Scripps

Obligated Group Financial Statements

1st Quarter
December 31, 2017

Scripps

Scripps Health
Obligated Group

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For the Quarter and Three Months Ended December 31, 2017

SCRIPPS HEALTH
OBLIGATED GROUP
STATEMENTS OF FINANCIAL POSITION
December 31, 2017
($000s)

	December 2017	December 2016	September 2017
ASSETS			
Current Assets:			
Cash and Cash Equivalents	$ 244,899	$ 192,615	$ 233,970
Accounts Receivable, Net	398,062	349,194	404,777
Assets Limited As To Use	10	9	12,557
Other Current Assets	191,132	169,925	142,164
Total Current Assets	**834,103**	**711,743**	**793,468**
Investments:			
Assets Limited As To Use	220,860	207,926	214,416
Unrestricted	2,382,147	2,208,153	2,313,349
Property, Plant and Equipment	3,455,987	3,221,561	3,397,861
Less Accumulated Depreciation	(1,693,137)	(1,554,367)	(1,651,232)
Property, Plant and Equipment, Net	**1,762,850**	**1,667,194**	**1,746,629**
Other Assets	153,267	149,700	156,190
Total Assets	**$ 5,353,226**	**$ 4,944,716**	**$ 5,224,052**
LIABILITIES AND EQUITY			
Current Liabilities:			
Current Portion of Long-term Debt	$ 33,304	$ 133,300	$ 33,092
Line of Credit	-	35,976	-
Accounts Payable	155,201	136,899	106,427
Accrued Liabilities	277,306	247,193	263,000
Total Current Liabilities	**465,812**	**553,369**	**402,519**
Long Term Debt	964,231	868,790	994,604
Other Liabilities	104,138	104,342	115,356
Total Liabilities	**1,534,181**	**1,526,502**	**1,512,479**
Equity:			
Unrestricted	3,611,964	3,221,939	3,509,391
Temporarily Restricted	120,149	109,766	115,358
Permanently Restricted	86,932	86,509	86,824
Total Equity	**3,819,045**	**3,418,214**	**3,711,573**
Total Liabilities and Equity	**$ 5,353,226**	**$ 4,944,716**	**$ 5,224,052**

SCRIPPS HEALTH
OBLIGATED GROUP
STATEMENT OF OPERATIONS
($000s)

	FOR THE THREE MONTHS ENDED	
	December 31, 2017	December 31, 2016
Operating revenues:		
Net patient service revenue, net of contractual allowances and discounts	$ 624,020	$ 622,314
Provision for bad debts	(7,147)	(12,330)
Net patient service revenue less provision for bad debts before provider fee	616,873	609,984
Provider fee	57,315	41,804
Net patient service revenue	674,188	651,789
Capitation premium	36,106	31,935
Other	24,787	25,000
Meaningful use	28	(238)
Net assets released from restrictions used for operations	5,205	5,573
Total operating revenues	740,315	714,059
Operating expenses:		
Wages and benefits	315,873	296,228
Supplies	125,161	122,805
Physician services	110,200	101,154
Other services	77,892	72,055
Provider fee	56,443	36,458
Capitation services	2,517	1,165
Depreciation and amortization	41,928	37,488
Interest	6,851	7,009
Restructuring	1,418	14
Total operating expenses	738,283	674,376
Operating income before corporate overhead allocation & income tax	2,032	39,684
Corporate overhead allocation	400	1,600
Operating income after corporate overhead allocation & income tax	2,432	41,283
Nonoperating gains (losses):		
Interest and dividends	17,201	11,455
Realized gains	8,159	318
Unrealized gains on trading portfolio	48,318	13,275
Contributions	775	849
Interest rate swaps	484	8,180
Excess of revenues over expenses	$ 77,369	$ 75,361

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SCRIPPS HEALTH
OBLIGATED GROUP
STATEMENTS OF CHANGES IN NET ASSETS
($000s)

	FOR THE THREE MONTHS ENDED December 31, 2017	FOR THE THREE MONTHS ENDED December 31, 2016
Unrestricted net assets:		
Excess of revenues over expenses attributable to controlling interests	$ 77,369	$ 75,361
Net assets released from restrictions used for purchase of property & equipment	23,242	1,028
Other	1,365	(51)
Increase in unrestricted net assets	101,976	76,338
Temporarily restricted net assets:		
Contributions	29,004	6,655
Interest and dividends	906	604
Realized gains (losses)	530	(12)
Unrealized losses on trading portfolio	2,566	455
Net assets released from restrictions used for operations	(5,205)	(5,573)
Net assets released from restrictions used for purchases of property & equipment	(23,242)	(1,028)
Change in value of deferred gifts	236	(68)
Other	(5)	12
Increase in temporarily restricted net assets	4,791	1,044
Permanently restricted net assets:		
Contributions	1	2
Change in value of deferred gifts	107	1
Increase in permanently restricted net assets	108	3
Total increase in net assets	$ 106,874	$ 77,385

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SCRIPPS HEALTH
OBLIGATED GROUP
STATEMENT OF CASH FLOWS
($000)

	For the Three Months Ended	
	December 31, 2017	December 31, 2016
Operating activities and nonoperating gains		
Total increase in net assets	$106,874	$77,385
Reconciliation of total change in net assets to cash flows provided by (used in) operating activities and nonoperating gains and losses:		
Depreciation and amortization	41,928	37,488
Amortization of debt issuance costs	87	(114)
Amortization of original issue premium	(147)	(147)
Provision for bad debts	7,147	12,329
Realized and unrealized gains on investments	(59,573)	(14,037)
Purchases of investments designated as trading	(55,927)	(167,578)
Proceeds from sale of investments designated as trading	46,702	162,461
Interest rate swaps	(1,364)	(8,180)
Gain on disposal of property	(464)	(299)
Restricted contributions and investment income	(30,441)	(7,249)
Change in assets and liabilities:		
Accounts receivables - net	(432)	(41,640)
Other current assets	(48,968)	(29,308)
Other assets	2,957	664
Accounts payable and accrued liabilities	60,329	671
Other liabilities	(10,619)	206
Net cash provided by operating activities:	58,090	22,653
Investing activities:		
Purchases of property, plant and equipment	(53,541)	(51,385)
Assets limited as to use	6,103	8,380
Net cash used in investing activities:	(47,437)	(43,004)
Financing activities:		
Proceeds from restricted contributions and investment income	30,373	9,688
Payments on notes / lease payable	(936)	(1,037)
Payments on long-term debt	(29,165)	(18,640)
Proceeds from sale of donated financial assets	4	-
Net cash provided by (used in) financing activities:	276	(9,989)
Increase (decrease) in cash and cash equivalents	10,929	(30,341)
Cash and cash equivalents at beginning of period	233,970	222,955
Cash and cash equivalents at end of period	$244,899	$192,615

SCRIPPS HEALTH
OBLIGATED GROUP
NOTES TO THE OBLIGATED GROUP FINANCIAL STATEMENTS
(UNAUDITED)

NOTE (1) SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

Basis of Presentation

In the opinion of management, all adjustments, consisting of normal recurring adjustments necessary for the fair presentation of the statements of financial position and results of operations as of and for the quarter ended December 31, 2017 and 2016 as well as for the year-to-date September 30, 2017 have been made.

NOTE (2) FAIR VALUE MEASUREMENTS

The Organization accounts for certain assets and liabilities at fair value. A fair value hierarchy for valuation inputs prioritizes the inputs into three levels based on the extent to which inputs used in measuring fair value are observable in the market. Each fair value measurement is reported in one of the three levels and is determined by the lowest level input that is significant to the fair value measurement in its entirety. These levels are:

Level 1: Quoted prices are available in active markets for identical assets or liabilities as of the measurement date. Financial assets and liabilities in Level 1 include U.S. and foreign equity securities.

Level 2: Pricing inputs are based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the asset or liabilities. Financial assets and liabilities in this category generally include U.S. and foreign government securities, asset-backed securities, U.S. and foreign corporate bonds and loans, municipal bonds, commingled funds, interest rate swaps, real estate, land held for sale and annuity/unitrust liabilities.

Level 3: Pricing inputs are generally unobservable for the assets or liabilities and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require management's judgment or estimation of assumptions that market participants would use in pricing the assets or liabilities. The fair values are therefore determined using factors that involve considerable judgment and interpretations, including but not limited to, private and public comparables, third-party appraisals, discounted cash flow models, and fund manager estimates. There are no Level 3 financial assets or liabilities at December 31, 2017 and September 30, 2017.

Assets and liabilities measured at fair value are based on one or more of the three valuation techniques. The three valuation techniques are identified in the tables below. Where more than one technique is noted, individual assets or liabilities were valued using one or more of the noted techniques. The valuation techniques are as follows:

a) Market approach. Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.

b) Cost approach. Amount that would be required to replace the service capacity of asset (replacement cost).

c) Income approach. Techniques to convert future amounts to a single present amount based on market expectations (including present value techniques, option-pricing, and excess earnings models).

The following represents financial assets and liabilities measured at fair value on a recurring basis as of December 31, 2017 (in thousands). Alternative investments are accounted for using net asset value (NAV) of accounting, which is not a fair value measurement.

	December 31, 2017	Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	NAV	Valuation Technique (a, b, c)
Assets					
Investments:					
Liquid investments:					
Cash equivalents	$ 10,343	$ 10,343	$ -	$ -	a
Equity securities:					
U.S. equity	538,043	538,043	-	-	a
Foreign equity	452,618	452,618	-	-	a
Foreign equity (commingled)	288,471	-	288,471	-	a
	1,279,132	990,661	288,471	-	
Fixed income securities:					
U.S. government	66,319	-	66,319	-	a
U.S. government agencies	5,349	-	5,349	-	a
U.S. federal agency mortgage-backed	59,415	-	59,415	-	a
U.S. corporate	465,638	-	465,638	-	a
U.S. corporate (commingled)	247,656	-	247,656	-	a
Foreign corporate	15,182	-	15,182	-	a
	859,559	-	859,559	-	
Other investments:					
Multi-strategy hedge funds	397,884	-	-	397,886	a
Private equity funds	49,290	-	-	49,290	a
Real estate	6,809	-	6,809	-	a
	453,983	-	6,809	447,176	
Total investments	2,603,017	1,001,004	1,154,839	447,176	
Land held for sale	3,333	-	3,333	-	a
Total assets at fair value	$ 2,606,352	$ 1,001,004	$ 1,158,172	$ 447,176	
Liabilities					
Current liabilities:					
Swap hedge	$ 18,716	$ -	$ 18,716	$ -	c
Other liabilities:					
Annuity/unitrust liabilities	11,173	-	11,173	-	c
Total liabilities at fair value	$ 29,889	$ -	$ 29,889	$ -	

The following represents financial assets and liabilities measured at fair value on a recurring basis as of September 30, 2017 (in thousands). Alternative investments are accounted for using NAV of accounting, which is not a fair value measurement.

	September 30, 2017	Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	NAV	Valuation Technique (a, b, c)
Assets					
Investments:					
Liquid investments:					
Cash equivalents	$ 22,937	$ 22,937	$ -	$ -	a
Equity securities:					
U.S. equity	546,054	546,054	-	-	a
Foreign equity	431,578	431,578	-	-	a
Foreign equity (commingled)	236,840	-	236,840	-	a
	1,214,472	977,632	236,840	-	
Fixed income securities:					
U.S. government	60,109	-	60,109	-	a
U.S. government agencies	6,131	-	6,131	-	a
U.S. federal agency mortgage-backed	56,997	-	56,997	-	a
U.S. corporate	470,806	-	470,806	-	a
U.S. corporate (commingled)	245,630	-	245,630	-	a
Foreign corporate	16,318	-	16,318	-	a
	855,991	-	855,991	-	
Other investments:					
Multi-strategy hedge funds	391,048	-	-	391,047	a
Private equity funds	49,065	-	-	49,065	a
Real estate	6,809	-	6,809	-	a
	446,922	-	6,809	440,112	
Total investments	2,540,322	1,000,569	1,099,640	440,112	
Land held for sale	3,333	-	3,333	-	a
Total assets at fair value	$ 2,543,654	$ 1,000,569	$ 1,102,973	$ 440,112	
Liabilities					
Current liabilities:					
Swap hedge	$ 20,080	$ -	$ 20,808	$ -	c
Other liabilities:					
Annuity/unitrust liabilities	10,977	-	10,977	-	c
Total liabilities at fair value	$ 31,057	$ -	$ 31,057	$ -	

Transfers to/from Levels 1 and 2 are recognized at the end of the reporting period. There were no transfers for the years ended December 31, 2017 and September 30, 2017.

As of December 31, 2017 and September 30, 2017, the Level 2 instruments listed in the fair value hierarchy table above use the following valuation techniques and inputs:

U.S. and Foreign Government Securities

The fair value of investments in U.S. and foreign government securities, classified as Level 2, was primarily determined using techniques consistent with the market approach. Significant observable inputs to the income approach include data points for benchmark constant maturity curves and spreads.

U.S. and Foreign Corporate Bonds

The fair value of the investments in U.S. and foreign corporate bonds, including mutual and commingled funds that invest primarily in such bonds, classified as Level 2 was primarily determined using techniques that are consistent with the market approach. Significant observable inputs include benchmark yields, reported trades, observable broker/dealer quotes, issuer spreads, and security specific characteristics (such as early redemption options).

Real Estate and Land Held for Sale

The fair value of the real estate investments and land held for sale are classified as Level 2 was primarily determined using techniques that are consistent with the market approach. Significant observable inputs include sales of comparable properties, market rents, and market rent growth trends.

Annuity/Unitrust Liabilities

The fair value of the annuity/unitrust liabilities as Level 2 was primarily determined using techniques that are consistent with the income approach. Significant observable inputs to the income approach include data points for benchmark constant maturity curves and spreads.

Commingled Funds

The fair value of commingled fund investments classified as Level 2 was determined using the calculated NAV. The values for underlying investments are fair value estimates determined either internally or by an external fund manager based on recent filings, operating results, balance sheet stability, growth, and other business and market sector fundamentals. Due to the significant unobservable inputs present in these valuations, Scripps Health classifies all such investments as Level 2.

Swap Hedge

The fair value of the swap hedge liability classified as Level 2 is based on independent valuations obtained and is determined by calculating the fair value of the discounted cash flows of the differences between the fixed interest rate of the interest rate swaps and the counterparty's forward LIBOR curve, which is the input used in the valuation, taking also into account any nonperformance risk.

Included within the assets above are investments in certain entities that report fair value using a calculated NAV or its equivalent. The following table and explanations identify attributes relating to the nature and risk of such investments as of December 31, 2017 (in thousands):

NAV Valuation	Fair Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Commingled:				
Equity securities[1]	$ 288,471	$ -	Monthly	10 days
Fixed income securities[2]	247,656	-	Daily	15 days
	$ 536,127	$ -		
Alternative investments:				
Hedge funds[3]	$ 397,886	$ -	Monthly to Bi–Annually	45 to 120 days
Private equity[4]	49,290	34,020	N/A	N/A
	$ 447,176	$ 34,020		

(1) Commingled funds: Equity – This category includes investments in commingled funds with underlying investments that are fair value estimates determined either internally or by an external fund manager based on recent filings, operating results, balance sheet stability, growth and other business and market sector fundamentals. The investments are diversified by geography, sector, and organization. Liquidity is provided on a monthly basis.

(2) Commingled funds: Fixed Income – This category includes investments in one commingled fund with underlying investments that are fair value estimates determined either internally or by an external fund manager based on recent filings, operating results, balance sheet stability, growth, and other business and market sector fundamentals. The investments are diversified by geography, sector, maturity, and issue. Liquidity is provided on a daily basis. As of December 31, 2017, the category consisted of 100% daily liquidity.

(3) Hedge funds – This category includes investments in eleven multi-strategy funds with underlying investments that are fair value estimates determined by a third-party administrator based on recent filings, operating results, balance sheet stability, growth, and other business and market sector fundamentals. The investments are diversified by geography, sector, and organization. Liquidity is provided on a monthly, quarterly, and annual basis. As of December 31, 2017, the category consisted of 27.3% monthly liquidity, 54.5% quarterly liquidity, 9.1% annual liquidity and 9.1% biannual liquidity.

(4) Private equity – This category includes investments in six private equity funds with underlying investments that are fair value estimates determined either internally or by a third-party administrator based on recent filings, operating results, balance sheet stability, growth, and other business and market sector fundamentals. The investments are diversified by geography, sector, maturity, and issue. All funds have liquidity in excess of one year.

NOTE (3) ENDOWMENTS

The Organization's endowments consist of 87 individual funds as of December 31, 2017 and 2016, respectively, established for a variety of purposes. Net assets associated with the endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

California Senate Bill No. 1329 enacted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) for California. The Board of Trustees of the Organization has interpreted this as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of the interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence described by UPMIFA. In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) duration and preservation of the fund, (2) purposes of the Organization and the donor-restricted endowment fund, (3) general economic conditions, (4) possible effect of inflation or deflation, (5) expected total return from income and the appreciation of investments, (6) other resources of the Organization, and (7) investment policies of the Organization.

From time to time, the fair value of assets associated with individual endowment funds may fall below the level that the donor or UPMIFA requires the Organization to retain as a fund of perpetual duration.

The Organization 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. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results while assuming a moderate level of investment risk. The Organization expects its endowment funds, over time, to provide an average rate of return of approximately 5% over the rate of inflation annually. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation that places an emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

The Organization has a policy of appropriating for distribution each year 4% (with an additional 1% administrative fee) of its endowment fund's average fair value over the prior three-year rolling average market values. In establishing this policy, the Organization considered the long-term expected return on its endowment. Accordingly, over the long term, the Organization expects the current spending policy to allow its endowment to grow at an average of 3% to 4% annually, above inflation. This is consistent with the

Organization's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

Changes in endowment net assets for the three months ended December 31, 2017, are as follows (in thousands):

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets as of September 30, 2017	$ 36,850	$ 86,824	$ 123,674
Investment return:			
Investment income	883	-	883
Net appreciation (realized and unrealized)	2,767	-	2,767
Total investment return	3,650	-	3,650
Contributions	-	1	1
Appropriation of endowment assets for expenditure	(3,428)	-	(3,428)
Other changes	-	107	107
Endowment net assets as of December 31, 2017	$ 37,072	$ 86,932	$ 124,004

Changes in endowment net assets for the three months ended December 31, 2016, are as follows (in thousands):

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets as of September 30, 2016	$ 28,723	$ 86,506	$ 115,229
Investment return:			
Investment income	586	–	586
Net appreciation (realized and unrealized)	542	–	542
Total investment return	1,128	-	1,128
Contributions	-	2	2
Appropriation of endowment assets for expenditure	(3,904)	–	(3,904)
Other changes	–	1	1
Endowment net assets as of December 31, 2016	$ 25,947	$ 86,509	$ 112,456

NOTE (4) GOODWILL

Intangible Assets (Including Goodwill)

Impairment assessments of the carrying amount of goodwill are completed annually, or whenever impairment indicators are present for SMF, which includes Scripps Clinic and Scripps Coastal Medical Centers. At December 31, 2017 and September 30, 2017 the amount of goodwill totaled approximately $58,310,000. No impairment or additions to goodwill were recorded for the three months ended December 31, 2017.

NOTE (5) SUBSEQUENT EVENTS

Scripps Health has evaluated subsequent events occurring between the quarter ended December 31, 2017 and January 31, 2018, the date the financial statements were issued.

SCRIPPS HEALTH

OBLIGATED GROUP FINANCIAL STATEMENTS

MANAGEMENT DISCUSSION AND ANALYSIS

FOR THE QUARTER AND THREE MONTHS ENDED DECEMBER 31, 2017

	For the Quarter Ended ($000s)	
	December 31, 2017	December 31, 2016
	Actual	Actual
Operating Revenue	$740,315	$714,059
Operating Revenue (Excluding Provider Fee)	$683,000	$672,255
Operating Income	$2,432	$41,283
Operating Income (Excluding Net Proceeds from Provider Fee)	$1,560	$35,938
Operating Margin	0.3%	5.8%
Operating Margin (Excluding Net Proceeds from Provider Fee)	0.2%	5.3%
Operating EBITDA	$51,211	$85,780
Operating EBITDA (Excluding Net Proceeds from Provider Fee)	$50,339	$80,435
Operating EBITDA Margin	6.9%	12.0%
Operating EBITDA Margin (Excluding Net Proceeds from Provider Fee)	7.4%	12.0%
Excess Margin	$77,369	$75,361
Excess Margin %	9.5%	10.1%

Operating revenue for the quarter ended December 31, 2017 was $26,256,000 or 3.7% higher than the quarter ended December 31, 2016 primarily attributable to higher provider fee revenue and hospital inpatient volumes.

Operating expenses for the quarter ended December 31, 2017 were $63,908,000 or 9.5% higher than the quarter ended December 31, 2016 primarily attributable to $19,984,000 increase in provider fee expense, $19,645,000 increase in wages and benefits due to impact of higher inpatient volumes and merit increases, $9,046,000 increase in physician services expense based on provider service agreement at Scripps Clinic, $5,837,000 in other services primarily due to increases in malpractice expense, repairs & maintenance, and $4,440,000 increase in depreciation and amortization due to go-live of Epic starting in April 1, 2017.

Excess margin for the quarter ended December 31, 2017 compared to the quarter ended December 31, 2016 was $2,008,000 higher than prior year primarily attributable to a $48,630,000 increase in realized and unrealized investment income, partially offset by a $38,851,000 decrease in operating income and a $7,696,000 decrease in gain on the interest rate swaps.

	December 31, 2017	December 31, 2016	September 30, 2017
Unrestricted Cash & Investments ($000s)	$ 2,627,045	$ 2,400,767	$ 2,547,319
Days Unrestricted Cash on Hand *	384.5	372.7	379.0
Days in AR, Net *	59.4	52.7	61.6
Accounts Payable & Accrued Liabilities ($000s)*	$ 369,415	$ 362,803	369,427
Days in AP & Accrued Liabilities *	53.1	55.7	55.0
Unrestricted Cash & Investments to Total Debt	263.4%	231.3%	247.9%
Long Term Debt ($000s)	$ 964,231	$ 868,790	$ 994,604
Current Portion of Long-Term Debt ($000s)	$ 33,304	$ 169,276	$ 33,090
Total Debt ($000s)	$ 997,536	$ 1,038,066	$ 1,027,694
Debt to Capitalization	21.6%	24.4%	22.7%

* Amounts and ratios exclude the impact of provider tax revenues and expenses.

SIGNIFICANT TRANSACTIONS

Tax Exempt Bonds

In October 2017, Scripps Health made scheduled annual bond principal payments amounting to $26,125,000, which included $13,765,000 on the 2008A and 2008G tax-exempt bond series and $12,360,000 on the 2016A and 2016B tax-exempt bond series. In November 2017, Scripps Health made scheduled annual principal payments amounting to $3,040,000 on the 2010A tax-exempt bond series.

Provider Fee Program

Scripps is waiting for a final financial model for a calendar year 2017-2019 provider fee program as well as the timing of cash receipts and payments. CHA released a draft version of the 2017-2019 QAF model. In FY2018, Scripps Health recognized $872,000 net program income based on preliminary CHA model for 2017-2019 Provider Fee Program as follows:

Medi-Cal Supplemental Provider Fee Schedule for 2017-2019 Program For the Three Months Ended 12/31/17 ($000s)				
Hospitals	Supplemental Revenue	Provider Fee	CHFT Fee	Net Operating Income (Loss)
La Jolla	$ 5,564	$ (11,256)	$ -	$ (5,692)
Green	-	-	-	-
Encinitas	3,433	(7,769)	-	(4,336)
Mercy	48,318	(37,319)	(99)	10,900
Hospitals	$ 57,315	$ (56,344)	$ (99)	$ 872

Epic

On April 30, 2015, the Board of Trustees of Scripps Health approved the implementation of an integrated information platform for Scripps Health inpatient and ambulatory Electronic Health Record ("EHR") and revenue cycle management system ("Epic Capital Project"), in accordance with the project plan, cost model, and timeline presented by management. Epic Systems Corporation was selected as the vendor for the new Scripps EHR and revenue cycle system. Accordingly, the Chief Executive Officer of Scripps Health executed the License and Support Agreement with Epic Systems Corporation for the project plan, implementation cost, and system support, as described and recommended by Management.

The project has an approved capital plan budget of $308.6 million and an estimated operating cost of $360.5 million over 10 years ($279.5 million and $174.9 million respectively, net of savings from retiring the software applications being replaced by the Epic implementation).

As of December 2017 life-to-date, Scripps Health has capitalized $233.3 million of related costs and incurred $47.5 million of related operating expenses. The capital costs to date are accumulated in designated CIP accounts on the balance sheet until various modules of the EHR and revenue cycle system are placed in service (system go-live dates). At in-service date(s), Scripps will record identifiable equipment and software assets from CIP and will begin depreciating these assets on a straight line basis over the estimated useful lives of the EHR and revenue cycle system modules.

Wave 1 go live, which occurred on April 1, 2017, included Green Hospital and the majority of Scripps Medical Foundation. Wave 2, scheduled for April 7, 2018 will include La Jolla Memorial Hospital and Encinitas Memorial Hospital. Wave 3, Scheduled for October 6, 2018 will include Mercy San Diego and Mercy Chula Vista Hospitals, Home Health, and Scripps Laboratory Services.

Purchase and Sale Activity

Rehco Road

On October 30, 2017, the Organization paid $20,262,000 to purchase 8925 and 8945 Rehco Road buildings. The escrow closed on October 31, 2017. These buildings were previously leased and are occupied solely by Scripps Information Services personnel.

Restructuring

Labor force reductions of approximately 70 FTE's occurred in January. A number of individuals have elected early retirement as well, which is expected to take effect in February. Restructuring charges will be taken as these numbers are finalized.