Obligated Group Financial Statements

3rd Quarter
June 30, 2021

Scripps

Scripps Health
Obligated Group

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For the Quarter and Nine Months Ended June 30, 2021

SCRIPPS HEALTH
OBLIGATED GROUP
STATEMENTS OF FINANCIAL POSITION
June 30, 2021
($000s)

	June 2021	June 2020	September 2020
ASSETS			
Current Assets:			
Cash and Cash Equivalents	$ 466,190	$ 679,913	$ 598,159
Accounts Receivable, Net	500,229	391,004	472,847
Assets Limited As To Use	10	10	10
Other Current Assets	273,228	181,643	226,532
Total Current Assets	**1,239,657**	**1,252,569**	**1,297,548**
Investments:			
Assets Limited As To Use	328,435	330,101	278,210
Unrestricted	3,315,912	2,434,241	2,587,338
Property, Plant and Equipment	4,243,511	3,914,430	4,005,479
Less Accumulated Depreciation	(2,120,837)	(1,971,859)	(2,008,890)
Property, Plant and Equipment, Net	**2,122,674**	**1,942,571**	**1,996,590**
Right of Use Assets	258,930	235,137	251,373
Other Assets	233,729	241,281	250,257
Total Assets	**$ 7,499,337**	**$ 6,435,900**	**$ 6,661,316**
LIABILITIES AND EQUITY			
Current Liabilities:			
Current Portion of Long-term Debt	$ 81,597	$ 235,494	$ 157,156
Accounts Payable	213,379	243,664	220,510
Accrued Liabilities	522,687	462,362	562,351
Current Portion of Lease Liability	28,104	27,752	25,724
Total Current Liabilities	**845,767**	**969,272**	**965,741**
Long Term Debt	1,113,778	746,329	750,096
Other Liabilities	140,039	88,880	128,560
Long Term Lease Liability	241,360	216,697	234,890
Total Liabilities	**2,340,944**	**2,021,178**	**2,079,287**
Net Assets:			
Without Donor Restrictions			
Controlling Interest	4,862,005	4,119,176	4,312,870
With Donor Restrictions	296,388	295,546	269,159
Total Net Assets	**5,158,392**	**4,414,722**	**4,582,029**
Total Liabilities and Net Assets	**$ 7,499,337**	**$ 6,435,900**	**$ 6,661,316**

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

	FOR THE QUARTER ENDED JUNE 30, 2021	2020
Revenues, gains, and other support without donor restrictions:		
Patient service revenue	$ 644,881	$ 579,316
Provider tax revenue	38,162	36,246
Total patient service revenue	683,042	615,562
Capitation premium	47,007	54,693
CARES act	-	83,331
Other	27,855	34,827
Meaningful use	38	-
Net assets released from restrictions used for operations	17,374	10,897
Total operating revenues	**775,316**	**799,310**
Operating expenses:		
Wages and benefits	373,331	350,639
Supplies	157,107	129,290
Physician services	142,934	113,101
Other services	93,749	81,857
Provider fee	26,866	25,678
Capitation services	726	355
Depreciation and amortization	47,293	42,969
Interest	5,099	3,944
Restructuring	-	771
Total operating expenses	**847,104**	**748,605**
Operating (loss) / income before corporate overhead allocation & income tax	**(71,788)**	**50,705**
Corporate overhead allocation	287	320
Provision for income tax expense	(112)	(108)
Operating income after corporate overhead allocation & income tax	**(71,614)**	**50,917**
Nonoperating gains (losses):		
Interest and dividends	10,335	7,755
Realized gains / (losses)	37,665	(4,394)
Unrealized gains on trading portfolio	115,984	254,301
Contributions	488	894
Market adjustment on Interest rate swaps	(1,707)	(850)
Excess of revenues over expenses	**$ 91,151**	**$ 308,622**

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

	FOR THE QUARTER ENDED JUNE 30, 2021	2020
Other change in net assets without donor restrictions:		
Excess of revenues over expenses attributable to controlling interests	$ 91,151	$ 308,622
Net assets released from restrictions used for purchase of property & equipment	24,496	2,791
Other	-	-
Increase in net assets without donor restrictions	**115,647**	**311,414**
Change in net assets with donor restrictions:		
Contributions	38,959	13,686
Interest and dividends	465	369
Realized gains / (losses)	1,130	(97)
Unrealized gains on trading portfolio	3,240	10,178
Net assets released from restrictions used for operations	(17,374)	(10,899)
Net assets released from restrictions used for purchases of property & equipment	(24,496)	(2,791)
Change in value of deferred gifts	41	(427)
Other	(1)	(13)
Increase in net assets with donor restrictions	**1,963**	**10,005**
Total increase in net assets	**$ 117,611**	**$ 321,419**

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

	FOR THE NINE MONTHS ENDED JUNE 30,	
	2021	**2020**
Revenues, gains, and other support without donor restrictions:		
Patient service revenue	$ 2,118,339	$ 1,965,597
Provider tax revenue	114,485	146,510
Total patient service revenue	2,232,824	2,112,108
Capitation premium	134,884	143,231
CARES act	50,435	83,331
Other	81,580	84,463
Meaningful use	38	130
Net assets released from restrictions used for operations	57,699	55,807
Total operating revenues	**2,557,460**	**2,479,069**
Operating expenses:		
Wages and benefits	1,160,000	1,055,038
Supplies	493,473	432,721
Physician services	438,916	387,177
Other services	267,664	255,119
Provider fee	80,234	102,727
Capitation services	2,510	2,622
Depreciation and amortization	138,196	125,412
Interest	16,945	14,293
Restructuring	-	4,943
Total operating expenses	**2,597,938**	**2,380,052**
Operating income before corporate overhead allocation & income tax	**(40,479)**	**99,017**
Corporate overhead allocation	969	1,094
Provision for income tax expense	(358)	(255)
Operating income after corporate overhead allocation & income tax	**(39,867)**	**99,856**
Nonoperating gains (losses):		
Interest and dividends	29,399	45,204
Realized gains	50,699	12,240
Unrealized gains on trading portfolio	456,790	1,975
Contributions	8,192	2,126
Market adjustment on Interest rate swaps	2,988	(6,552)
Losses on early extinguishment of debt	-	(739)
Excess of revenues over expenses	**$ 508,201**	**$ 154,110**

Scripps

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

	FOR THE NINE MONTHS ENDED JUNE 30,			
		2021		2020
Other change in net assets without donor restrictions:				
Excess of revenues over expenses attributable to controlling interests	$	508,201	$	154,110
Net assets released from restrictions used for purchase of property & equipment		39,712		4,186
Other		-		-
Increase in net assets without donor restrictions		**547,913**		**158,296**
Change in net assets with donor restrictions:				
Contributions		107,220		97,886
Interest and dividends		1,127		2,205
Realized gains		1,897		974
Unrealized gains on trading portfolio		14,364		3,212
Net assets released from restrictions used for operations		(57,699)		(55,807)
Net assets released from restrictions used for purchases of property & equipment		(39,712)		(4,186)
Change in value of deferred gifts		21		2,188
Other		12		(5)
Increase in net assets with donor restrictions		**27,229**		**46,467**
Total increase in net assets	**$**	**575,142**	**$**	**204,762**

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

	For the Nine Months Ended	
	June 30, 2021	June 30, 2020
Operating activities and nonoperating gains		
Total increase in net assets	$575,142	$204,762
Reconciliation of total change in net assets to cash flows provided by operating activities and nonoperating gains and losses:		
Depreciation and amortization	138,196	125,412
Amortization of debt issuance costs	195	205
Amortization of original issue premium / discount	(416)	(116)
Loss on early extinguishment of debt	-	739
Realized and unrealized gains on investments	(523,750)	(18,401)
Purchases of investments designated as trading	(555,914)	(705,535)
Proceeds from sale of investments designated as trading	351,090	656,930
Interest rate swaps	(5,568)	4,530
Gain on disposal of property	(1,176)	(5)
Restricted contributions and investment income	(110,243)	(101,066)
Change in assets and liabilities:		
Accounts receivables - net	(27,382)	22,008
Right of use operating lease liabilities	(21,082)	(20,665)
Other current assets	(24,321)	9,647
Other assets	16,029	(58,101)
Accounts payable and accrued liabilities	(49,472)	319,682
Other liabilities	21,230	(7,666)
Net cash (used in) / provided by operating activities:	(217,442)	432,359
Investing activities:		
Purchases of property, plant and equipment	(257,040)	(207,140)
Purchases of investments designated as assets limited as to use	(50,225)	(27,724)
Sales of investments designated as assets limited as to use	-	3,936
Net cash used in investing activities:	(307,264)	(230,928)
Financing activities:		
Proceeds from restricted contributions and investment income	86,350	41,783
Proceeds from line of credit	22,992	141,000
Payments from line of credit	-	(35,976)
Payment of bond issuance costs	(433)	(353)
Right of use financing lease payment	(3,365)	(2,239)
Proceeds from long-term debt	300,000	99,360
Payments on long-term debt	(33,380)	(131,730)
Proceeds from sale of donated financial assets	20,574	40
Net cash provided by financing activities:	392,738	111,885
(Decrease) / Increase in cash and cash equivalents	(131,969)	313,316
Cash and cash equivalents at beginning of period	598,159	366,595
Cash and cash equivalents at end of period	$466,190	$679,913
Supplemental non-cash disclosure:		
Operating Lease	$29,932	$123,573
Financing Lease	2,504	3,677

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

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 June 30, 2021 and September 30, 2020.

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).

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 June 30, 2021 (in thousands). Most 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)	Significant Unobservable Inputs (Level 3)	NAV	Valuation Technique (a,b,c)
Investments						
Liquid investments:						
Cash equivalents	$ 300	$ 300	$ –	$ –	$ –	a
Equity securities:						
U.S. equity	786,872	786,872	–	–	–	a
Foreign equity	648,687	648,687	–	–	–	a
Foreign equity (commingled)	413,422	–	414,422	–	–	a
	1,848,981	1,435,559	413,422	–	–	
Fixed income securities:						
U.S. government	97,570	–	97,570	–	–	a
U.S. government agencies	15,956	–	15,956	–	–	a
U.S. federal agency mortgage-backed	116,446	–	116,446	–	–	a
U.S. corporate	456,932	–	456,932	–	–	a
U.S. corporate (commingled)	422,456	–	422,456	–	–	a
Foreign corporate	25,251	–	25,251	–	–	a
	1,134,611	–	1,134,611	–	–	
Other investments:						
Multi-strategy hedge funds	386,101	–	–	–	386,101	
Private capital funds	139,393	–	–	–	139,393	
Defensive equity funds (commingled)	58,836	–	58,836	–	–	a
Real estate	28,134	–	28,134	–	–	a
Limited Partnership	48,000	–	–	48,000	–	c
	660,464	–	86,970	48,000	525,494	
Total investments	3,644,356	1,435,859	1,635,003	48,000	525,494	
Other assets:						
Real estate held for sale	710	–	710	–	–	a
Total assets	$ 3,645,066	$ 1,435,859	$ 1,636,713	$ 48,000	$ 525,494	
Other liabilities:						
Swap hedge	$ 19,598	$ –	$ 19,598	$ –	$ –	b
Annuity/unitrust liabilities	9,865	–	9,865	–	–	b
Total liabilities	$ 29,463	$ –	$ 29,463	$ –	$ –	

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, 2020 (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	$ 113	$ 113	$ –	$ –	a
Equity securities:					
U.S. equity	610,818	610,818	–	–	a
Foreign equity	450,434	450,434	–	–	a
Foreign equity (commingled)	337,345	–	337,345	–	a
	1,398,597	1,061,252	337,345	–	
Fixed income securities:					
U.S. government	35,984	–	35,984	–	a
U.S. government agencies	19,002	–	19,002	–	a
U.S. federal agency mortgage-backed	98,998	–	98,998	–	a
U.S. corporate	426,032	–	426,032	–	a
U.S. corporate (commingled)	412,186	–	412,186	–	a
Foreign corporate	28,493	–	28,493	–	a
	1,020,695	–	1,020,695	–	
Other investments:					
Multi-strategy hedge funds	284,389	–	–	284,389	
Private capital funds	82,868	–	–	82,868	
Defensive equity funds (commingled)	50,762	–	50,762	–	a
Real estate	28,134	–	28,134	–	a
	446,153	–	78,896	367,257	
Total investments	2,865,558	1,061,365	1,436,936	367,257	
Other assets:					
Real estate held for sale	710	–	710	–	a
Total assets	$ 2,866,268	$ 1,061,365	$ 1,437,646	$ 367,257	
Other liabilities:					
Swap hedge	$ 25,166	$ –	$ 25,166	$ –	b
Annuity/unitrust liabilities	10,886	–	10,886	–	b
Total liabilities	$ 36,052	$ –	$ 36,052	$ –	

NOTE (2) FAIR VALUE MEASUREMENTS (CONTINUED)

As of June 30, 2021 and September 30, 2020, 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 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.

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 as the investment does not have readily determinable fair value. At June 30, 2021, Scripps Health performed a qualitative assessment to consider impairment indicators to evaluate whether the investment is impaired. No impairment was recognized.

(in thousands)		Fair Value Measurements Using Significant Unobservable Inputs (Level 3)
Opening Balance as of September 30, 2020	$	-
Purchases, assignments, sales, and settlements		48,000
Total gains or losses for the period		-
Closing Balance as of June 30, 2021	$	48,000

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:

	June 30, 2021	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Commingled:				
Equity securities[1]	$ 413,422	$ -	Monthly	10 days
Fixed income securities[2]	422,456	-	Daily	15 days
	$ 835,878	$ -		
Alternative investments:				
Hedge funds[3]	$ 386,101	$ -	Monthly to Annual	45 to 120 days
Private capital[4]	139,393	187,610	N/A	N/A
Defensive equity (commingled)[5]	58,836	-	Monthly	5 days
	$ 584,330	$ 187,610		

(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 June 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 illiquid basis. As of June 30, 2021, the category consisted of 25.0% monthly liquidity, 58.3% quarterly liquidity, 8.3% annual liquidity, and 8.3% illiquid.

(4) Private capital – This category includes investments in 21 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.

NOTE (2) FAIR VALUE MEASUREMENTS (CONTINUED)

(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 June 30, 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.

NOTE (3) ENDOWMENTS (CONTINUED)

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. 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 June 30, 2021.

Changes in donor restricted endowment funds for the nine months ended June 30, 2021, and 2020 are as follows (in thousands):

	2021	2020
Donor restricted endowment funds as of beginning of year	$ 128,651	$ 120,326
Investment return, net	15,296	5,759
Contributions	471	111
Appropriation of endowment assets for expenditure	(2,738)	(2,460)
Other changes	(1,348)	(1,675)
Donor restricted endowment funds as of end of period	$ 140,332	$ 122,061

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 June 30, 2021 and September 30, 2020 the amount of goodwill totaled approximately $58,310,000. No impairment or additions to goodwill were recorded for the nine months ended June 30, 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-three 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. Upon adoption of the lease standard, discount rates for existing operating leases were established at October 1, 2019. The impact to the Organization's obligated statements of financial position as of September 30, 2020 was $128,376,000.

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 June 30, 2021 and June 30, 2020 (in thousands):

		2021	2020
Property, Plant and Equipment, net			
Finance leases, net	$	10,931	6,954
Right-of-use assets			
Operating leases	$	258,930	235,137
Finance Leases Liabilities			
Current portion of long-term debt	$	4,863	2,255
Long-term debt		6,836	4,808
	$	11,698	7,063
Operating Lease Liabilities			
Current portion of lease liability	$	28,104	27,752
Long-term lease liability		241,360	216,697
	$	269,464	244,449

NOTE (5) LEASES (CONTINUED)

The components of lease expense reported within Other Services of Obligated Statement of Operations are for the nine months ended June 30, 2021, and June 30, 2020 as follows (000s):

	2021	2020
Lease/rental cost:		
Amortization of right-of-use assets	$ 3,820	$ 2,198
Interest on lease liabilities	215	114
Total finance lease cost	4,035	2,312
Operating lease cost	24,312	22,348
Short-term and variable lease cost	3,464	4,370
Total lease/rental cost	$ 31,811	$ 29,030
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from finance leases	$ 215	$ 114
Operating cash flows from operating leases	23,445	23,112
Financing cash flows from finance leases	3,365	2,239
Total	$ 27,025	$ 25,465
Right-of-use assets obtained in exchange for new operating lease liabilities	$ 29,932	$ 123,573
Right-of-use assets obtained in exchange for new financing lease liabilities	$ 2,504	$ 3,677
Weighted average remaining lease term - finance leases	3.0 years	4.0 years
Weighted average remaining lease term - operating leases	12.7 years	11.9 years
Weighted average discount rate - finance leases	2.22%	3.01%
Weighted average discount rate – operating leases	1.08%	1.12%

NOTE (5) LEASES (CONTINUED)

Scheduled maturities of lease liabilities at June 30, 2021 were as follows:

		Undiscounted Finance Lease Payments	Imputed Interest	Finance Lease Liabilities
2021**	$	1,280	54	1,226
2022		5,027	176	4,851
2023		2,567	110	2,457
2024		2,199	53	2,146
2025		970	9	961
2026		57	-	57
Total	$	12,100	402	11,698

		Undiscounted Operating Lease Payments	Imputed Interest	Operating Lease Liabilities
2021**	$	6,802	779	6,023
2022		32,238	2,846	29,392
2023		28,652	2,453	26,199
2024		26,491	2,121	24,370
2025		24,800	1,819	22,981
2026		23,127	1,538	21,589
Thereafter		146,840	7,930	138,910
Total		288,950	19,486	269,464

** Excluding the nine months ended June 30, 2021.

NOTE (6) OTHER EVENTS

COVID – 19 Impact

Scripps Health received a total of $125.0 million from the CARES program including $45.9 million received on June 12th, 2020 for Mercy Hospital from the Safety Net Hospital CARES act funding and $19.9 million received on July 20, 2020 for high impact COVID-19 area funding from U.S. Department of Health and Human Services (HHS). A total $75.1 million was recognized as revenue in the September YTD FY20 financials including $15.3 million recorded for Mercy Hospital based on lost revenues to date combined with COVID specific incremental expenses to date. Lost revenues at that time were defined by HHS as the loss between CY20 and CY19. In December 2020, HHS released new guidance redefining lost revenues allowing us to recognize CARES act provider relief funds equal to the variance between calendar year 2020 actual revenues and budgeted revenues. The HHS reporting portal opened on July 1, 2021 for reporting lost revenues and expenses for period April 10 through Jun 30, 2020. The deadline for reporting is September 30, 2021.

NOTE (6) OTHER EVENTS (CONTINUED)

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 year-to-date repayments through June 30th total $16.8 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 has taken advantage of the FICA deferral for SSI for April 1, 2020 through December 31, 2020 that will be repaid without interest in CY21. As of December 31, 2020, we have deferred $53.6 million. This program has not been extended past December 31, 2020.

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.

CARES Act ($'000s)					
	General	Safety Net	High Impact	ERTC Accrual	Total
Total received/accrued	$ 59,101	$ 45,871	$ 19,900	$ 18,459	$ 143,331
Total recognized to date	59,101	45,871	19,900	18,459	143,331
Deferred recognition	$ -	-	$ -	$ -	$ -

NOTE (7) SUBSEQUENT EVENTS

The Organization has evaluated events and transactions occurring subsequent to June 30, 2021 through July 28, 2021, the date the financial statements were issued. During this period, there were no subsequent events requiring recognition in the financial statements.

SCRIPPS HEALTH
OBLIGATED GROUP FINANCIAL STATEMENTS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE QUARTER AND NINE MONTHS ENDED JUNE 30, 2021

	For the Quarter Ended ($000s)	
	June 30, 2021	June 30, 2020
	Actual	Actual
Operating Revenue	$775,316	$799,310
Operating (Loss) / Income	($71,614)	$50,917
Operating Margin	-9.2%	6.4%
Operating EBITDA	($19,109)	$97,938
Operating EBITDA Margin	-2.5%	12.3%
Excess Margin	$91,151	$308,622
Excess Margin %	9.7%	29.2%

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 revenue loss and incremental expenses incurred due to the Cyber incident is approximately $112.7 million through June 30th.

Operating revenues and operating expenses for the quarter ended June 30, 2021 were significantly impacted by lost revenues and incremental expense incurred during the cyber security incident that occurred in May 2021. As of June 30th, we estimate total lost revenues to be $91.6 million and incremental costs incurred to address the cyber security incident and recovery were estimated at $21.1 million. $5.9 million insurance recovery was accrued in other operating revenues in June 2021. The remaining balance of $14.1 million of insurance recoveries are anticipated to be accrued by the end of this fiscal year once accounting requirements for recognition have been met.

Excess margin for the quarter ended June 30, 2021 compared to the quarter ended June 30, 2020 was ($217,471,000) lower than prior year primarily due to $94 million lower investment earnings in FY21 and the estimated net impact of $107 million relating to the cyber security incident discussed above.

	For the Nine Months Ended ($000s)	
	June 30, 2021	June 30, 2020
	Actual	Actual
Operating Revenue	$2,557,460	$2,479,069
Operating (Loss) / Income	($39,867)	$99,856
Operating Margin	-1.6%	4.0%
Operating EBITDA	$115,625	$239,816
Operating EBITDA Margin	4.5%	9.7%
Excess Margin	$508,201	$154,110
Excess Margin %	16.4%	6.1%

Operating revenue for the nine months ended June 30, 2021 was $78,390,000 or 3.2% higher than nine months ended June 30, 2020. This is primarily attributable to higher patient volumes in the current year (due to significant COVID volume reductions in FY20) partially offset by lost revenues in the current year from the cyber security incident which led to volume reductions during May 2021 from Emergency Room diversions and postponement of elective surgeries.

Operating expenses for the nine months ended June 30, 2021 were $217,886,000 or 9.1% higher than the nine months ended June 30, 2020 primarily attributable to incremental expenses from both the COVID response and cyber security incident.

Excess margin for the nine months ended June 30, 2021 compared to the nine months ended June 30, 2020 was $354,091,000 higher than prior year primarily due to $477 million from improved investment performance in FY21 and partially offset by the lost revenue and incremental expenses incurred due to the May 2021 cyber incident estimated at approximately $112.7 million through June 30th and the additional operating expenses related to COVID.

	June 30, 2021	June 30, 2020	September 30, 2020
Unrestricted Cash & Investments ($000s)	$ 3,782,102	$ 3,114,154	$ 3,185,497
Days Unrestricted Cash on Hand ^1	427.4	384.1	385.5
Days in AR, Net	61.2	50.7	59.9
Accounts Payable & Accrued Liabilities ($000s)	$ 736,066	$ 706,026	$ 782,862
Days in AP & Accrued Liabilities ^2	81.7	85.8	94.7
Unrestricted Cash & Investments to Total Debt ^3	316.4%	317.2%	351.1%
Long Term Debt ($000s)	$ 1,113,778	$ 746,329	$ 750,096
Current Portion of Long-Term Debt ($000s)	$ 81,597	$ 235,494	$ 157,155
Total Debt ($000s)	$ 1,195,375	$ 981,823	$ 907,249
Long-Term Debt to Capitalization	19.7%	19.2%	17.4%

^ The following ratios includes $187.1M of Medicare advances and $49.0M of FICA deferrals. Excluding those amounts, the Jun21 ratios would be:

(1) Days Unrestricted Cash on Hand: 400.8, (2) Days in AP & Accrued Liabilities: 58.2. and (3) Unrestricted Cash & investment to Total Debt: 296.7%

SIGNIFICANT TRANSACTIONS

Tax Exempt Bonds

In FY2021, Scripps Health made scheduled bond principal payments amounting to $33,380,000, which included $2,100,000 scheduled principal payment on the 2001A bond, $18,145,000 scheduled principal payment on the 2016A and 2016B tax-exempt bond series, $9,775,000 on term loan, and $3,360,000 scheduled principal payment on 2019A tax-exempt bond.

2020A and 2020B Series Senior Notes

On October 15, 2020, the Organization entered into a private placement debt transaction with two counterparties for $300 million of Series Senior Notes. $170 million of the 2020A Series Senior Notes due October 15, 2060 is with MetLife with fixed interest rate at 2.95% and $130 million of the 2020B Series Senior Notes due October 15, 2050 is with New York Life with fixed interest rate at a 2.75% rate.

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 $33.9 million was recorded based on CHA model for the program period of October 2020 to June 2021.

Medi-Cal Supplemental Provider Fee Schedule for 2019-2021 Program For the Nine Months Ended 6/30/21 ($000s)				
Hospitals	**Supplemental Revenue**	**Provider Fee**	**CHFT Fee**	**Net Operating Income (Loss)**
La Jolla	$ 16,110	$ (20,460)	$ -	$ (4,350)
Green	-	-	-	-
Encinitas	10,538	(13,255)	-	(2,717)
Mercy	87,840	(46,605)	(279)	40,956
Total	**$ 114,488**	**$ (80,320)**	**$ (279)**	**$ 33,889**
Target	**$ 114,483**	**$ (80,316)**	**$ -**	**$ 34,167**
Variance	**$ 5**	**$ (4)**	**$ (279)**	**$ (278)**

<u>Dr. Seuss Enterprise, LP – Geisel Gift</u>

Scripps Health received notification from Geisel Trust of their intention to transfer of shares in Dr. Seuss Enterprises, L.P. including royalty rights for Dr. Seuss book rights effective December 31, 2019. In October 2020, and April 2021, Dr. Seuss Enterprises, L.P. distributed $805,000 and $721,000, respectively which are reported as nonoperating income – investment income within consolidated financial statements. Management recognized the approximate fair value market of the gifted shares in Dr. Seuss Enterprise, L.P. as of March 31, 2021 totaling $48,000,000. Scripps Health has recorded the gift as Restricted Contributions and as an Investment Whose Use is Limited in the accompanying consolidated financial statements. Additionally, approximately $24,000,000 was released from donor restrictions into operations based on eligible expenses and $24,000,000 is restricted for use by inpatient hospice.

Anderson Family Trust

In April 2021, Scripps Health received donated bonds and stocks totaling $33,500,000 from the Anderson Family Trust which are reported as restricted contributions within consolidated financial statements. The proceeds from the securities were released based on donor intentions and eligible expenditures for Anderson Medical Pavilion capital and Anderson Medical Pavilion greatest operational needs totaling $20,000,000 and $13,600,000, respectively.

Kaiser Master Contract Extension

In November 2020, Scripps Health signed a five year extension with two 2½ year options to extend the master agreement with Kaiser. Under the new agreement, Scripps La Jolla will continue to be the exclusive provider of cardiac surgery (institutional and professional) and interventional cardiology (institutional only) for nearly 630,000 Kaiser members across San Diego County. Scripps will continue to provide hospital services to Kaiser members transferred to a Scripps facility or treated in a Scripps emergency department.

Forward Looking

Wyeth Pharmaceuticals Settlement Agreement

Funding was approved on November 12, 2020 by the United States District Court after a grant application process where Scripps and several other health care organizations applied for residual funds. Scripps will receive an estimated $22.1 million as part of an excess settlement funds distribution from Wyeth Pharmaceuticals to support breast cancer, cardiovascular and neurocognitive as well as healthcare disparities and core elements programs. These funds will support specific patient care and research programs at Scripps MD Anderson Cancer Center, Scripps Prebys Cardiovascular Institute.