

SANFORD[®]

Quarterly Financial Disclosure

As of and for the Six Months Ended June 30, 2020

SANFORD

OPERATING AND FINANCIAL IMPACT OF COVID-19 FOR THE SIX MONTHS ENDED JUNE 30, 2020

On March 11, 2020, the World Health Organization declared the outbreak of novel coronavirus disease (COVID-19) as a pandemic. In reaction to the pandemic declaration, Sanford began implementing preparedness plans for potential impact on operations while government executive orders were mandated across the country to slow community spread, reserve personal protective equipment, and ensure readiness for intensive care units for potential COVID-19 surges. Patient volumes and the related revenues for most services were significantly impacted in the last two weeks of the first quarter of 2020 and most severely impacted in April, the first full month of the pandemic.

Starting in May, volumes and the related revenues started to recover as government executive orders and recommendations were lifted and patients gradually became comfortable returning to health care facilities. In June, most acute care volume metrics approached or met June 2019 volume levels. Despite improved volumes in June, the volume declines overall for the quarter, together with pandemic preparedness expenses, resulted in the decrease in operating margin for the quarter compared to the same quarter last year, when excluding CARES Act stimulus revenue.

On March 27, 2020, Congress passed the Coronavirus Aid, Relief, and Economic Security (“CARES”) Act, allocating funding to individuals and businesses affected by the pandemic and economic downturn. Certain measures of the Act are aimed directly at supporting healthcare organizations, including the \$175 billion Public Health and Social Services Emergency Fund, to reimburse for health care related expenses or lost revenues that are attributable to COVID-19. Through June 30, 2020, Sanford had received \$204.3 million in CARES Act provider relief (“stimulus”) funds. These distributions from the Provider Relief Fund are not subject to repayment, provided Sanford is able to attest to and comply with the terms and conditions of the funding. Such payments are accounted for as government grants and are recognized as other operating revenue once there is reasonable assurance that the applicable terms and conditions required to retain the funds will be met. Based on an analysis of the compliance and reporting requirements of the Provider Relief Fund and the impact of the pandemic on operating results through the end of the second quarter, Sanford recognized \$136.6 million of CARES Act funds into operating revenues to offset the financial impacts driven by COVID-19. Lost revenue and incremental expenditures attributable to COVID-19 preparedness exceeded total stimulus funding received for the system through June 30, 2020. However, Sanford continues to await further clarity on how targeted distribution funds can be applied across the system.

Through the volatility of the pandemic, Sanford has been able to maintain a strong liquidity position as a result of strong acute and long-term care volumes prior to COVID-19, proactively managing fixed and variable costs since the onset of the pandemic, re-strategizing planned capital projects, proactively managing investments, and CARES Act stimulus funding received. The combination of these items enabled Sanford to forego needing alternative short-term liquidity re-payment options such as the payroll tax deferral offered under Section 2302 of the CARES Act or the Medicare Advance Payment Program that the Center for Medicare and Medicaid Services offered under the CARES Act.

Sanford continues to position operations to be prepared if a COVID-19 surge were to arise, which includes having adequate personal protective equipment, bed capacity, and staffing plans across both the acute care and long-term care facilities. Despite improved volumes in June across many patient services as compared to the lows experienced in April, Sanford will continue to proactively monitor COVID-19 impacts on cash liquidity, operational performance, and overall financial health as the pandemic evolves.

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CONSOLIDATED BALANCE SHEETS (UNAUDITED)
(In thousands)

	June 30, 2020	December 31, 2019
ASSETS		
CURRENT ASSETS		
Cash	\$ 377,332	\$ 191,994
Short-term investments	302,401	352,564
Accounts receivable, less allowances	639,631	684,307
Inventories	114,765	105,657
Other current assets	100,288	80,786
Total current assets	1,534,417	1,415,308
INVESTMENTS	1,591,319	1,528,362
ASSETS WHOSE USE IS LIMITED	162,771	162,983
PROPERTY AND EQUIPMENT - NET	3,008,934	3,024,996
OTHER ASSETS		
Right of use asset	83,202	86,998
Investment in joint ventures	39,096	38,614
Non-operating property	128,215	127,318
Goodwill and intangible assets	80,978	83,133
Notes receivable	39,782	39,759
Other assets	65,421	70,178
Total other assets	436,694	446,000
TOTAL ASSETS	\$ 6,734,135	\$ 6,577,649

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CONSOLIDATED BALANCE SHEETS (UNAUDITED)
(In thousands)

	June 30, 2020	December 31, 2019
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current maturities of long-term debt	\$ 64,934	\$ 64,251
Current portion of other liabilities	79,522	78,592
Accounts payable	126,579	149,415
Accrued compensation and benefits	291,524	285,036
Medical claims payable	78,655	92,207
Other accruals and deferred revenue	195,222	95,449
Total current liabilities	836,436	764,950
OTHER LIABILITIES		
Operating leases	53,458	59,517
Deferred compensation	175,296	173,165
Defined benefit pension	55,223	62,942
Residential housing deposits	129,530	128,169
Other non-current liabilities	107,092	101,317
Total other liabilities	520,599	525,110
LONG-TERM DEBT, LESS CURRENT MATURITIES	1,558,937	1,568,304
Total liabilities	2,915,972	2,858,364
NET ASSETS		
Without donor restrictions - controlling interest	3,460,400	3,358,822
Without donor restrictions - non-controlling interest	26,360	24,347
With donor restrictions	331,403	336,116
Total net assets	3,818,163	3,719,285
TOTAL LIABILITIES AND NET ASSETS	\$ 6,734,135	\$ 6,577,649

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CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
(In thousands)

	For the Six Months Ended	
	June 30,	
	2020	2019
OPERATING REVENUES		
Net patient revenue	\$ 1,630,314	\$ 1,708,931
Net resident revenue	415,664	519,554
Premium revenue	524,955	480,927
Stimulus revenue	136,563	-
Other operating revenue	436,927	323,464
Total operating revenues	3,144,423	3,032,876
OPERATING EXPENSES		
Salaries and benefits	1,620,178	1,558,221
Supplies	509,043	485,708
Purchased services and other	461,895	443,840
Medical claims	302,543	299,300
Depreciation and amortization	121,289	123,024
Interest	30,522	34,809
Total operating expenses	3,045,470	2,944,902
INCOME FROM OPERATIONS	98,953	87,974
NON-OPERATING (EXPENSE) INCOME		
Investment return	15,391	85,092
Contributions from business combination	-	785,232
Loss on extinguishment of debt	-	(75,978)
Other expenses	(19,289)	(19,245)
Net non-operating (expense) income	(3,898)	775,101
EXCESS OF REVENUES OVER EXPENSES	95,055	863,075
Plus deficiency of revenues over expenses attributable to non-controlling interest	1,245	973
EXCESS OF REVENUES OVER EXPENSES ATTRIBUTABLE TO CONTROLLING INTEREST	\$ 96,300	\$ 864,048

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CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS (UNAUDITED)
(In thousands)

	For the Six Months Ended	
	June 30,	
	2020	2019
NET ASSETS WITHOUT DONOR RESTRICTIONS - CONTROLLING INTEREST		
Excess of revenues over expenditures attributable to controlling interest	\$ 96,300	\$ 864,048
Net assets released from restrictions for acquisition of property and equipment	1,759	2,521
Pension plan related changes	3,519	2,084
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS - CONTROLLING INTEREST	101,578	868,653
NET ASSETS WITHOUT DONOR RESTRICTIONS - NON-CONTROLLING INTEREST		
Deficiency of revenues over expenses	(1,245)	(973)
Contributions from non-controlling interests	3,258	-
Contributions from business combination	-	25,001
CHANGE IN NET ASSETS WITHOUT DONOR RESTRICTIONS - NON-CONTROLLING INTEREST	2,013	24,028
NET ASSETS WITH DONOR RESTRICTIONS		
Contributions	7,878	9,132
Investment (loss) return and other	(3,125)	13,450
Contributions from business combination	-	77,584
Net assets released from restrictions	(9,466)	(10,663)
CHANGE IN NET ASSETS WITH DONOR RESTRICTIONS	(4,713)	89,503
CHANGE IN NET ASSETS	98,878	982,184
NET ASSETS - BEGINNING OF PERIOD	3,719,285	2,681,568
NET ASSETS - END OF PERIOD	\$ 3,818,163	\$ 3,663,752

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CONSOLIDATING SCHEDULE OF BALANCE SHEET (UNAUDITED)

AS OF JUNE 30, 2020

(In thousands)

	Obligated Group	Other	Eliminations	Total
ASSETS				
CURRENT ASSETS				
Cash	\$ 244,486	\$ 132,846	\$ -	\$ 377,332
Short-term investments	237,743	64,658	-	302,401
Accounts receivable, less allowances	589,843	92,250	(42,462)	639,631
Inventories	96,108	18,657	-	114,765
Other current assets	97,016	4,843	(1,571)	100,288
Total current assets	1,265,196	313,254	(44,033)	1,534,417
INVESTMENTS	1,324,053	267,266	-	1,591,319
ASSETS WHOSE USE IS LIMITED	152,414	10,357	-	162,771
PROPERTY AND EQUIPMENT - NET	2,780,707	228,227	-	3,008,934
OTHER ASSETS				
Right of use asset	71,519	11,683	-	83,202
Investment in joint ventures	47,633	90	(8,627)	39,096
Non-operating property	99,762	28,453	-	128,215
Goodwill and intangible assets	77,225	3,753	-	80,978
Notes receivable	48,315	1,302	(9,835)	39,782
Other assets	51,906	14,279	(764)	65,421
Total other assets	396,360	59,560	(19,226)	436,694
TOTAL ASSETS	\$ 5,918,730	\$ 878,664	\$ (63,259)	\$ 6,734,135

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CONSOLIDATING SCHEDULE OF BALANCE SHEET (UNAUDITED)

AS OF JUNE 30, 2020

(In thousands)

	<u>Obligated Group</u>	<u>Other</u>	<u>Eliminations</u>	<u>Total</u>
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Current maturities of long-term debt	\$ 63,873	\$ 1,061	\$ -	\$ 64,934
Current portion of other liabilities	65,164	14,358	-	79,522
Accounts payable	128,662	3,901	(5,984)	126,579
Accrued compensation and benefits	295,596	6,678	(10,750)	291,524
Medical claims payable	-	110,245	(31,590)	78,655
Other accruals and deferred revenue	133,396	63,389	(1,563)	195,222
Total current liabilities	<u>686,691</u>	<u>199,632</u>	<u>(49,887)</u>	<u>836,436</u>
OTHER LIABILITIES				
Operating leases	45,700	7,758	-	53,458
Deferred compensation	175,296	-	-	175,296
Defined benefit pension	55,223	-	-	55,223
Residential housing deposits	129,327	203	-	129,530
Other non-current liabilities	68,808	43,029	(4,745)	107,092
Total other liabilities	<u>474,354</u>	<u>50,990</u>	<u>(4,745)</u>	<u>520,599</u>
LONG-TERM DEBT, LESS CURRENT MATURITIES	1,515,654	43,283	-	1,558,937
Total liabilities	<u>2,676,699</u>	<u>293,905</u>	<u>(54,632)</u>	<u>2,915,972</u>
NET ASSETS				
Without donor restrictions - controlling interest	2,948,955	520,072	(8,627)	3,460,400
Without donor restrictions - non-controlling interest	-	26,360	-	26,360
With donor restrictions	293,076	38,327	-	331,403
Total net assets	<u>3,242,031</u>	<u>584,759</u>	<u>(8,627)</u>	<u>3,818,163</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 5,918,730</u>	<u>\$ 878,664</u>	<u>\$ (63,259)</u>	<u>\$ 6,734,135</u>

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**CONSOLIDATING SCHEDULE OF STATEMENT OF OPERATIONS (UNAUDITED)
FOR THE SIX MONTHS ENDED JUNE 30, 2020**

(In thousands)

	Obligated Group	Other	Eliminations	Total
OPERATING REVENUES				
Net patient revenue	\$ 1,706,478	\$ 54,008	\$ (130,172)	\$ 1,630,314
Net resident revenue	394,192	24,013	(2,541)	415,664
Premium revenue	-	530,240	(5,285)	524,955
Stimulus revenue	134,743	1,820	-	136,563
Other operating revenue	387,183	57,505	(7,761)	436,927
Total operating revenues	<u>2,622,596</u>	<u>667,586</u>	<u>(145,759)</u>	<u>3,144,423</u>
OPERATING EXPENSES				
Salaries and benefits	1,543,194	85,599	(8,615)	1,620,178
Supplies	480,255	28,815	(27)	509,043
Purchased services and other	379,716	86,968	(4,789)	461,895
Medical claims	-	434,871	(132,328)	302,543
Depreciation and amortization	113,338	7,951	-	121,289
Interest	29,108	1,414	-	30,522
Total operating expenses	<u>2,545,611</u>	<u>645,618</u>	<u>(145,759)</u>	<u>3,045,470</u>
INCOME FROM OPERATIONS	76,985	21,968	-	98,953
NON-OPERATING (EXPENSE) INCOME				
Investment return	8,976	6,415	-	15,391
Other expenses	(13,446)	(5,843)	-	(19,289)
Net non-operating (expense) income	<u>(4,470)</u>	<u>572</u>	<u>-</u>	<u>(3,898)</u>
EXCESS OF REVENUES OVER EXPENSES	72,515	22,540	-	95,055
Plus deficiency of revenues over expenses attributable to non-controlling interest	<u>-</u>	<u>1,245</u>	<u>-</u>	<u>1,245</u>
EXCESS OF REVENUES OVER EXPENSES ATTRIBUTABLE TO CONTROLLING INTEREST	<u>\$ 72,515</u>	<u>\$ 23,785</u>	<u>\$ -</u>	<u>\$ 96,300</u>

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**CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS (UNAUDITED)
FOR THE SIX MONTHS ENDED JUNE 30, 2020**

(In thousands)

	Obligated Group	Other	Eliminations	Total
NET ASSETS WITHOUT DONOR				
RESTRICTIONS - CONTROLLING INTEREST				
Excess of revenues over expenditures attributable to controlling interest	\$ 72,515	\$ 23,785	\$ -	\$ 96,300
Net assets released from restrictions for acquisition of property and equipment	1,759	-	-	1,759
Pension plan related changes	3,519	-	-	3,519
Transfers	(30,531)	30,531	-	-
CHANGE IN NET ASSETS WITHOUT DONOR				
RESTRICTIONS - CONTROLLING INTEREST	47,262	54,316	-	101,578
NET ASSETS WITHOUT DONOR				
RESTRICTIONS - NON-CONTROLLING INTEREST				
Deficiency of revenues over expenses	-	(1,245)	-	(1,245)
Contributions from non-controlling interests	-	3,258	-	3,258
CHANGE IN NET ASSETS WITHOUT DONOR				
RESTRICTIONS - NON-CONTROLLING INTEREST	-	2,013	-	2,013
NET ASSETS WITH DONOR RESTRICTIONS				
Contributions	7,849	29	-	7,878
Investment loss and other	(3,125)	-	-	(3,125)
Net assets released from restrictions	(9,347)	(119)	-	(9,466)
Transfers	1,033	(1,033)	-	-
CHANGE IN NET ASSETS WITH DONOR RESTRICTIONS	(3,590)	(1,123)	-	(4,713)
CHANGE IN NET ASSETS	43,672	55,206	-	98,878
NET ASSETS - BEGINNING OF PERIOD	3,198,359	529,553	(8,627)	3,719,285
NET ASSETS - END OF PERIOD	\$ 3,242,031	\$ 584,759	\$ (8,627)	\$ 3,818,163

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BALANCE SHEET AND LIQUIDITY (UNAUDITED)
(Dollars in thousands)

	Sanford		Obligated Group	
	June 30, 2020	December 31, 2019	June 30, 2020	December 31, 2019
Unrestricted cash and investments	\$ 2,271,052	\$ 2,072,920	\$ 1,806,282	\$ 1,649,368
Days cash on hand	141.3	129.8	135.2	124.7
Total debt	\$ 1,623,871	\$ 1,632,555	\$ 1,579,527	\$ 1,584,740
Net assets without donor restrictions	\$ 3,486,760	\$ 3,383,169	\$ 2,948,955	\$ 2,901,693
Total debt to capitalization	31.8%	32.5%	34.9%	35.3%
Cash to total debt	139.9%	127.0%	114.4%	104.1%
Patient and resident receivables, gross	\$ 1,132,310	\$ 1,186,786	\$ 1,132,310	\$ 1,186,786
Days patient revenue in receivables, gross	48.3	41.9	48.3	41.9

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**UTILIZATION STATISTICS
OBLIGATED GROUP**

	For the Six Months Ended June 30,	
	2020	2019
Admissions	39,503	43,955
Acute patient days	179,278	195,066
Average length of stay	4.52	4.44
Average daily census	985	1,060
Medical center occupancy % (staffed beds) (1)	63.7%	68.4%
Births	4,497	4,721
Surgical procedures	47,711	57,457
Outpatient visits	869,863	958,311
Emergency room visits	93,913	104,074
Clinic work RVUs	4,439,229	4,874,146
Long-term care patient days	1,333,394	1,371,154
Swing beds	5,305	5,279

(1) Medical center includes the tertiary facilities in Sioux Falls, South Dakota; Bemidji, Minnesota; and Fargo and Bismarck, North Dakota.