized investment gains and \$3.1 million in interest and dividend income, offset by \$26.9 million in net unrealized losses. The three months ended December 31, 2019 reflected higher than usual realized gains due to several manager changes completed in the month of December. Long-term investments performed similarly to broad market indices representing the asset classes to which the investments were allocated. The long-term investments' asset allocation consists of a mix of 52% equities, 33% fixed income, and 15% alternative investments, and are in compliance with investment policy asset allocation ranges.

The gain from all sources was \$73.6 million compared to the prior year loss of \$137.5 million, resulting in an excess margin of 5.9% and (14.5%), respectively.

Cash Flows

Cash flow used in operations for the three months ended December 31, 2019 totaled \$77.1 million compared with prior year cash flow provided by operations for the three months ended December 31, 2018 of \$53.0 million. This is primarily due to change in operating and nonoperating activities.



Prisma Health committed \$182.8 million and \$193.8 million for capital expenditures in Fiscal Years 2020 and 2019, respectively. This includes capital projects and routine capital on the various campuses and associated physician practices. As of December 31, 2019 and 2018, approximately \$55.3 million and \$37.3 million, respectively, was expended for these purposes.

Adoption of New Leasing Standard

Prisma Health is in the process of adopting the Financial Accounting Standards Board ("FASB") issued ASU 2016-02, *Leases (Topic 842)* and subsequently issued supplemental and/or clarifying ASUs (collectively "ASC 842"). Under ASC 842, lessees will recognize a right-of-use (ROU) asset and a corresponding lease liability for all leases other than leases that meet the definition of a short-term lease. The liability will be equal to the present value of future minimum lease payments. The asset will be based on the liability, subject to adjustment for certain costs. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee will depend on its classification as a finance or an operating lease. Leases will be classified based on criteria similar to those applied in current lease accounting.

A cumulative effect of change in accounting principle was recorded in relation to this adoption for the three months ended December 31, 2019, but additional impacts are anticipated as Prisma Health continues to adopt ASC 842. Full adoption will be reflected within the fiscal year 2020 audited financial statements.



Consolidated Balance Sheets (Unaudited)
As of December 31, 2019 and 2018
(In Thousands)

ASSETS	<u>2019</u>	<u>2018</u>
Current assets:		
Cash and cash equivalents	\$ 66,695	\$ 92,598
Patient accounts receivable, net	631,923	607,575
Inventories of drugs and supplies	94,871	76,570
Other current assets	82,125	116,260
Due from related parties, net	18,328	48,407
Estimated third-party payor settlements	15,734	83,261
Total current assets	<u>909,676</u>	<u>1,024,671</u>
Assets limited as to use:		
Held by trustee for debt service and swap collateral	95,431	85,154
Total assets limited as to use	<u>95,431</u>	<u>85,154</u>
Property and equipment, net	1,540,923	1,531,074
Investments in joint ventures	29,280	33,833
Investments	1,684,475	1,474,637
Other assets	106,515	103,410
Total assets	<u><u>\$ 4,366,300</u></u>	<u><u>\$ 4,252,779</u></u>
 LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 98,844	\$ 138,409
Accrued liabilities	290,060	324,369
Current portion of capital lease obligations	3,321	1,013
Current portion of long-term debt	10,245	20,682
Total current liabilities	<u>402,470</u>	<u>484,473</u>
Long-term debt, net	1,399,165	1,419,362
Capital lease obligations, net	52,455	50,256
Other long-term liabilities	529,575	467,222
Total liabilities	<u>2,383,665</u>	<u>2,421,313</u>
Net assets:		
Without donor restriction	1,881,997	1,733,871
With donor restriction	100,638	97,595
Total net assets	<u>1,982,635</u>	<u>1,831,466</u>
Total liabilities and net assets	<u><u>\$ 4,366,300</u></u>	<u><u>\$ 4,252,779</u></u>



Consolidated Statements of Operations (Revenues and Expenses) (Unaudited)
For the Three Months Ended December 31, 2019 and 2018
(In Thousands)

	2019	2018
Revenue, gains and other support:		
Net patient service revenue	\$ 1,074,139	\$ 992,269
Other revenue	82,288	75,423
Net assets released from restrictions used for operations	2,798	2,852
Total revenue, gains and other support	1,159,225	1,070,544
Expenses:		
Salaries, wages, benefits, and contracted labor	657,235	601,405
Supplies and other expenses	451,016	422,855
Depreciation	47,045	48,441
Interest and amortization	13,250	11,655
Total expenses	1,168,546	1,084,356
Operating loss	(9,321)	(13,812)
Nonoperating income (expenses):		
Investment income (loss), net	66,914	(114,806)
Net change in unrealized gain (loss) on derivative financial instruments	18,648	(5,814)
Gain on debt extinguishment	-	318
Contributions awarded and received, net	(887)	(1,142)
Contributions expense - Greenville Health Authority, Healthy Greenville	(1,185)	(1,200)
Other	(545)	(1,070)
Total nonoperating income (expenses)	82,945	(123,714)
Revenue and gains greater (less) than expenses and losses	\$ 73,624	\$ (137,526)



Consolidated Statements of Changes in Net Assets (Unaudited)
For the Three Months Ended December 31, 2019 and 2018
(In Thousands)

	<u>2019</u>	<u>2018</u>
Net assets without donor restrictions:		
Revenue and gains greater (less) than expenses and losses	\$ 73,624	\$ (137,526)
Cumulative effect of change in accounting principle	26,400	-
Increase (decrease) in interest in affiliated foundations	902	(1,641)
Net adjustment for defined benefit plan	4,313	8,205
Net assets released from restrictions used for capital	320	136
Other	<u>6,600</u>	<u>(1,605)</u>
Increase (decrease) in net assets without donor restrictions	112,159	(132,431)
Net assets with donor restrictions:		
Increase in interest in affiliated foundations	1,493	100
Investment income, net	354	98
Contributions, net	4,542	3,805
Capital contributions	320	136
Other	(7)	549
Net assets released from restrictions used for capital	(320)	(136)
Net assets released from restrictions used for operations	<u>(2,798)</u>	<u>(2,852)</u>
Increase in net assets with donor restrictions	3,584	1,700
Increase (decrease) in net assets	115,743	(130,731)
Net assets at beginning of year	<u>1,866,892</u>	<u>1,962,197</u>
Net assets at end of year	<u>\$ 1,982,635</u>	<u>\$ 1,831,466</u>



Consolidated Statements of Cash Flows (Unaudited)
For the Three Months Ended December 31, 2019 and 2018
(In Thousands)

	2019	2018
Cash flows from operations:		
Increase (decrease) in net assets	\$ 115,743	\$ (130,731)
Adjustments to reconcile increase (decrease) in net assets to net cash (used in) provided by operating activities:		
(Increase) decrease in interest in affiliated foundations	(2,395)	1,541
Loss (gain) on equity method investments	195	(252)
Net change in unrealized (gain) loss on derivative financial instruments	(18,648)	5,814
Depreciation, amortization and accretion	46,629	47,687
Loss (gain) on the disposal of property and equipment	1,299	(44)
Gain on extinguishment of debt	-	(318)
Cumulative effect of change in accounting principle	(26,400)	-
Monetization gain	-	(701)
Net adjustment for defined benefit plans	(4,313)	(8,205)
Changes in operating assets and liabilities:		
Patient accounts receivable, net	(16,953)	806
Estimated third party payor settlements	(374)	2,028
Trading investments	(62,675)	161,849
Accounts payable	(25,989)	46,211
Other assets	(9,776)	(68,725)
Other liabilities	(73,446)	(3,953)
Net cash (used in) provided by operating activities	(77,103)	53,007
Cash flows from investing activities:		
Additions to property and equipment	(55,323)	(37,259)
Proceeds from sale of property and equipment	18	8
Net cash used in investing activities	(55,305)	(37,251)
Cash flows from financing activities:		
Proceeds from line of credit	-	30,000
Contribution to Greenville Health Authority, Healthy Greenville	(4,000)	(4,000)
Capital lease obligation payments	(799)	(253)
Net cash (used in) provided by financing activities	(4,799)	25,747
Net (decrease) increase in cash and cash equivalents	(137,207)	41,503
Cash and cash equivalents, beginning of period	220,112	110,554
Cash and cash equivalents, end of period	\$ 82,905	\$ 152,057
Reconciliation of cash and cash equivalents:		
Cash and cash equivalents in current assets	\$ 66,695	\$ 92,598
Cash and cash equivalents in assets limited as to use	16,210	59,459
	\$ 82,905	\$ 152,057



**Summary Utilization Statistics and Gross Patient Charges (Unaudited)
For the Three Months Ended December 31, 2019 and 2018**

<u>Summary of Utilization Statistics</u>	<u>2019</u>	<u>2018</u>
Number of hospitals - acute	11	11
Licensed beds	2,984	2,998
Available beds	2,635	2,572
Percent occupancy - licensed beds	58.3%	60.4%
Percent occupancy -available beds	66.0%	70.4%
Patient days	160,081	166,495
Patient days - acute	144,392	149,455
Discharges	29,983	29,796
Discharges - acute	29,547	29,332
Average length of stay	5.34	5.59
Average length of stay - acute	4.89	5.10
Acute Medicare case mix index	1.94	1.99
Newborn deliveries	3,753	3,840
Inpatient surgical procedures	8,187	7,917
Outpatient surgical procedures	18,614	18,133
Emergency department visits	135,087	130,792
Outpatient visits (including emergency department visits)	700,158	667,654
Physician visits ¹	1,271,644	1,164,707

¹ Includes physician visits for Prisma Health USC Medical Group, a joint venture of Prisma Health–Midlands

<u>Gross Patient Charges (by Type of Third Party Payor)</u>	<u>2019</u>	<u>2018</u>
Medicare	41.4%	41.2%
Medicaid	16.8%	16.6%
Managed Care	29.1%	29.5%
Self Pay/Charity	8.2%	8.1%
Other	4.5%	4.6%
Total	<u>100.0%</u>	<u>100.0%</u>



Consolidating Balance Sheet Information (Unaudited)
As of December 31, 2019
(In Thousands)

	OBLIGATED GROUP	NON- OBLIGATED ENTITIES	ELIMINATIONS	CONSOLIDATED 12/31/2019
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 54,551	\$ 12,144	\$ -	\$ 66,695
Patient accounts receivable, net	621,310	10,613	-	631,923
Inventories of drugs and supplies	87,947	6,924	-	94,871
Other current assets	81,442	683	-	82,125
Due to/from related parties	21,737	(3,409)	-	18,328
Estimated third-party payor settlements	15,734	-	-	15,734
Total current assets	<u>882,721</u>	<u>26,955</u>	<u>-</u>	<u>909,676</u>
Assets limited as to use:				
Held by trustee for debt service and swap collateral	95,431	-	-	95,431
Total assets limited as to use	<u>95,431</u>	<u>-</u>	<u>-</u>	<u>95,431</u>
Property and equipment, net	1,539,761	1,162	-	1,540,923
Investments in joint ventures	15,898	13,382	-	29,280
Investments	1,660,791	23,684	-	1,684,475
Other assets	105,258	1,257	-	106,515
Total assets	<u>\$ 4,299,860</u>	<u>\$ 66,440</u>	<u>\$ -</u>	<u>\$ 4,366,300</u>
LIABILITIES AND NET ASSETS				
Current liabilities:				
Accounts payable	\$ 98,765	\$ 79	\$ -	\$ 98,844
Accrued liabilities	288,562	1,498	-	290,060
Current portion of capital lease obligations	3,321	-	-	3,321
Current portion of long-term debt	10,245	-	-	10,245
Total current liabilities	<u>400,893</u>	<u>1,577</u>	<u>-</u>	<u>402,470</u>
Long-term debt, net	1,399,165	-	-	1,399,165
Capital lease obligations, net	52,455	-	-	52,455
Other long-term liabilities	529,574	1	-	529,575
Total liabilities	<u>2,382,087</u>	<u>1,578</u>	<u>-</u>	<u>2,383,665</u>
Net assets:				
Without donor restriction	1,835,820	46,177	-	1,881,997
With donor restriction	81,953	18,685	-	100,638
Total net assets	<u>1,917,773</u>	<u>64,862</u>	<u>-</u>	<u>1,982,635</u>
Total liabilities and net assets	<u>\$ 4,299,860</u>	<u>\$ 66,440</u>	<u>\$ -</u>	<u>\$ 4,366,300</u>



Consolidating Statement of Operations and Changes in Net Assets Information (Unaudited)
For the Three Months Ended December 31, 2019
(In Thousands)

	OBLIGATED GROUP	NON- OBLIGATED ENTITIES	ELIMINATIONS	CONSOLIDATED 12/31/2019
Revenue, gains and other support:				
Net patient service revenue	\$ 1,074,139	\$ -	\$ -	\$ 1,074,139
Other revenue	55,553	31,555	(4,820)	82,288
Net assets released from restrictions used for operations	2,798	-	-	2,798
Total revenue, gains and other support	<u>1,132,490</u>	<u>31,555</u>	<u>(4,820)</u>	<u>1,159,225</u>
Expenses:				
Salaries, wages, benefits, and contracted labor	654,052	3,665	(482)	657,235
Supplies and other expenses	431,212	24,142	(4,338)	451,016
Depreciation	46,995	50	-	47,045
Interest and amortization	13,250	-	-	13,250
Total expenses	<u>1,145,509</u>	<u>27,857</u>	<u>(4,820)</u>	<u>1,168,546</u>
Operating (loss) income	<u>(13,019)</u>	<u>3,698</u>	<u>-</u>	<u>(9,321)</u>
Nonoperating income (expenses):				
Investment income, net	65,514	1,400	-	66,914
Net change in unrealized gain on derivative financial instruments	18,648	-	-	18,648
Contributions awarded and received, net	(887)	-	-	(887)
Contribution expense - Greenville Health Authority, Healthy Greenville	(1,185)	-	-	(1,185)
Other	(545)	-	-	(545)
Total nonoperating income	<u>81,545</u>	<u>1,400</u>	<u>-</u>	<u>82,945</u>
Revenues and gains greater than expenses and losses	68,526	5,098	-	73,624
Cumulative effect of change in accounting principle	26,400	-	-	26,400
Parent/subsidiary equity transaction	(269)	269	-	-
Increase in interest in affiliated foundations	902	-	-	902
Net adjustment for defined benefit plan	4,313	-	-	4,313
Net assets released from restrictions used for capital	320	-	-	320
Other	10,583	(3,983)	-	6,600
Increase in net assets without donor restrictions	<u>110,775</u>	<u>1,384</u>	<u>-</u>	<u>112,159</u>
Net Assets with Donor Restrictions:				
Increase in interest in affiliated foundations	1,493	-	-	1,493
Investment income, net	170	184	-	354
Contributions, net	4,123	419	-	4,542
Capital contributions	320	-	-	320
Other	(6)	(1)	-	(7)
Net assets released from restrictions used for capital	(320)	-	-	(320)
Net assets released from restrictions used for operations	(2,798)	-	-	(2,798)
Increase in net assets with donor restrictions	<u>2,982</u>	<u>602</u>	<u>-</u>	<u>3,584</u>
Increase in net assets	113,757	1,986	-	115,743
Net assets at beginning of year	1,804,016	62,876	-	1,866,892
Net assets at end of year	<u>\$ 1,917,773</u>	<u>\$ 64,862</u>	<u>\$ -</u>	<u>\$ 1,982,635</u>