Scripps

Obligated Group Financial Statements

1st Quarter
December 31, 2021

Scripps

Scripps Health
Obligated Group

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For the Quarter Ended December 31, 2021

SCRIPPS HEALTH
OBLIGATED GROUP
STATEMENTS OF FINANCIAL POSITION
December 31, 2021
($000s)

	December 2021	December 2020	September 2021
ASSETS			
Current Assets:			
Cash and Cash Equivalents	$ 297,475	$ 945,098	$ 390,445
Accounts Receivable, Net	471,252	369,818	548,979
Assets Limited As To Use	10	10	10
Other Current Assets	343,762	283,787	318,226
Total Current Assets	**1,112,498**	**1,598,712**	**1,257,660**
Investments:			
Assets Limited As To Use	352,603	279,676	343,950
Unrestricted	3,474,956	2,883,065	3,319,316
Property, Plant and Equipment	4,404,838	4,072,915	4,323,348
Less Accumulated Depreciation	(2,207,209)	(2,052,500)	(2,161,201)
Property, Plant and Equipment, Net	**2,197,630**	**2,020,416**	**2,162,147**
Right of Use Assets	248,126	251,833	253,635
Other Assets	245,290	212,516	255,468
Total Assets	**$ 7,631,103**	**$ 7,246,218**	**$ 7,592,176**
LIABILITIES AND EQUITY			
Current Liabilities:			
Current Portion of Long-term Debt	$ 241,062	$ 158,134	$ 239,232
Line of Credit	83,992	-	83,992
Accounts Payable	216,252	202,246	204,166
Accrued Liabilities	506,553	551,282	529,735
Current Portion of Lease Liability	29,188	26,715	29,382
Total Current Liabilities	**1,077,046**	**938,377**	**1,086,507**
Long Term Debt	838,477	1,015,339	875,370
Other Liabilities	118,539	144,462	152,694
Long Term Lease Liability	231,227	234,570	235,543
Total Liabilities	**2,265,289**	**2,332,748**	**2,350,114**
Net Assets:			
Without Donor Restrictions			
Controlling Interest	5,048,062	4,642,413	4,930,333
With Donor Restrictions	317,751	271,058	311,729
Total Net Assets	**5,365,813**	**4,913,471**	**5,242,062**
Total Liabilities and Net Assets	**$ 7,631,103**	**$ 7,246,218**	**$ 7,592,176**

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

	FOR THE QUARTER ENDED DECEMBER 31, 2021	2020
Revenues, gains, and other support without donor restrictions:		
Patient service revenue	$ 832,328	$ 738,786
Provider tax revenue	38,494	38,162
Total patient service revenue	870,822	776,947
Capitation premium	34,601	42,468
CARES act	1,004	49,742
Other	26,415	30,815
Net assets released from restrictions used for operations	7,230	7,544
Total operating revenues	**940,072**	**907,516**
Operating expenses:		
Wages and benefits	415,993	389,096
Supplies	175,965	172,289
Physician services	152,564	146,547
Other services	88,472	84,889
Provider fee	27,161	26,504
Capitation services	1,122	761
Depreciation and amortization	49,635	44,973
Interest	6,509	6,177
Total operating expenses	**917,421**	**871,236**
Operating (loss) / income before corporate overhead allocation & income tax	**22,651**	**36,280**
Corporate overhead allocation	354	354
Provision for income tax expense	(617)	(112)
Operating income after corporate overhead allocation & income tax	**22,388**	**36,522**
Nonoperating gains (losses):		
Interest and dividends	46,652	14,174
Realized gains	45,535	11,026
Unrealized (losses) / gains on trading portfolio	(2,217)	253,701
Contributions	1,812	1,274
Market adjustment on Interest rate swaps	887	771
Excess of revenues over expenses	**$ 115,057**	**$ 317,468**

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

	FOR THE QUARTER ENDED DECEMBER 31, 2021	FOR THE QUARTER ENDED DECEMBER 31, 2020
Other change in net assets without donor restrictions:		
Excess of revenues over expenses attributable to controlling interests	$ 115,057	$ 317,468
Net assets released from restrictions used for purchase of property & equipment	2,706	11,430
Other	(152)	-
Increase in net assets without donor restrictions	**117,611**	**328,897**
Change in net assets with donor restrictions:		
Contributions	11,055	11,837
Interest and dividends	1,160	453
Realized gains	1,176	336
Unrealized gains on trading portfolio	1,288	8,349
Net assets released from restrictions used for operations	(7,230)	(7,544)
Net assets released from restrictions used for purchases of property & equipment	(2,706)	(11,430)
Change in value of deferred gifts	1,123	(115)
Other	157	13
Increase in net assets with donor restrictions	**6,022**	**1,899**
Total increase in net assets	**$ 123,633**	**$ 330,796**

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

	For the Three Months Ended	
	December 31, 2021	December 31, 2020
Operating activities and nonoperating gains		
Total increase in net assets	$123,633	$330,796
Reconciliation of total change in net assets to cash flows provided by operating activities and nonoperating gains and losses:		
Depreciation and amortization	49,635	44,973
Amortization of debt issuance costs	64	66
Amortization of original issue premium / discount	(138)	(139)
Realized and unrealized gains on investments	(45,781)	(273,412)
Purchases of investments designated as trading	(266,228)	(86,076)
Proceeds from sale of investments designated as trading	156,369	63,761
Interest rate swaps	(1,752)	(1,637)
Gain on disposal of property	(182)	(2,931)
Restricted contributions and investment income	(13,391)	(12,626)
Change in assets and liabilities:		
Accounts receivables - net	77,727	103,029
Right of use operating lease liabilities	(6,463)	(6,951)
Other current assets	(18,075)	(50,092)
Other assets	7,725	36,632
Accounts payable and accrued liabilities	(11,096)	(30,478)
Other liabilities	(32,036)	19,921
Net cash provided by operating activities:	20,012	134,836
Investing activities:		
Purchases of property, plant and equipment	(83,711)	(63,795)
Purchases of investments designated as assets limited as to use	(8,653)	(2,408)
Sales of investments designated as assets limited as to use	-	943
Net cash used in investing activities:	(92,364)	(65,260)
Financing activities:		
Proceeds from restricted contributions and investment income	14,418	12,286
Payment of bond issuance costs	-	(433)
Right of use financing lease payment	(1,263)	(1,199)
Proceeds from long-term debt	-	300,000
Payments on long-term debt	(33,975)	(33,380)
Proceeds from sale of donated financial assets	202	89
Net cash (used in) / provided by financing activities:	(20,618)	277,363
(Decrease) / Increase in cash and cash equivalents	(92,970)	346,939
Cash and cash equivalents at beginning of period	390,445	598,159
Cash and cash equivalents at end of period	$297,475	$945,098
Supplemental non-cash disclosure:		
Operating Lease	$1,953	$7,622
Financing Lease	240	1,297

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, 2021 and 2020 as well as for the year-to-date September 30, 2021 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 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 assets 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.

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.

NOTE (2) FAIR VALUE MEASUREMENTS (CONTINUED)

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).

c) Cost approach. Measurement alternative for equity securities without readily determinable fair values and are not eligible to use Net Asset Value (NAV) of accounting. Cost minus impairment, if any, changes resulting from observable changes in orderly transactions from an identical or similar investment of the same issuer.

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, 2021 (in thousands). Certain alternative investments are accounted for using NAV, which is not a fair value measurement.

	Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	NAV	Total	Valuation Technique (a,b,c)
Investments						
Liquid investments:						
Cash equivalents	$ 164	$ –	$ –	$ –	$ 164	a
Equity securities:						
U.S. equity	865,176	–	–	–	865,176	a
Foreign equity	686,635	–	–	–	686,635	a
Foreign equity (commingled)	–	389,055	–	–	389,055	a
	1,551,811	389,055	–	–	1,940,866	
Fixed income securities:						
U.S. government	–	100,581	–	–	100,581	a
U.S. government agencies	–	14,457	–	–	14,457	a
U.S. federal agency mortgage-backed	–	128,080	–	–	128,080	a
U.S. corporate	–	406,769	–	–	406,769	a
U.S. corporate (commingled)	–	485,443	–	–	485,443	a
Foreign corporate	–	24,379	–	–	24,379	a
	–	1,159,799	–	–	1,159,799	
Other investments:						
Multi-strategy hedge funds	–	–	–	361,322	361,322	
Private capital funds	–	–	–	227,584	227,584	
Defensive equity funds (commingled)	–	62,740	–	–	62,740	a
Real estate	–	27,094	–	–	27,094	a
Limited partnership	–	–	48,000	–	48,000	c
	–	89,834	48,000	588,906	726,740	
Total investments	1,551,975	1,638,688	48,000	588,906	3,827,569	
Other assets:						
Real estate held for sale	–	1,750	–	–	1,750	a
Total assets	$ 1,551,975	$ 1,640,438	$ 48,000	$ 588,906	$ 3,829,319	
Other liabilities:						
Swap hedge	–	16,684	–	–	$ 16,684	b
Annuity/unitrust liabilities	–	9,692	–	–	9,692	b
Total liabilities	$ –	$ 26,376	$ –	$ –	$ 26,376	

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, 2021 (in thousands). Certain alternative investments are accounted for using NAV, which is not a fair value measurement.

	Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	NAV	Total	Valuation Technique (a,b,c)
Investments						
Liquid investments:						
Cash equivalents	$ 524	$ –	$	$ –	$ 524	a
Equity securities:						
U.S. equity	780,027	–	–	–	780,027	a
Foreign equity	683,962	–	–	–	683,962	a
Foreign equity (commingled)	–	403,959	–	–	403,959	a
	1,463,989	403,959	–	–	1,867,948	
Fixed income securities:						
U.S. government	–	80,274	–	–	80,274	a
U.S. government agencies	–	15,428	–	–	15,428	a
U.S. federal agency mortgage-backed	–	124,061	–	–	124,061	a
U.S. corporate	–	429,613	–	–	429,613	a
U.S. corporate (commingled)	–	485,995	–	–	485,995	a
Foreign corporate	–	23,270	–	–	23,270	a
	–	1,158,641	–	–	1,158,641	
Other investments:						
Multi-strategy hedge funds	–	–	–	340,079	340,079	
Private capital funds	–	–	–	159,199	159,199	
Defensive equity funds (commingled)	–	60,751	–	–	60,751	a
Real estate	–	28,134	–	–	28,134	a
Limited partnership	–	–	48,000	–	48,000	c
	–	88,885	48,000	499,278	636,163	
Total investments	1,464,513	1,651,485	48,000	499,278	3,663,276	
Other assets:						
Real estate held for sale	–	710	–	–	710	a
Total assets	$ 1,464,513	$ 1,652,195	$ 48,0	$ 499,278	$ 3,663,986	
Other liabilities:						
Swap hedge	–	18,437	–	–	$ 18,437	b
Annuity/unitrust liabilities	–	9,947	–	–	9,947	b
Total liabilities	$ –	$ 28,384	$	$ –	$ 28,384	

NOTE (2) FAIR VALUE MEASUREMENTS (CONTINUED)

As of December 31, 2021 and September 30, 2021, the Level 2 and Level 3 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 market 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.

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.

NOTE (2) FAIR VALUE MEASUREMENTS (CONTINUED)

Limited Partnership

During March 2021, Scripps Health recognized receipt of a donated nonmarketable equity security in a limited partnership measured at fair value based on a third-party analysis using discounted cash flow and adjusted book value method. Significant unobservable inputs were a discount rate of 10.0% to the after-tax cash flows and a discount for lack of full control in the Partnership of 2.0%. The limited partnership is measured on a recurring basis and classified as Level 3 within the fair value hierarchy. Management elected the measurement alternative to value the interest in the limited partnership without a readily determinable fair value which requires a qualitative assessment to indicate if the investment is impaired and the fair value of the investment is less than its carrying value. At December 31, 2021, Scripps Health performed a qualitative assessment to consider impairment indicators to evaluate whether the investment is impaired. No impairment was recognized.

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.

NOTE (2) FAIR VALUE MEASUREMENTS (CONTINUED)

Included within the assets above are investments in certain entities that report fair value. The following table (in thousands) and explanations identify attributes relating to the nature and risk of such investments:

	December 31, 2021	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Commingled:				
Equity securities(1)	$ 389,055	$ –	Monthly	10 days
Fixed income securities(2)	485,443	–	Daily	15 days
	$ 874,498	$ –		
Alternative investments:				
Hedge funds(3)	$ 361,322	$ –	Monthly to Biennially	45 to 90 days
Private capital(4)	227,584	176,400	N/A	N/A
Defensive equity (commingled)(5)	62,740	–	Monthly	5 days
	$ 651,646	$ 176,400		

(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 September 30, 2021, the category consisted of 100% daily liquidity.

(3) Hedge funds – This category includes investments in twelve 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, 2021, the category consisted of 25.0% monthly liquidity, 50.0% quarterly liquidity, 8.3% annual liquidity and 16.7% illiquid.

(4) Private capital – This category includes investments in twenty-four 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 90 and 88 individual funds as of December 31, 2021 and 2020, 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 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.

NOTE (3) ENDOWMENTS (CONTINUED)

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. 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.

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor or UPMIFA requires Scripps Health to retain as a fund of perpetual duration. No deficiencies of this nature exist at December 31, 2021.

Changes in donor restricted endowment funds for the three months ended December 31, 2021, and 2020 are as follows (in thousands):

	2022	2021
Donor restricted endowment funds as of beginning of year	$ 139,574	$ 128,651
Investment return, net	3,445	8,514
Contributions	41	-
Appropriation of endowment assets for expenditure	(2,082)	(1,992)
Other changes	(1,299)	(1,224)
Donor restricted endowment funds as of end of period	$ 139,679	$ 133,949

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, 2021 and September 30, 2021 the amount of goodwill totaled approximately $58,310,000. No impairment or additions to goodwill were recorded for the three months ended December 31, 2021.

NOTE (5) LEASES

The Organization 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-two years. Many of the Organization's leases have rental escalation clauses which have been factored into the determination of lease payments. Generally, the organization does not include renewal options in the lease terms for calculating the lease liability as the Organization maintains operational flexibility and is not reasonably certain that renewal options will be exercised. The leases do not provide a readily determinable implicit rate in the contract; therefore, the risk-free rate is estimated to discount the lease payments based on information available at lease commencement. The Organization did not elect to implement the hindsight practical expedient.

The Organization 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. The Organization 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. The Organization also made an accounting policy election to not separate non-lease components from lease components for equipment and real estate.

The components of the right-of-use assets and lease liabilities consist of the following at December 31, 2021 and December 31, 2020 (in thousands):

		2021	2020
Property, Plant and Equipment, net			
Finance leases, net	$	9,169	12,181
Right-of-use assets			
Operating leases	$	248,126	251,833
Finance Leases Liabilities			
Current portion of long-term debt	$	4,497	4,325
Long-term debt		5,367	8,332
	$	9,864	12,657
Operating Lease Liabilities			
Current portion of lease liability	$	29,188	26,715
Long-term lease liability		231,227	234,570
	$	260,415	261,285

NOTE (5) LEASES (CONTINUED)

The components of lease expense reported within Other Services of Obligated Statement of Operations are for the three months ended December 31, 2021, and December 31, 2020 as follows (000s):

		2021		2020
Lease/rental cost:				
Amortization of right-of-use assets	$	1,225	$	1,362
Interest on lease liabilities		50		95
Total finance lease cost		1,275		1,457
Operating lease cost		8,184		8,017
Short-term and variable lease cost		1,236		935
Total lease/rental cost	$	10,695	$	10,409
Cash paid for amounts included in the measurement of lease liabilities:				
Operating cash flows from finance leases	$	50	$	95
Operating cash flows from operating leases		7,223		7,735
Financing cash flows from finance leases		1,263		1,231
Total	$	8,535	$	9,061
Right-of-use assets obtained in exchange for new operating lease liabilities	$	1,953	$	7,622
Right-of-use assets obtained in exchange for new financing lease liabilities	$	240	$	1,296
Weighted average remaining lease term - finance leases		2.7 years		3.2 years
Weighted average remaining lease term - operating leases		12.4 years		12.7 years
Weighted average discount rate - finance leases		2.11%		2.37%
Weighted average discount rate – operating leases		1.07%		1.07%

NOTE (5) LEASES (CONTINUED)

Scheduled maturities of lease liabilities at December 31, 2021 were as follows:

		Undiscounted Finance Lease Payments	Imputed Interest	Finance Lease Liabilities
2022**	$	3,924	122	3,802
2023		2,783	107	2,676
2024		2,403	51	2,352
2025		985	9	976
2026		58	-	58
Total	$	10,153	289	9,864

		Undiscounted Operating Lease Payments	Imputed Interest	Operating Lease Liabilities
2022**	$	24,429	2,124	22,305
2023		29,472	2,490	26,982
2024		27,332	2,150	25,182
2025		25,552	1,841	23,711
2026		23,906	1,552	22,354
2027		18,371	1,301	17,070
Thereafter		129,430	6,619	122,811
Total		278,491	18,077	260,415

** Excluding the three months ended December 31, 2021.

NOTE (6) OTHER EVENTS

<u>COVID-19 Impact</u>

In FY2020, Scripps Health received a total of $125.0 million from the CARES program including $39.7 million from the $50 billion general distribution fund, $19.4 million from the $20 billion general distribution fund, and $65.8 million of targeted distributions from the CARES Act Provider Relief Fund. Scripps Health recognized $50.4 million and $75.3 million related to these general and targeted distribution funds in fiscal year 2021 and 2020, respectively. These payments were recorded as CARES Act revenue in the statements of operation. The HHS reporting portal opened on July 1, 2021 for reporting lost revenues and expenses for period April 10 through Jun 30, 2020. Scripps Health filed its required attestation reporting in advance of the September 30, 2021 deadline. In November 2021, Scripps received and recognized CARES Act revenue of $1.0 million of provider relief fund from American Rescue Plan (ARP) rural payment. Period 2 reporting is due March 31, 2022.

Scripps Health received $204 million in April 2020 for Medicare Advances for the Hospitals. CMS began recovering the payments from Scripps in April 2021 and the life-to-date repayments through December 31, 2021 total $72.7 million. CMS said the recoupment will begin on the one-year anniversary of when the provider received the first COVID-19 accelerated and advance payment. CMS will recoup the payments for 11 months at a rate of 25 percent. After the 11-month period, CMS will recover the remaining funds at a rate of 50 percent for six months. After the six-month period, CMS will issue a demand letter for full repayment of any remaining balances.

Scripps Health had taken advantage of the FICA deferral for SSI for April 1, 2020 through December 31, 2020 that will be repaid without interest in CY21 and CY22. At September 30, 2021, Scripps Health had deferred $53.6 million of payroll taxes including $19.2 million deferral during fiscal year 2021 and $34.4 million deferral during fiscal year 2020. In December 2021, Scripps Health repaid $26.8 million to satisfy the first 50% installment and plans to repay the remaining 50% by the December 31, 2022 due date.

Scripps Health has recorded $18.5 million for Employee Retention Tax Credit (ERTC) program of CARES act for the period March 13, 2020 through March 31, 2021 including $3.7 million during fiscal year 2021 and $14.8 million during fiscal year 2020.

CARES Act - Life to Date ($'000s)						
	General	Safety Net	High Impact	ARP Rural	ERTC Accrual	Total
Total received/accrued	$ 59,101	$ 45,871	$ 19,900	$ 1,004	$ 18,459	$ 144,335
Total recognized to date	59,101	45,871	19,900	1,004	18,459	144,335
Deferred recognition	$ -	-	$ -	$ -	$ -	$ -

NOTE (7) SUBSEQUENT EVENTS

The Organization has evaluated events and transactions occurring subsequent to December 31, 2021 through January 26, 2022, the date the financial statements were issued. During this period, there were no subsequent events requiring recognition in the financial statements.

Scripps

SCRIPPS HEALTH
OBLIGATED GROUP FINANCIAL STATEMENTS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE QUARTER ENDED DECEMBER 31, 2021

	For the Quarter Ended ($000s)	
	December 31, 2021	December 31, 2020
	Actual	Actual
Operating Revenue	$940,072	$907,516
Operating (Loss) / Income	$22,388	$36,522
Operating Margin	2.4%	4.0%
Operating EBITDA	$79,149	$87,784
Operating EBITDA Margin	8.4%	9.7%
Excess Margin	$115,057	$317,468
Excess Margin %	11.1%	26.7%

Operating revenue for the quarter ended December 31, 2021 was $32,556,000 or 3.6% higher than quarter ended December 31, 2020. This is primarily attributable to higher patient volumes in the current year (due to significant COVID related volume reductions in FY21) partially offset by reduction in CARES Act revenue of $48,738,000 in FY22 and $7,867,000 decrease in Capitation Premium revenue at the Clinics.

Operating expenses for the quarter ended December 31, 2021 were $46,185,000 or 5.3% higher than the quarter ended December 31, 2020 attributable to a $26,897,000 increase in wages and benefits primarily due to annual merit increases and incentive plans, $6,017,000 increase in physician services expense due to higher ambulatory services, $4,662,000 in depreciation primarily for Epic assets placed in-service, and $3,676,000 increase in other medical supplies primarily due to COVID.

Excess margin for the quarter ended December 31, 2021 compared to the quarter ended December 31, 2020 was $202,411,000 lower than prior year primarily due to deteriorated investment performance in FY22.

	December 31, 2021	December 31, 2020	September 30, 2021
Unrestricted Cash & Investments ($000s)	$ 3,772,431	$ 3,828,163	$ 3,709,761
Days Unrestricted Cash on Hand ^1	415.5	450.0	413.9
Days in AR, Net	54.1	43.8	64.9
Accounts Payable & Accrued Liabilities ($000s)	$ 722,805	$ 753,528	$ 204,167
Days in AP & Accrued Liabilities ^2	79.6	83.9	81.9
Unrestricted Cash & Investments to Total Debt ^3	324.2%	326.2%	309.5%
Long Term Debt ($000s)	$ 838,477	$ 1,015,339	$ 875,370
Current Portion of Long-Term Debt ($000s)	$ 325,053	$ 158,134	$ 323,224
Total Debt ($000s)	$ 1,163,530	$ 1,173,472	$ 1,198,594
Long-Term Debt to Capitalization	18.7%	20.2%	19.6%

^ The following ratios includes $131.2M of Medicare advances and $24.2M of FICA deferrals. Excluding those amounts, the Dec21 ratios would be:
(1) Days Unrestricted Cash on Hand: 398.4, (2) Days in AP & Accrued Liabilities: 62.5. and (3) Unrestricted Cash & investment to Total Debt: 310.9%

SIGNIFICANT TRANSACTIONS

Tax Exempt Bonds
In FY2022, Scripps Health made scheduled bond principal payments amounting to $33,975,000, which included $2,100,000 scheduled principal payment on the 2001A bond, $19,110,000 scheduled principal payment on the 2016A and 2016B tax-exempt bond series, $10,565,000 on term loan, and $2,200,000 scheduled annual principal payment on 2012A bond.

Provider Fee Program
In February 2020, CMS approved the July 1, 2019 through December 31, 2021 program. The estimated total net benefit for Scripps Health for the entire program is $110.9 million. In FY 2020, a net benefit of $53.4 million was recorded based on CHA model for the program period 07/2019 – 09/2020. In FY 2021, a net benefit of $45.2 million was recorded based on CHA model for the program period of October 2020 to September 2021. In FY2022, a net benefit of $11.3 million was recorded based on CHA model for the program period of October 2021 to December 2021. As of December 31, 2021, the full $110.9 million net benefit for the program has been recognized and a CHFT contribution fee of $1 million has been estimated and accrued.

Cyber Security Incident
On May 1, Scripps experienced a significant cyber security incident. We took immediate action to contain the threat and help reduce disruption to patient care. These steps included shutting down many of our systems, initiating emergency manual down-time procedures, initiating an investigation, and notifying federal law enforcement. In addition, computer consulting and forensic firms were engaged to assist in our investigation and restoration of systems. All systems were restored by May 26, 2021. Total estimated lost revenue and incremental expenses incurred due to the Cyber incident is approximately $112.7 million. $5.9 million insurance recovery was accrued in June 2021. The remaining balance of $14.1 million of the insurance policies were accrued in September 2021. $5.2 million cash receipts from insurance was received on October 20, 2021 and another $10.0 million cash receipts from insurance was received on November 8, 2021.

KRONOS Time and Attendance Systems Outage
KRONOS is our workforce management system used for time and attendance tracking and scheduling for our employees. KRONOS had a major cyber incident on December 11, 2021 which forced them to shut down their systems for all clients until appropriate measures could be taken to remediate and restore systems. Scripps activated its downtime procedures during this period, which included processing paychecks based on hourly information obtained from the 11/20/2021 paycheck run for pay periods ended 12/18/21, 1/01/22 and 1/15/22. This correlated to the employee paychecks paid on 12/24/21, 01/07/22 and 1/21/22. Time and attendance was tracked manually during the downtime. Upon KRONOS restoration, time and attendance tracking and payroll processing for the pay period 1/16/22-1/29/22 followed our standard process and was paid to employees on 2/04/22. Significant work is underway to upload the manually recorded time into KRONOS for the offline pay cycles and perform a reconciliation for all employees who had been paid based on their hours worked for the pay period ended 11/20/21 against their actual hours worked during the downtime.