Scripps

Obligated Group Financial Statements

1st Quarter
December 31, 2019

Scripps

Scripps Health
Obligated Group

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For the Quarter Ended December 31, 2019

Scripps

SCRIPPS HEALTH
OBLIGATED GROUP
STATEMENTS OF FINANCIAL POSITION
December 31, 2019
($000s)

	December 2019	December 2018	September 2019
ASSETS			
Current Assets:			
Cash and Cash Equivalents	$ 345,160	$ 233,655	$ 366,595
Accounts Receivable, Net	398,621	409,564	413,011
Assets Limited As To Use	10	9	9
Other Current Assets	194,080	218,974	174,477
Total Current Assets	937,871	862,202	954,092
Investments:			
Assets Limited As To Use	266,032	200,846	248,402
Unrestricted	2,497,365	2,165,327	2,367,235
Property, Plant and Equipment	3,795,583	3,608,196	3,754,870
Less Accumulated Depreciation	(1,915,803)	(1,807,706)	(1,885,743)
Property, Plant and Equipment, Net	1,879,780	1,800,490	1,869,127
Right of Use Assets, Net	125,511	-	-
Other Assets	163,275	191,500	184,061
Total Assets	$ 5,869,835	$ 5,220,365	$ 5,622,917
LIABILITIES AND EQUITY			
Current Liabilities:			
Current Portion of Long-term Debt	$ 122,599	$ 126,762	$ 121,283
Accounts Payable	148,092	160,345	148,360
Accrued Liabilities	249,204	243,552	248,134
Current Portion of Lease Liability	29,398	-	-
Total Current Liabilities	549,293	530,659	517,777
Long Term Debt	747,296	780,720	785,908
Other Liabilities	94,658	110,224	109,811
Long Term Lease Liability	105,690	-	-
Total Liabilities	1,496,936	1,421,603	1,413,496
Net Assets:			
Without Donor Restrictions			
Controlling Interest	4,102,941	3,596,729	3,960,342
	4,102,941	3,596,729	3,960,342
With Donor Restrictions	269,957	202,033	249,079
Total Net Assets	4,372,898	3,798,762	4,209,421
Total Liabilities and Net Assets	$ 5,869,835	$ 5,220,365	$ 5,622,917

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

	FOR THE QUARTER ENDED DECEMBER 31, 2019	2018
Revenues, gains, and other support without donor restrictions:		
Patient service revenue	$ 712,913	$ 653,391
Provider tax revenue	-	30,178
Total patient service revenue	712,913	683,569
Capitation premium	31,660	31,934
Other	26,117	27,464
Meaningful use	38	-
Net assets released from restrictions used for operations	9,471	4,262
Total operating revenues	780,199	747,228
Operating expenses:		
Wages and benefits	350,002	326,949
Supplies	157,010	137,522
Physician services	135,490	120,987
Other services	87,349	89,673
Provider fee	(109)	24,298
Capitation services	1,113	953
Depreciation and amortization	41,195	40,034
Interest	5,431	6,229
Restructuring	1,181	-
Total operating expenses	778,661	746,645
Operating income before corporate overhead allocation & income tax	1,538	584
Corporate overhead allocation	376	320
Provision for income tax expense	(41)	(297)
Operating income after corporate overhead allocation & income tax	1,873	607
Nonoperating gains (losses):		
Interest and dividends	28,445	47,575
Realized gains	11,175	7,156
Unrealized gains (losses) on trading portfolio	97,932	(225,318)
Contributions	882	1,537
Market adjustment on Interest rate swaps	1,959	(2,680)
(Loss) Gain on early extinguishment of debt	(739)	45
Excess of revenues over expenses	$ 141,528	$ (171,080)

Scripps

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

	FOR THE QUARTER ENDED DECEMBER 31, 2019	2018
Other change in net assets without donor restrictions:		
Excess of revenues over expenses attributable to controlling interests	$ 141,527	$ (171,081)
Net assets released from restrictions used for purchase of property & equipment	848	2,822
Other	-	38
Increase / (Decrease) in net assets without donor restrictions	142,375	(168,221)
Change in net assets with donor restrictions:		
Contributions	23,194	18,352
Interest and dividends	1,405	2,299
Realized (losses) gains	554	466
Unrealized gains (losses) on trading portfolio	5,106	(10,365)
Net assets released from restrictions used for operations	(9,471)	(4,262)
Net assets released from restrictions used for purchases of property & equipment	(848)	(2,822)
Change in value of deferred gifts	930	198
Other	9	(32)
Increase in net assets with donor restrictions	20,878	3,834
Total increase / (decrease) in net assets	$ 163,253	$ (164,387)

SCRIPPS HEALTH

OBLIGATED GROUP

STATEMENT OF CASH FLOWS

($000)

	For the Three Months Ended	
	December 31, 2019	December 31, 2018
Operating activities and nonoperating gains		
Total increase / (decrease) in net assets	$163,253	($164,386)
Reconciliation of total change in net assets to cash flows provided by operating activities and nonoperating gains and losses:		
Depreciation and amortization	41,195	40,034
Amortization of debt issuance costs	71	77
Amortization of original issue premium	-	(135)
Loss / (Gain) on early extinguishment of debt	739	(45)
Realized and unrealized (gains) / losses on investments	(114,767)	228,061
Purchases of investments designated as trading	(119,654)	(55,927)
Proceeds from sale of investments designated as trading	104,291	29,957
Interest rate swaps	(2,531)	2,197
Gain on disposal of property	(5)	(5,390)
Restricted contributions and investment income	(25,153)	(21,117)
Change in assets and liabilities:		
Accounts receivables - net	14,390	11,839
Other current assets	(19,604)	(47,160)
Other assets	23,214	22,838
Accounts payable and accrued liabilities	5,835	(55)
Other liabilities	(9,682)	(12,885)
Net cash provided by operating activities:	61,594	27,904
Investing activities:		
Purchases of property, plant and equipment	(53,949)	(44,686)
Purchases of investments designated as assets limited as to use	(17,630)	-
Sales of investments designated as assets limited as to use	-	68,367
Net cash (used in) provided by investing activities:	(71,579)	23,681
Financing activities:		
Proceeds from restricted contributions and investment income	21,960	20,336
Proceeds from line of credit	36,000	-
Payments from line of credit	(35,976)	-
Payment of bond issuance costs	(348)	-
Right of use financing lease payment	(736)	(1,503)
Proceeds from long-term debt	99,360	-
Payments on long-term debt	(131,730)	(88,255)
Proceeds from sale of donated financial assets	20	-
Net cash used in financing activities:	(11,450)	(69,422)
Decrease in cash and cash equivalents	(21,435)	(17,837)
Cash and cash equivalents at beginning of period	366,595	251,491
Cash and cash equivalents at end of period	$345,160	$233,655

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, 2019 and 2018 as well as for the year-to-date September 30, 2019 have been made.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. ASU 2016-02 amended the existing accounting standards for lease accounting, including requiring lessees to recognize most leases on their balance sheets and making targeted changes to lessor accounting. The new standard required a modified retrospective transition approach for all leases existing at, or entered after, the date of initial application, with an option to use certain transition relief. The amendments in this update were effective for fiscal years (and interim reporting periods within fiscal years) beginning after December 15, 2018. The amendments in this update were effective October 1, 2019, and the Organization elected the practical expedient to initially apply the new leasing standard at the effective date. The Organization finalized its analysis of certain key assumptions that were utilized at the transition date, including the incremental borrowing rate. The primary effect of the new standard was to record right-of-use assets and obligations for current operating leases, which had a material impact on the obligating balance sheets and significant incremental disclosures in the notes to obligating financial statements. The standard did not have a material impact on the Organization's obligated group results of operations or statement of cash flows.

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 as follows:

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, real estate held for sale, and annuity/unitrust liabilities.

NOTE (2) FAIR VALUE MEASUREMENTS (CONTINUED)

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, 2019 and September 30, 2019.

Assets and liabilities measured at fair value are based on one or more of the three valuation techniques. 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) 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).

NOTE (2) FAIR VALUE MEASUREMENTS (CONTINUED)

The following represents financial assets and liabilities measured at fair value on a recurring basis as of December 31, 2019 (in thousands). Alternative investments are accounted for using net asset value (NAV) of accounting, which is not a fair value measurement.

		Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	NAV	Valuation Technique (a,b)
Investments					
Liquid investments:					
Cash equivalents	$ 581	$ 581	$ –	$ –	a
Equity securities:					
U.S. equity	648,806	648,806	–	–	a
Foreign equity	477,793	477,793	–	–	a
Foreign equity (commingled)	318,636	–	318,636	–	a
	1,445,235	1,126,599	318,636	–	
Fixed income securities:					
U.S. government	74,184	–	74,184	–	a
U.S. government agencies	8,371	–	8,371	–	a
U.S. federal agency mortgage-backed	82,688	–	82,688	–	a
U.S. corporate	454,986	–	454,986	–	a
U.S. corporate (commingled)	275,888	–	275,888	–	a
Foreign corporate	15,809	–	15,809	–	a
	911,926	–	911,926	–	
Other investments:					
Multi-strategy hedge funds	296,082	–	–	296,082	
Private capital funds	54,627	–	–	54,627	
Defensive equity funds (commingled)	49,041	–	49,041	–	a
Real estate	5,914	–	5,914	–	a
	405,664	–	54,955	350,709	
Total investments	2,763,406	1,127,180	1,285,517	350,709	
Other assets:					
Real estate held for sale	710	–	710	–	a
Total assets	$ 2,764,116	$ 1,127,180	$ 1,286,227	$ 350,709	
Other liabilities:					
Swap hedge	$ 19,133	$ –	$ 19,133	$ –	b
Annuity/unitrust liabilities	10,193	–	10,193	–	b
Total liabilities	$ 29,326	$ –	$ 29,326	$ –	

NOTE (2) FAIR VALUE MEASUREMENTS (CONTINUED)

The following represents financial assets and liabilities measured at fair value on a recurring basis as of September 30, 2019 (in thousands). Alternative investments are accounted for using net asset value (NAV) of accounting, which is not a fair value measurement.

	Total	Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	NAV	Valuation Technique (a,b)
Investments					
Liquid investments:					
Cash equivalents	$ 565	$ 565	$ –	$ –	a
Equity securities:					
U.S. equity	599,646	599,646	–	–	a
Foreign equity	428,899	428,899	–	–	a
Foreign equity (commingled)	290,875	–	290,875	–	a
	1,319,420	1,028,545	290,875	–	
Fixed income securities:					
U.S. government	69,995	–	69,995	–	a
U.S. government agencies	9,251	–	9,251	–	a
U.S. federal agency mortgage-backed	84,203	–	84,203	–	a
U.S. corporate	447,193	–	447,193	–	a
U.S. corporate (commingled)	272,017	–	272,017	–	a
Foreign corporate	15,989	–	15,989	–	a
	898,648	–	898,648	–	
Other investments:					
Multi-strategy hedge funds	294,288	–	–	294,288	
Private capital funds	50,290	–	–	50,290	
Defensive equity funds (commingled)	46,520	–	46,520	–	a
Real estate	5,914	–	5,914	–	a
	397,012	–	52,434	344,578	
Total investments	2,615,645	1,029,110	1,241,957	344,578	
Other assets:					
Real estate held for sale	710	–	710	–	a
Total assets	$ 2,616,355	$ 1,029,110	$ 1,242,667	$ 344,578	
Current liabilities:					
Swap hedge	$ 21,664	$ –	$ 21,664	$ –	b
Other liabilities:					
Annuity/unitrust liabilities	10,272	–	10,272	–	b
Total liabilities	$ 31,936	$ –	$ 31,936	$ –	

NOTE (2) FAIR VALUE MEASUREMENTS (CONTINUED)

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, 2019 and September 30, 2019.

As of December 31, 2019 and September 30, 2019, the Level 2 instruments listed in the fair value hierarchy table above use the following valuation techniques and inputs:

U.S. Government Securities

The fair value of investments in U.S. 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 – Investments and Held for Sale

The fair values of the real estate investments and real estate held for sale were classified as Level 2 and were 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.

NOTE (2) FAIR VALUE MEASUREMENTS (CONTINUED)

Commingled Funds

The fair value of commingled fund investments classified as Level 2 was determined using fair value. 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. The following table (dollar figures in thousands) and explanations identify attributes relating to the nature and risk of such investments:

	December 31, 2019	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Commingled:				
Equity securities (1)	$ 318,636	$ -	Monthly	10 days
Fixed income securities (2)	275,888	-	Daily	15 days
	$ 594,524	$ -		
Alternative investments:				
Hedge funds (3)	$ 296,082	$ -	Monthly to Biennially	45 to 120 days
Private capital (4)	54,627	137,901	N/A	N/A
Defensive equity (commingled) (5)	49,041	-	Monthly	5 days
	$ 399,750	$ 137,901		

NOTE (2) FAIR VALUE MEASUREMENTS (CONTINUED)

(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, 2019, the category consisted of 100% daily liquidity.

(3) Hedge funds – This category includes investments in thirteen 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, annual, and biennial basis. As of December 31, 2019, the category consisted of 30.8% monthly liquidity, 53.8% quarterly liquidity, 7.7% annual liquidity, and 7.7% biennial liquidity.

(4) Private capital – This category includes investments in fourteen private capital 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.

(5) Defensive equity – This category includes an investment in a commingled defensive equity fund with underlying investments that are fair value estimates determined by a third-party administrator as of the end of each calendar month (or more frequently in the event that Interests are purchased or withdrawn intra-month), determined by its assets less its liabilities. The underlying investments consist primarily of money market funds and/or Cash; short term investments, including U.S. Treasuries and other high-quality government or corporate bonds; and written options. Liquidity is provided on a monthly basis.

NOTE (3) ENDOWMENTS

The Organization's endowments consist of 88 individual funds as of December 31, 2019 and 2018, 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 Organization is subject to UPMIFA and, thus, classifies amounts in its donor-restricted endowment funds as net assets with donor restrictions because those net assets are time restricted until the Board of Trustees appropriates such amounts for expenditures. Most of those net assets also are subject to purpose restrictions that must be met before reclassifying those net assets to net assets without donor restrictions. The Board of Trustees of the Organization has interpreted as not requiring the maintenance of purchasing power of the original gift amount contributed to an endowment fund, unless a donor stipulates to the contrary. As a result of this interpretation, when reviewing its donor-restricted endowment funds, the Organization considers a fund to be underwater if the fair value of the fund is less than the sum of (a) the original value of initial and subsequent gift amounts donated to the fund and (b) any accumulations to the fund that are required to be maintained in perpetuity in accordance with the direction of the applicable donor gift instrument.

The Organization has interpreted UPMIFA to permit spending from underwater funds in accordance with the prudent measures required under law. 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 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.

NOTE (3) ENDOWMENTS (CONTINUED)

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. The Organization has a policy that prohibits spending from underwater endowment funds.

Changes in donor restricted endowment funds for the three months ended December 31, 2019, and 2018 are as follows (in thousands):

	December 31, 2019	December 31, 2018
Donor restricted endowment funds as of beginning of year	$ 120,326	$ 118,216
Investment return, net	6,369	(6,017)
Contributions	6	3
Appropriation of endowment assets for expenditure	(2,030)	(2,382)
Other changes	(1,186)	477
Donor restricted endowment funds as of end of period	$ 123,485	$ 110,297

NOTE (4) 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, 2019 and September 30, 2019 the amount of goodwill totaled approximately $58,310,000. No impairment or additions to goodwill were recorded for the three months ended December 31, 2019.

NOTE (5) LEASES

Scripps leases certain medical equipment and medical office properties under various operating and finance leases. These leases have remaining lease terms ranging from one to twenty-three years. Many of Scripps' leases have rental escalation clauses which have been factored into the determination of lease payments. Generally, Scripps does not include renewal options in the lease terms for calculating the lease liability as Scripps' maintains operational flexibility and is not reasonably certain that renewal options will be exercised. Most of the leases do not provide a readily determinable implicit rate in the contract; therefore, the incremental borrowing rate is estimated to discount the lease payments based on information available at lease commencement. Upon adoption of the lease standard, discount rates for existing leases were established at October 1, 2019.

NOTE (5) LEASES (CONTINUED)

Scripps elected the package of practical expedients permitted under the transition guidance within the new standard, which among other things, allowed the historical lease classification not to be reassessed. Scripps made an accounting policy election to not apply the recognition requirements of the guidance to short-term leases with a term of 12 months or less. Scripps also made an accounting policy election to not separate non-lease components from lease components for equipment.

The components of the right-of-use assets and lease liabilities consist of the following at December 31, 2019 (000s):

Right-of-use assets, net of amortization		
Finance leases	$	4,390
Operating leases		121,121
	$	125,511
Current portion of lease liabilities:		
Finance leases	$	2,186
Operating leases		27,212
	$	29,398
Lease liabilities, noncurrent:		
Finance leases	$	2,352
Operating leases		103,338
	$	105,690

The components of lease expense reported within Other Services of Obligated Statement of Operations for the three months ended December 31, 2019 are as follows (000s):

Lease/rental cost:		
Finance lease cost	$	756
Amortization of right-of-use assets		717
Interest on lease liabilities		39
Operating lease cost		7,306
Short-term rental/lease cost		1,401
Total lease/rental cost	$	8,707
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from finance leases	$	39
Operating cash flows from operating leases		7,681
Financing cash flows from finance leases		73
Total	$	8,453

NOTE (5) LEASES (CONTINUED)

Right-of-use assets obtained in exchange for new operating lease liabilities	$	475
Weighted average remaining lease term - finance leases		2.9 years
Weighted average remaining lease term - operating leases		7.3 years
Weighted average discount rate - finance leases		3.37%
Weighted average discount rate - operating leases		2.80%

Scheduled maturities of lease liabilities were as follows:

	Operating Leases	Finance Leases
2020 (excluding the three months ended December 31, 2019)	$ 22,760	$ 2,025
2021	26,446	987
2022	19,555	809
2023	16,729	649
2024	14,018	290
Thereafter	45,727	-
Total lease payments	145,235	4,760
Less imputed interest	14,685	222
Total principal payments	$ 130,550	$ 4,538

NOTE (6) SUBSEQUENT EVENTS

Scripps Health has evaluated subsequent events occurring between the quarter ended December 31, 2019 and January 28, 2020, the date the financial statements were issued.

Scripps

SCRIPPS HEALTH
OBLIGATED GROUP FINANCIAL STATEMENTS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE QUARTER ENDED DECEMBER 31, 2019

	For the Quarter Ended ($000s)	
	December 31, 2019	December 31, 2018
	Actual	Actual
Operating Revenue	$780,199	$747,228
Operating Income	$1,873	$606
Operating Margin	0.2%	0.1%
Operating EBITDA	$48,540	$47,165
Operating EBITDA Margin	6.2%	6.3%
Excess Margin	$141,528	($171,081)
Excess Margin %	15.4%	-29.7%

Operating revenue for the quarter ended December 31, 2019 was $32,971,000 or 4.4% higher than the quarter ended December 31, 2018. This was primarily attributable to $63,006,000 net patient revenue due to higher Hospital patient revenue from increased volume of Hospital emergency room visits, outpatient visits, and patient days, higher clinic outpatient revenue from increased volume of clinic fee for service visits offset by $30,178,000 lower Provider Tax revenue due to the program ending in June 2019 and no accrual has been recorded yet for the CY2019-CY2021 program.

Operating expenses for the quarter ended December 31, 2019 were $32,016,000 or 4.3% higher than the quarter ended December 31, 2018 primarily attributable to a $23,053,000 increase in wages and benefits primarily due to annual merit increases and an increase in Paid FTEs as a result of higher volumes at the hospitals and clinics, $19,488,000 increase in supplies ($9.5M is related to pharmaceutical expense primarily for infusion therapy at Scripps Clinic and Mercy Hospital, $4.2M for prosthesis, and $2.9M for medical supplies), and $14,503,000 increase in physician services expense due to higher ambulatory services volumes offset by a $24,407,000 decrease in Provider Fee.

Excess margin for the quarter ended December 31, 2019 compared to the quarter ended December 31, 2018 was $312,608,000 higher than prior year primarily attributable to a $304,121,000 increase in net investment income.

	December 31, 2019	December 31, 2018	September 30, 2019
Unrestricted Cash & Investments ($000s)	$ 2,842,526	$ 2,398,982	$ 2,733,830
Days Unrestricted Cash on Hand *	365.1	332.9	358.1
Days in AR, Net *	51.4	57.7	55.8
Accounts Payable & Accrued Liabilities ($000s)*	371,763	358,393	371,898
Days in AP & Accrued Liabilities *	46.4	48.3	48.7
Unrestricted Cash & Investments to Total Debt	326.8%	264.4%	301.4%
Long Term Debt ($000s)	$ 747,296	$ 780,720	$ 785,909
Current Portion of Long-Term Debt ($000s)	$ 122,599	$ 126,762	$ 121,282
Total Debt ($000s)	$ 869,895	$ 907,482	$ 907,189
Long-Term Debt to Capitalization	17.5%	20.1%	18.6%

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

SIGNIFICANT TRANSACTIONS

Tax Exempt Bonds

In October 2019, Scripps Health made scheduled bond principal payments amounting to $29,140,000, which included $1,600,000 scheduled principal payment on the 2001A bond, $475,000 on 2008G tax-exempt bond series, $18,325,000 scheduled principal payment on the 2016A and 2016B tax-exempt bond series, and $8,740,000 on term loan.

2010A Bond Refunding

In June 2019, Scripps Board of Trustees adopted a resolution authorizing the issuance of fixed rate, tax exempt bonds (the “2019A Refunding Bonds”) through the California Health Facilities Financing Authority (“CHFFA”) in an amount sufficient to refund the 2010A Bonds. As authorized by the resolution, Scripps entered into a commitment to sell the Refunding Bonds to J.P. Morgan through a private placement transaction at a later date. A rate lock agreement was executed concurrently with the bank to fix the bond interest rate at 2.38% in advance of the bond issue date.

On November 15, 2019, Scripps issued the 2019A Refunding Bonds in the amount of $99,360,000 to J.P. Morgan. Proceeds of the new issue were used to fully refund the 2010A Bonds, which were called on the same date. The Refunding Bonds have the same final maturity date and substantially the same amortization schedule as the 2010A Bonds. Scripps will realize interest savings of $39,200,000 over the 17 year life of the bonds as a result of this refinancing.

Right of Use Assets

In October 2019, Scripps Health implemented new accounting lease guidance under ASC 842. The new guidance had no significant impact on the consolidated statement of operations for the year to date period ending December 31, 2019. The impact to the Consolidated Statement of Financial Position was to record new right of use assets and lease liabilities for Scripps Health and Subsidiaries’ operating lease portfolio totaling $146.1M. The lease implementation reclassified the existing deferred rent liability of $13.5M against the right of use assets. Additionally financing leases, formerly known as capital leases under old guidance were reclassified from Property and Equipment, net and their corresponding debt to Right of Use Assets and Lease Liabilities, totaling $5.7M and $5.6M respectively.

Provider Fee Program

The CY2017-CY2019 program ended on June 30, 2019. CMS has just approved the July 1, 2019 through December 31, 2021 program in February 2020. The estimated total impact for Scripps Health for the entire program is $110.9 million net benefit.

Encinitas Acute Rehab

Scripps has decided to delicense the acute rehab unit at Encinitas, effective January 2020, and convert that part of the hospital into an additional medical surgical unit that can better meet our patients' needs.