

Penn State Health

Unaudited Consolidated Financial Statements For
the Nine Months Ended March 31, 2023

Document dated May 15, 2023

UNAUDITED

AS OF AND FOR THE NINE MONTHS ENDED MARCH 31, 2023

1. ORGANIZATION

Penn State Health ("PSH") or (the "Health System") was organized exclusively for the charitable, educational, and scientific purposes as defined and limited by Section 501(c)(3) of the Internal Revenue Code of 1986. PSH's purpose is to promote, support and further the charitable, educational, and scientific purposes of The Pennsylvania State University (the "University"), a Pennsylvania nonprofit corporation and instrumentality of the Commonwealth of Pennsylvania. PSH is controlled by the University with a 20% minority ownership by Highmark Health ("HH").

The financial statements of PSH include, on a consolidated basis, the financial statements of its wholly owned subsidiaries. These subsidiaries include the Milton S. Hershey Medical Center ("MSHMC"), Saint Joseph's Regional Health Network and Medical Group ("SJRHN/SJMG"), Penn State Community Medical Group ("PSCMG"), Holy Spirit Medical Center ("HSMC"), Nittany Health, Inc. ("Nittany"), Central PA Health Network ("CIN"), Penn State Health Hampden Medical Center ("Hampden"), Penn State Health Lancaster Medical Center ("LMC"), and Penn State Health Life Lion, LLC ("PSHLL").

PSH has five not-for-profit, acute care hospitals. MSHMC is a 634-licensed bed academic medical center located in Hershey, Pennsylvania. The hospital is a Level 1 Regional Trauma Center and designated Children's Hospital. Additionally, MSHMC operates an ambulatory surgical center, which provides endoscopy procedures to the Centre County Region. SJRHN is a 204-licensed bed hospital in the Berks County Region. SJRHN owns Saint Joseph Health Services, LLC ("SJHS, LLC") which is a for-profit subsidiary. HSMC was acquired on November 1, 2020, and is a 307-licensed bed hospital in Cumberland County, inclusive of a Level 2 Regional Trauma Center. Hampden is a 120-licensed bed hospital in Cumberland County which opened October 1, 2021. Lancaster Medical Center is a 142-licensed bed hospital in Lancaster County which opened October 1, 2023. All acute care hospitals provide inpatient, outpatient and emergency care services.

On June 23, 2020, PSH established PSHLL. The purpose of PSHLL is to provide emergency medical services into a broader geographic region. On December 1, 2020 PSHLL began operations.

PSH, through its medical groups, operates a non-acute and ambulatory network which consists of more than 84 sites of patient care in nine counties. PSH has partnerships with two-joint venture specialty hospitals, the Penn State Health Rehabilitation Hospital ("PSHR") and Pennsylvania Psychiatric Institute ("PPI"). PSH has additional jointly owned ambulatory surgical centers. These include Hershey Outpatient Surgery Center ("HOSC"), Hershey Endoscopy Center ("HEC") and Cancer Care Partnership ("CCP"). Nittany owns 72% interest in HOSC, and, therefore, the operations of HOSC are included in the consolidated financial statements, with the 28% unowned interest reported as noncontrolling interest.

SUPPLEMENTAL CONSOLIDATING AND COMBINING INFORMATION — BALANCE SHEET
AS OF MARCH 31, 2023 AND MARCH 31, 2022
(In thousands)
UNAUDITED

	MAR FY2023	MAR FY2022
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 136,093	\$ 274,680
Patient accounts receivable	563,814	483,774
Estimated third-party payor settlement receivables	23,562	
Self insurance recoveries—current	4,521	3,799
Investments	762,866	939,032
Prepays, inventories, and other current assets	<u>159,639</u>	<u>227,888</u>
Total current assets	1,650,494	1,929,173
MALPRACTICE INSURANCE TRUST FUND—Cash and short-term investments	40,206	34,789
PROPERTY AND EQUIPMENT—Net	1,700,926	1,632,225
RIGHT OF USE ASSET - Operating leases - Third party	120,881	70,402
RIGHT OF USE ASSET - Operating leases - Due to affiliates	293,163	319,225
SELF INSURANCE RECOVERIES—Noncurrent	32,683	31,151
INTANGIBLE ASSETS AND GOODWILL	20,087	23,200
ASSETS WHOSE USE IS LIMITED BY BOND AGREEMENT	2,951	134,984
ASSETS WHOSE USE IS LIMITED BY DONOR	31,478	33,642
OTHER LONG-TERM ASSETS	<u>113,768</u>	<u>109,959</u>
TOTAL ASSETS	<u>\$ 4,006,635</u>	<u>\$ 4,318,751</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	\$ 289,102	\$ 256,097
Current portion of long-term finance lease obligations—Due to affiliates	1,745	1,687
Current portion of long-term finance lease obligations—Third party	1,798	2,613
Current portion of operating lease obligations - Third party	26,277	10,502
Current portion of operating lease obligations - Due to affiliates	10,617	26,062
Estimated third-party payor settlements	10,435	17,809
Due to affiliates	21,137	31,403
Lines of credit		
Other current liabilities	<u>228,897</u>	<u>372,896</u>
Total current liabilities	590,008	719,070
LONG-TERM FINANCE LEASE OBLIGATIONS DUE TO AFFILIATES—Net of current portion	189,789	198,417
LONG-TERM FINANCE LEASE OBLIGATIONS—Third party	10,984	8,703
LONG-TERM OPERATING LEASE OBLIGATIONS - Third party	108,922	84,717
LONG-TERM OPERATING LEASE OBLIGATIONS - Due to affiliates	266,886	293,163
BONDS PAYABLE	794,359	798,547
OTHER LIABILITIES	<u>285,158</u>	<u>261,963</u>
Total liabilities	<u>2,246,105</u>	<u>2,364,580</u>
NET ASSETS:		
Net assets without donor restrictions	1,726,915	1,918,105
Noncontrolling interest	<u>2,137</u>	<u>2,423</u>
Total net assets without donor restrictions	1,729,052	1,920,528
Net assets with donor restrictions	<u>31,478</u>	<u>33,643</u>
Total net assets	<u>1,760,530</u>	<u>1,954,171</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 4,006,635</u>	<u>\$ 4,318,751</u>

**SUPPLEMENTAL CONSOLIDATING AND COMBINING INFORMATION —
STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
AS OF MARCH 31, 2023 AND MARCH 31, 2022**

(In thousands)

UNAUDITED

	MAR FY2023	MAR FY2022
UNRESTRICTED REVENUES, GAINS, AND OTHER SUPPORT:		
Net patient service revenue	2,529,886	2,384,571
Contribution revenue	10,159	41,808
Other revenue	234,985	244,359
Net assets released from restriction used for operations	492	560
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Total unrestricted revenues and other support	2,775,523	2,671,298
EXPENSES:		
Salaries and benefits	1,680,347	1,512,018
Medical Supplies and drugs	545,390	543,656
Purchased services	373,853	313,288
Insurance	43,149	43,229
Depreciation and amortization	127,339	99,711
Occupancy	77,175	71,216
Interest	20,848	8,807
Other	33,007	50,815
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Total expenses	2,901,108	2,642,739
OPERATING INCOME (LOSSES)	(125,586)	28,559
OTHER INCOME (LOSSES):		
Investment Income - Net	8,492	8,300
Realized/Unrealized gains (losses) - Net	16,929	(20,071)
Inherent contribution from acquisition	0	(81)
Nonoperating income (losses) - Net	(1,619)	(6,227)
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EXCESS OF REVENUES OVER EXPENSES BEFORE NONCONTROLLING INTEREST	(101,783)	10,480
LESS EXCESS OF REVENUES OVER EXPENSES ATTRIBUTED TO NONCONTROLLING INTEREST	<hr/>	<hr/>
	263	40
EXCESS OF REVENUE OVER EXPENSES ATTRIBUTED TO PENN STATE HEALTH	<hr/>	<hr/>
	\$ (102,046)	\$ 10,440

**SUPPLEMENTAL CONSOLIDATING AND COMBINING INFORMATION —
STATEMENTS OF OPERATIONS AND CHANGES IN NET ASSETS
AS OF MARCH 31, 2023 AND MARCH 31, 2022**

(In thousands)

UNAUDITED

	MAR FY2023	MAR FY2022
EXCESS OF REVENUE OVER EXPENSES ATTRIBUTED TO PENN STATE HEALTH	\$ (102,046)	\$ 10,440
OTHER CHANGES IN NET ASSETS WITHOUT RESTRICTIONS:		
Transfers to affiliates (non-capital) - net	(48,415)	(39,181)
Transfers from affiliates - (capital) net	(720)	(913)
Partner Distributions	500	0
Contributions for purchase of property and equipment	60	192
Increase (decrease) in net ast assets without donor restrictions - Penn State Health & Subsidiaries	(150,622)	(29,462)
NON-CONTROLLING INTEREST - Excess of revenue over expenses		
Increase in net assets without restrictions - Non-controlling interest	263	40
NET ASSETS WITH DONOR RESTRICTIONS:		
Inherent contribution from acquisition	0	0
Net gain on investment	311	(31)
Contributions	1,294	1,935
Net assets released from restrictions	(492)	(560)
Increase in net assets with donor restrictions	1,113	1,344
INCREASE IN NET ASSETS	(149,246)	(28,078)
NET ASSETS - Beginning of Year	1,909,776	1,982,249
NET ASSETS - End of Year	<u>\$ 1,760,530</u>	<u>\$ 1,954,171</u>

**CONSOLIDATED KEY STATISTICS
AS OF MARCH 31, 2023 AND MARCH 31, 2022
AUDITED**

	March 31, 2023	March 31, 2022
Licensed Beds	1,407	1,241
Hershey Medical Center Staffed Beds	603	599
St. Joseph's Staffed Beds	135	119
Holy Spirit Medical Center Staffed Beds	177	166
Hampden Medical Center Staffed Beds	48	39
Lancaster Medical Center Staffed Beds	75	-
Hershey Medical Center Average Occupancy %, Acute	84.9%	84.3%
St. Joseph's Average Occupancy %, Acute	64.0%	76.5%
Holy Spirit Medical Center Average Occupancy %, Acute	85.9%	88.4%
Hampden Medical Center Average Occupancy %, Acute	70.8%	69.3%
Lancaster Medical Center Average Occupancy %, Acute	59.5%	-
Hershey Medical Center Average Occupancy %, Acute & Obs	89.6%	89.0%
St. Joseph's Average Occupancy %, Acute & Obs	70.2%	84.9%
Holy Spirit Medical Center Average Occupancy %, Acute & Obs	96.3%	98.1%
Hampden Medical Center Average Occupancy %, Acute & Obs	84.3%	83.2%
Lancaster Medical Center Average Occupancy %, Acute & Obs	69.6%	-
Admissions	35,276	32,438
Observations	11,703	10,825
Outpatient Visits	1,535,501	1,499,500
Births	2,724	2,993
ALOS	6.36	6.46
Inpatient Surgeries	9,954	9,703
Outpatient Surgeries	19,389	17,530
Total Surgeries	29,343	27,233
Emergency room visits	146,870	127,048
Medicare Case mix index	1.621	1.740

****SUBSEQUENT NOTES ARE VOLUNTARY ****

LIQUIDITY

Approximately 78% of all unrestricted cash and investments are liquid within 30 days. All investments are shown at market value and all operating expenses have been calculated in accordance with Generally Accepted Accounting Principles. The following table sets forth the liquidity position of the PSH System as of March 31, 2023 (in thousands):

Liquidity	3/31/2023	3/31/2022
Unrestricted cash and investments	\$ 898,959	\$ 1,213,712
Total operating expenses	2,901,108	2,642,739
Less: Depreciation and amortization	127,339	99,711
Adjusted operating expense	2,773,769	2,543,028
Average daily cash operating expenses	\$ 10,123	\$ 9,281
Days cash on hand	88.8	130.8

CAPITALIZATION

The following table sets forth the Capitalization of the PSH System as of March 31, 2023 (in thousands):

Capitalization (in thousands)	3/31/2023	3/31/2022
Bonds Payable	794,359	798,547
Other Notes Payable and Finance Leases	204,316	211,420
Total Long-Term Debt	998,675	1,009,967
Less Current Portion	3,543	4,300
Total Long-Term Debt, net of current portion	\$ 995,132	\$ 1,005,668
Unrestricted Net Assets without donor restrictions	1,729,052	\$ 1,920,528
Total Capitalization	\$ 2,724,184	\$ 2,926,195
Total Long-Term Debt, net of current portion as a % of Total Capitalization	36.5%	34.4%