



Quarterly Financial Reporting Information

For the Six Months Ended June 30, 2020

Sisters of Charity of Leavenworth Health System, Inc.

Disclosure Information as of June 30, 2020

August 13, 2020

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SISTERS OF CHARITY OF LEAVENWORTH HEALTH SYSTEM, INC. AND AFFILIATES

OVERVIEW

History, Background and Organization

The Sisters of Charity of Leavenworth (the Sisters or the Congregation), founded in 1858, have provided more than 160 years of service committed to enhancing the spiritual, health, educational and social well-being of all persons. In 1857, a small congregation of Sisters from Nashville, Tennessee, ventured to the edge of an expanding frontier, settling in the territory of Kansas. Over the years, these women established schools, orphanages and hospitals throughout the western territories as the populations and needs of these communities grew.

The Congregation sponsors a variety of ministries in health care, education, social welfare, spiritual development and foreign missions. The historical roots of its health-care ministry can be traced to 1864 when the Sisters opened the first private hospital in the state of Kansas. Within the next century the Sisters established, developed and staffed hospitals in Montana, Colorado, Nebraska, New Mexico, California, Kansas and Wyoming.

In 1972, following a review of their first century of providing health-care services, the Sisters recognized the need to unify and develop a more cohesive system for the hospitals, strengthening them individually and collectively. As a result of that review, the Sisters sought the incorporation of Sisters of Charity of Leavenworth Health System, Inc. (SCL Health), a nonprofit corporation organized under the laws of the State of Kansas. In 2011, the Congregation formed a new canonical entity, Leaven Ministries, which was approved and recognized by the Catholic Church to be the new Sponsor of SCL Health. Leadership of the Sisters of Charity of Leavenworth religious community remains involved in Leaven Ministries. The members of Leaven Ministries include two Sisters and three lay leaders. SCL Health is governed by a 17-member Board of Directors.

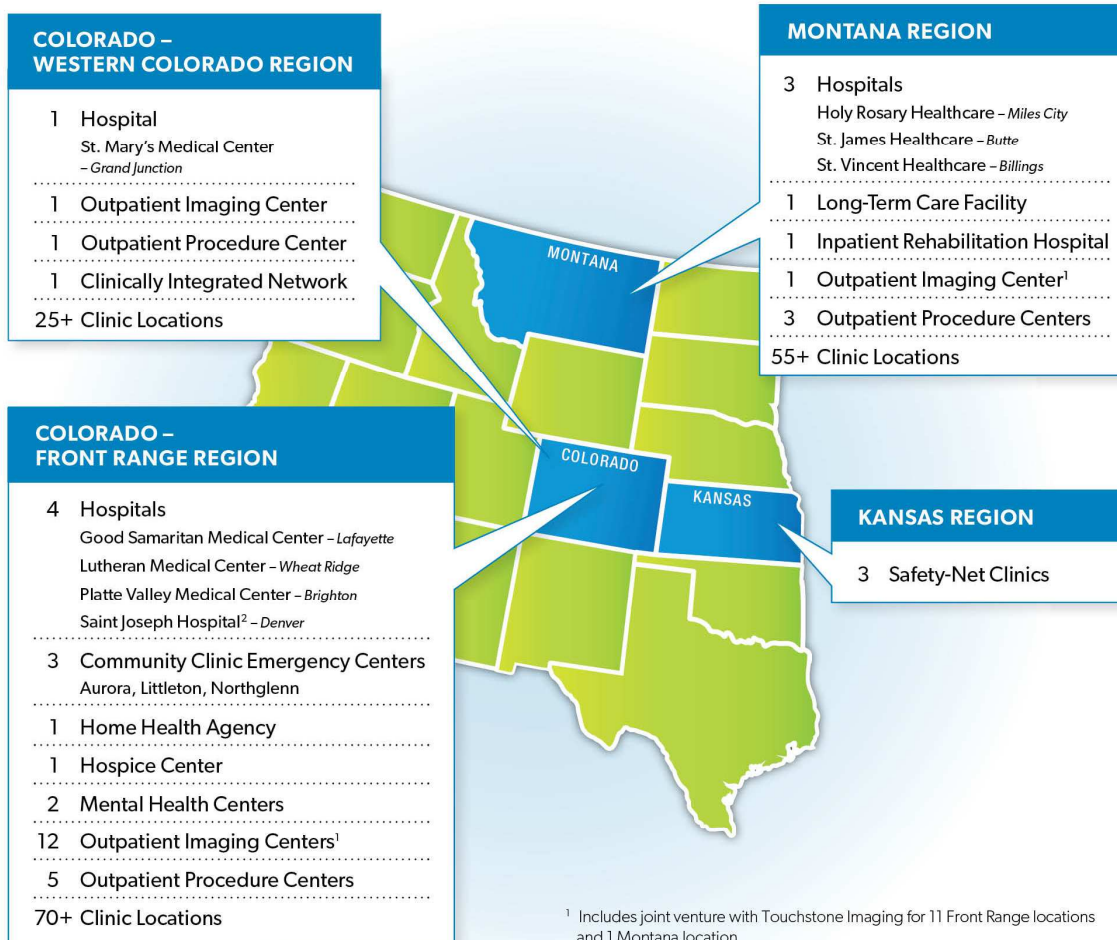
Headquartered in Broomfield, Colorado, SCL Health is a faith-based nonprofit health-care system that operates eight acute care hospitals, three safety-net clinics, one children's mental health center and more than 170 ambulatory service locations primarily in Colorado and Montana, with more than 15,000 associates and over 800 employed providers. SCL Health is the sole member of an Obligated Group under a Master Trust Indenture (MTI). Seven hospitals comprise the Restricted Affiliates under the MTI. (See Restricted Affiliates Organization Chart.) SCL Health and its hospitals have been recognized for clinical quality and patient experience by multiple third-party organizations that rank hospitals and health systems nationwide.

SCL Health has entered into several strategic partnerships and affiliation agreements from 2014 to the present, including but not limited to: a Joint Operating Agreement with National Jewish Health, a joint venture with Touchstone Imaging and an affiliation agreement with Platte Valley Medical Center. These reflect the organization's efforts to expand its continuum of care and grow in the communities it serves.





Where We Serve Our Communities



¹ Includes joint venture with Touchstone Imaging for 11 Front Range locations and 1 Montana location

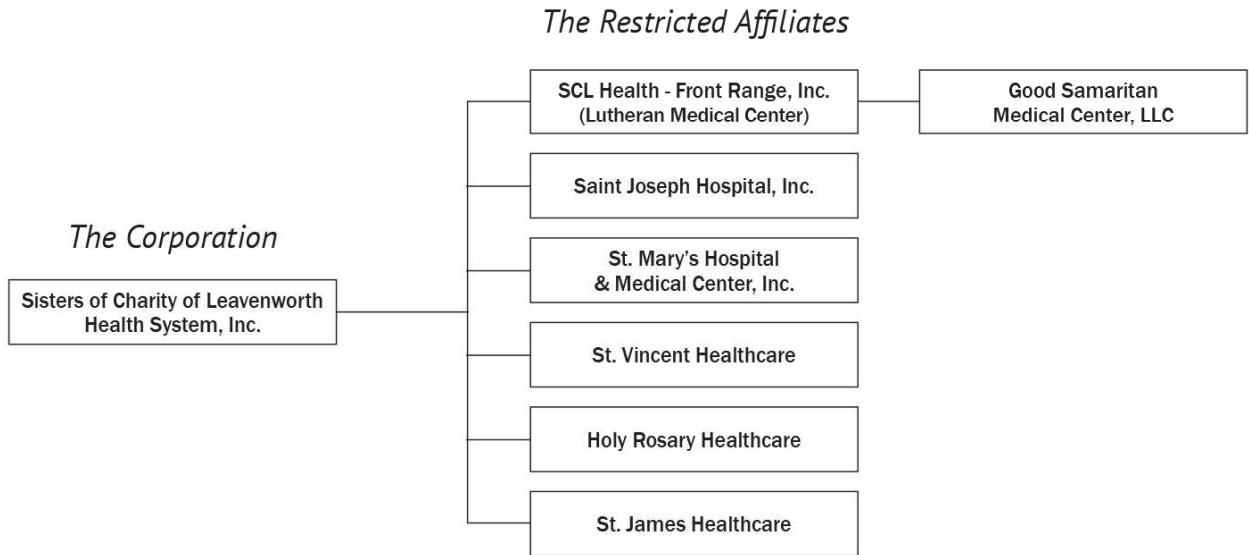
² Joint operating agreement with National Jewish Health

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ORGANIZATION CHART



SCL Health Changes

Restricted Affiliates, Affiliates and Joint Ventures

In the second quarter of 2020, SCL Health received a total of \$81.2 million from the Public Health and Social Services Emergency Fund as part of the Coronavirus Aid, Relief, and Economic Security (CARES) Act, of which \$66.1 million has been recognized as revenue. Additionally, SCL Health received \$183.2 million in advanced payments from Centers for Medicare and Medicaid (CMS). The advance payments will be recaptured by CMS over the period from August 2020 through February 2021. SCL Health continues to explore options for COVID-19 related financial relief from commercial insurance coverage as well as Federal and State programs.

No other changes to the restricted affiliates, affiliates or joint ventures have occurred subsequent to the March 31, 2020 disclosure.

Corporate Governance

No changes to corporate governance have occurred subsequent to the March 31, 2020 disclosure.

Executive Management

No changes to executive management have occurred subsequent to the March 31, 2020 disclosure.



Management's Discussion and Analysis of Financial Performance

For the Six Months Ended June 30, 2020

Summary

The COVID-19 pandemic has had a significant negative effect on SCL Health's operations in the first two quarters of 2020. Internal decisions and government mandates halted elective procedures beginning in March and lasting through late April, which significantly reduced revenues. In addition, volatility in the financial markets resulted in large investment losses. For the six months ended June 30, 2020, SCL Health reported operating income from continuing operations of \$26.8 million, including \$66.1 million of CARES Act funds, an operating margin of 2.0% on total operating revenue of \$1,368.2 million. Earnings from continuing operations before interest, taxes, depreciation and amortization (EBITDA of \$136.4 million represented an operating EBITDA margin of 10.0%. Non-operating losses of \$44.5 million were due to net investment losses of \$42.5 million.

Financial Analysis

Balance Sheet

Despite the operational challenges of COVID-19, at June 30, 2020, the consolidated balance sheet of SCL Health continued to reflect a strong and stable health system. Total cash and investments (including amounts due from and due to broker) of \$2.8 billion (a total of 405 days cash and investments on hand) represented an increase of \$395.4 million compared to December 31, 2019.

Total assets have increased by \$350.5 million in 2020, largely due to CMS advanced payments, CARES Act relief funds received, and draws on lines of credit. Total long-term debt, including current maturities, decreased by \$36.5 million primarily due to scheduled debt principal payments and amortization of original issuance premium. Current liabilities increased by \$378.1 million due to \$200.0 million in draws on the lines of credit; and the \$183.2 million of CMS advanced payments. Other non-current liabilities decreased by \$21.7 million. Net assets decreased by \$18.4 million largely due to the deficit of revenue over expenses of \$17.7 million. The decrease in net long-term debt resulted in a decrease of the net long-term debt to capitalization ratio from 28.0% at December 31, 2019 to 27.6% at June 30, 2020.

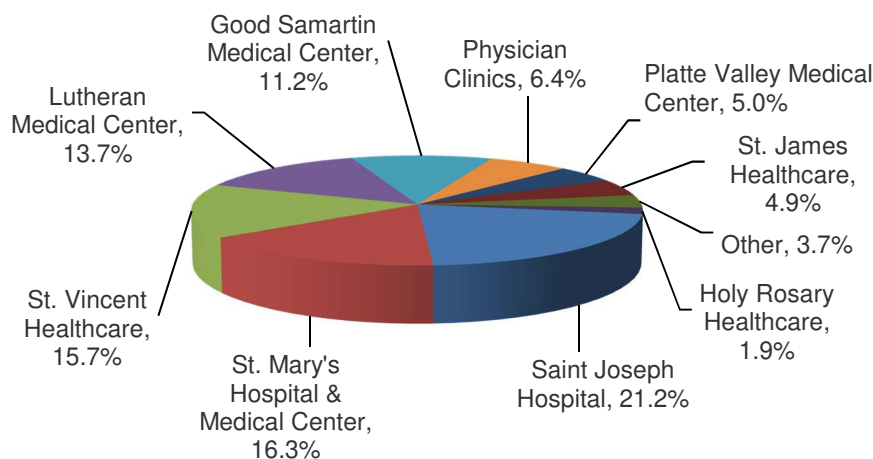
Volume and Operating Income

Volume indicators experienced a decline compared to the prior year, largely due to the cancellation of elective procedures beginning in mid-March and lasting until end of April in response to the COVID-19 pandemic. Overall, the year-to-date admissions, surgical cases, emergency visits and other outpatient visits declined 11.9%, 16.7%, 14.6% and 14.0% respectively, from the prior year. The average inpatient length of stay increased to 5.2 days from 4.9 days, and the case mix index held steady at 1.8.



SCL Health's payer mix is fairly stable. In the first six months of 2020, Medicaid represented 16.8% of gross patient charges compared to 15.7% during the first six months of 2019 reflecting the impact of the pandemic on the economy. Medicare represented 44.9% of gross patient charges compared to 46.4% during the first six months of 2019 reflecting a trend of Medicare enrollees choosing to delay elective procedures. Commercial and other contracted payers represented 34.8% of gross patient charges during the first six months of 2020 and 34.6% for that same timeframe in 2019. Self-pay represented 3.5% of gross patient charges, an increase from 3.3% during the first six months of 2019.

Volume reductions made to prepare for a potential surge of COVID-19 patients were largely responsible for a \$112.5 million decrease in net patient revenue for the six months ended June 30, 2020 compared to the prior year. The chart below shows, by site, the percentage of total net patient services revenue generated for the first six months of 2020:



Operating expenses increased by \$22.3 million or 1.7% during the first six months of 2020 compared to the same period in 2019. Salaries and benefits increased by \$21.4 million or 3.1% during the first six months of 2020 compared to 2019 due to merit and market increases, as well as increased use of premium labor to prepare for the initial COVID-19 surge of cases. Expense was incurred to cross train various staff for other duties in preparation for a potential surge of COVID-19 patients. Supplies, purchased services and other operating expenses increased by \$3.3 million and 0.6% over the same period in 2019. Depreciation expense increased by \$5.7 million or 6.8% in the first six months of 2020 compared to 2019, while interest expense declined by \$8.1 million or 28.5% due to the refinancing of debt in the fourth quarter of 2019.



Sources of Patient Service Charges

The primary sources of consolidated gross patient service charges include Medicare, state-administered Medicaid programs, contracted rate payers (including health maintenance organizations and preferred provider organizations), commercial insurers and self-paying patients. The following information provides consolidated gross patient service charges for the six months ended June 30, 2020 and 2019 and the year ended December 31, 2019.

	Six Months Ended June 30		Year Ended December 31
	2020	2019	2019
Medicare	44.9%	46.4%	46.5%
Medicaid	16.8%	15.7%	15.7%
Managed care, commercial and other	34.8%	34.6%	34.5%
Self-pay	3.5%	3.3%	3.3%
Total	100.0%	100.0%	100.0%



Liquidity and Capital Resources

SCL Health's total cash and investments (net of amounts due to broker) increased by \$395.4 million during the six months ended June 30, 2020. Unrestricted cash and investments (which exclude self-insured risks funds, trustee held funds and net assets with donor restrictions subject to endowment spending policy) increased by \$362.0 million. SCL Health had 405 days total cash on hand (385 unrestricted days) at June 30, 2020.

SCL Health's investments and assets limited as to use as of June 30, 2020 and December 31, 2019 were comprised of the following:

	June 30, 2020	December 31 2019
	<i>(In Millions)</i>	
Cash and cash equivalents	\$ 262.1	\$ 5.3
U.S. government and agency obligations	14.3	14.2
Corporate debt	5.0	5.1
Mutual funds	53.7	55.8
Equities	26.1	25.5
Real estate	14.9	14.8
International mutual funds and other	43.2	41.0
Investments held in the Comprehensive Investment Portfolio (CIP)	2,021.3	2,041.5
	<u>\$ 2,440.5</u>	<u>\$ 2,203.2</u>

At June 30, 2020 and December 31, 2019, the asset allocation percentages of the CIP, which represents the majority of SCL Health's investments, were as follows:

	June 30, 2020	December 31, 2019
Cash and cash equivalents	-	1
Alternative fixed income	6	-
Domestic fixed income	28	31
Equities	43	42
Real return	6	8
Core hedge funds	6	5
Global infrastructure	4	5
Master limited partnership	3	4
Opportunistic funds	4	4
	<u>100</u>	<u>100</u>

SCL Health's investments are exposed to various kinds and levels of risk (interest rate risk, credit risk, market risk and liquidity risk). SCL Health's investments are diversified across a broad range of asset classes, durations and funds to avoid concentrations of risk in any particular company, region or industry.



SCL Health
Liquidity Information
As of June 30, 2020 (unaudited)

Assets	<i>(In millions)</i>
Daily Liquidity	
Money Market Funds	\$ 5.0
Checking and deposit accounts at P-1 rated bank	371.1
Overnight Repurchase Agreements (collateralized by Treasuries/Agencies; P-1 rated counterparty)	0.7
US Treasuries & Agencies (<2-year maturity)	14.1
US Treasuries & Agencies (>2-year maturity and <10-year maturity)	43.8
US Treasuries & Agencies (>10-year maturity)	7.3
Subtotal Daily Liquidity	442.0
General Operating Line of Credit	200.0
Drawn Portion of Line	200.0
Net Available Line	-
Subtotal Daily Liquidity Including Line of Credit	442.0
Weekly Liquidity	
Fixed Income Securities	719.8
Equity Funds	661.3
Subtotal Weekly Liquidity	1,381.1
TOTAL DAILY AND WEEKLY LIQUIDITY	1,823.1
Liquidity greater than 7 days	
Funds, vehicles, investments that allow withdrawals with one week notice or more	984.2
TOTAL LIQUIDITY	\$ 2,807.3



Outstanding Long-Term Debt

	Annual Interest Rates	Jun 30, 2020	Dec 31, 2019
<i>(In Millions)</i>			
Tax-exempt bond issues:			
2019, due through December 2040	4.00% to 5.00%	\$ 624.2	\$ 624.2
2016, due through December 2045	Variable rate, 1.22% and 1.51%	111.0	111.0
2013, due through January 2044	4.00% to 5.50%	300.0	300.0
2011, due through January 2039	Variable rate, 1.16% and 2.04%	52.9	54.1
2010, due through January 2040	4.00% to 5.00%	-	27.1
Total under the SCL Health MTI		1,088.1	1,116.4
PVMC mortgages (HUD-Insured)	2.98%	64.4	66.6
Other notes		2.1	2.1
		1,154.6	1,185.1
Original issue premium, net		113.9	120.2
Unamortized debt issuance costs		(8.0)	(8.3)
Current maturities of long-term debt		(138.2)	(143.8)
		\$ 1,122.3	\$ 1,153.2

SCL Health has revolving lines of credit with Bank of America, N.A. and Wells Fargo Bank, N.A. totaling \$200.0 million, of which, the full \$200.0 million was drawn and outstanding at June 30, 2020.

Recent Debt Activity

On October 10, 2019, SCL Health completed the conversion of the \$111.0 million Colorado Series 2016B and 2016D variable-rate bonds from being backed by third-party Standby Purchase Agreements to being backed by SCL Health's liquidity.

On October 3, 2019, SCL Health and The Bank of New York Mellon Trust Company, N.A., as master trustee (the "Master Trustee"), entered into the Amended and Restated Master Trust Indenture, dated as of October 1, 2019 (the "Amended and Restated Master Indenture"), which amends and restates in its entirety the prior Master Trust Indenture (As Amended and Restated), dated as of January 1, 1994, as supplemented and amended, which amended and restated the Master Trust Indenture, dated as of September 1, 1985, as supplemented and amended, each between SCL Health and the Master Trustee.

On October 3, 2019, SCL Health issued the following fixed-rate refunding bonds: Colorado Series 2019A in the par amount of \$400.7 million, Montana Series 2019A in the par amount of \$125.4 million and Colorado Series 2019B in the par amount of \$98.1 million. Proceeds from the issuance were used to legally defease all or a portion of the outstanding amounts of the following bonds: Colorado Series 2010A and 2010B, Colorado Series 2016A and 2016C, Kansas Series 2010A and Montana Series 2010A and 2010B

Guaranty

On October 16, 2019, SCL Health entered into a guaranty of National Jewish Health's obligations (the "NJH Guaranty") relating to a new outpatient health center to be constructed on National Jewish Health's campus in Denver, Colorado. National Jewish Health's payments will be used to pay debt service through 2050 on bonds issued by the Colorado Health Facilities Authority in the



par amount of \$72.0 million, which bonds will finance the construction of the building. The NJH Guaranty is not secured by an obligation under the Master Indenture.

Interest Rate Swaps

SCL Health is a party to certain interest rate swap agreements utilized to hedge the interest rate risk on a portion of the variable rate bonds, which are summarized in the following table:

Initial Notional Amount (in millions)	Current Notional Amount (in millions)	Expiry	Rate Paid By Counterparty	Rate Paid By SCL Health	Counterparty	Fair Value ⁽³⁾ 06/30/2020 (in millions)
\$60.0	\$15.5	12-1-2023	68% of LIBOR	3.18%	MLCS ⁽¹⁾	\$(1.0)
\$60.0	\$15.5	12-1-2023	SIFMA	3.79%	MLCS ⁽¹⁾	\$(1.2)
\$60.0	\$60.0	12-1-2031	SIFMA	4.22%	Wells Fargo ⁽²⁾	\$(19.3)

(1) Merrill Lynch Capital Services, Inc.

(2) Wells Fargo Bank, N.A.

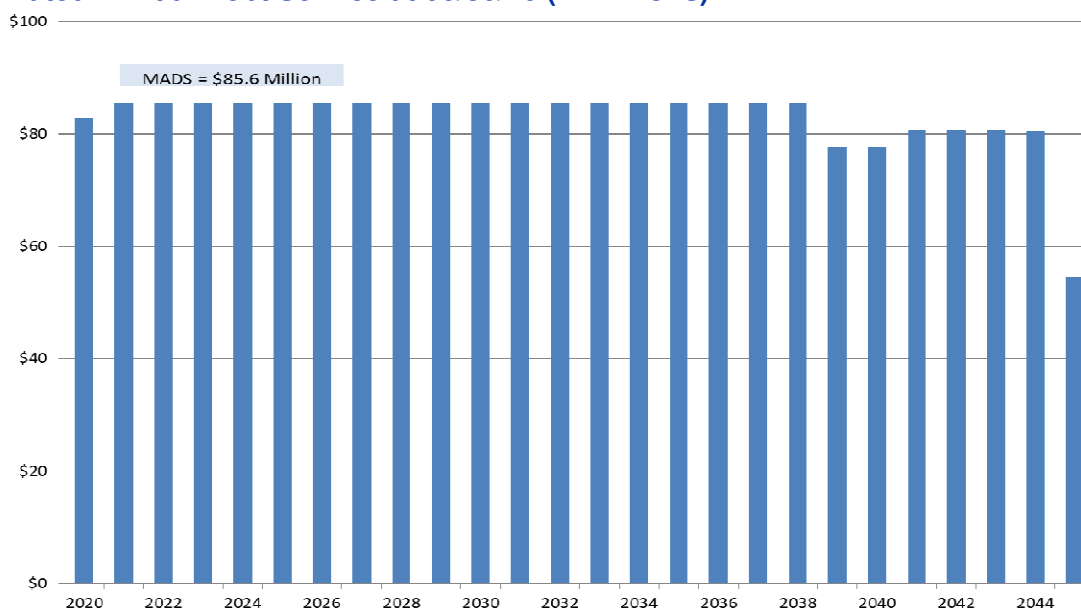
(3) The fair value of the swap agreements was calculated by Ponder & Co. at the request of SCL Health using Bloomberg mid-market closing swap curves as reported by Bloomberg as of March 31, 2020 and excluding accrued interest.

The swap agreements do not presently require SCL Health to post collateral to secure the counterparty's credit exposure. There can be no assurance that SCL Health will not be required to post collateral on any swaps entered into in the future. In addition, market conditions have resulted in swap valuations that would currently obligate SCL Health to make termination payments on existing interest rate hedge agreements, if such swap agreements are terminated.

The provisions of the above-referenced interest rate hedge agreements permit SCL Health to terminate them at any time upon payment of any required termination payments.



Estimated Annual Debt Service at 06/30/20 (In Millions)



- (1) Excludes financing and operating leases
- (2) Excludes cash flows associated with \$91 million of fixed payor swaps which are not associated with specific bond issues
- (3) Assumes Interest Rate on variable rate debt of 2.50% per annum

Ratings

In August 2019, Moody's Investor Services affirmed its rating of 'Aa3' and a stable outlook. S&P Global and Fitch Ratings both affirmed their ratings of 'AA-' with stable outlooks.

Subsequent Events

In July 2020, SCL Health received a total of \$39.1 million from the Public Health and Social Services Emergency Fund as part of the CARES Act. These funds will be recognized as revenue in coming months as lost revenues and expenses are incurred due to COVID-19.

Effective July 15, 2020, Lutheran Medical Center, located in Wheat Ridge, Colorado, was added as a core facility to the Kaiser Permanente network in Colorado.



Forward-Looking Statements

This Quarterly Report contains disclosures which constitute “forward-looking statements.” Forward-looking statements include all statements that do not relate solely to historical or current facts, and can be identified by the use of words like “may,” “believe,” “will,” “expect,” “project,” “estimate,” “anticipate,” “plan,” “initiative” or “continue.” These forward-looking statements are based on the current plans and expectations of SCL Health and are subject to a number of known and unknown uncertainties and risks, many of which are beyond SCL Health’s control that could significantly affect current plans and expectations and SCL Health’s future financial position and results of operations. These factors include, but are not limited to, (i) the highly competitive nature of the health care business, (ii) the efforts of insurers, health care providers and others to contain health care costs, (iii) possible changes in the Medicare and Medicaid programs (including changes to Medicare outlier payments) that may impact reimbursements to health care providers and insurers, (iv) the ability to achieve expected levels of patient volumes and control the costs of providing services, (v) changes in Federal, state or local regulations affecting the health care industry, (vi) the ability to attract and retain qualified management and personnel, including affiliated physicians, nurses and medical support personnel, (vii) liabilities and other claims asserted against SCL Health (viii) changes in accounting practices, (ix) changes in general economic conditions including growing numbers of uninsured and unemployed patients, (x) changes in revenue mix and the ability to enter into and renew managed care provider arrangements on acceptable terms and (xi) the collectability of uninsured accounts and deductible and co-pay amounts. As a consequence, current plans, anticipated actions and future financial position and results of operations may differ from those expressed in any forward-looking statements made by or on behalf of SCL Health. You are cautioned not to unduly rely on such forward-looking statements when evaluating the information presented in this report, including in “Management’s Discussion and Analysis of Financial Performance.”

Financial Analysis and Utilization Statistics Summary

The Consolidated Statements of Operations and Changes in Net Assets in the attached Financial Statements for SCL Health are a summary of activity for the six months ended June 30, 2020 and June 30, 2019. The Consolidated Balance Sheets and Utilization Statistics with respect to the years ended December 31, 2019 and 2018 should be read in conjunction with the Audited Financial Statements, including the notes thereto, and the reports of Ernst & Young LLP, independent auditors.

The information discussed below and illustrated in the various financial tables is generally derived from the consolidated financial statements which are in conformity with U.S. generally accepted accounting principles, except for the omission of Notes to Consolidated Financial Statements. The two major indicators, Operating Indicator and Performance Indicator, respectively known as Income from Operations and Excess of Revenues over Expenses, are defined terms and are generally fully detailed in the Notes to Consolidated Financial Statements from the December 31, 2019 Audited Financial Statements within the section entitled, “Summary of Significant Accounting Policies.”



SCL Health

Financial Analysis of Consolidated Continuing Operations (Unaudited) (Dollars in Millions)

	Six Months Ended June 30		Twelve Months Ended December 31	
	2020	2019	2019	2018
Operating Margin	2.0%	6.6%	5.2%	3.8%
Total Margin	(1.3)%	16.7%	12.6%	0.9%
EBITDA Margin ⁽¹⁾	10.0%	14.5%	13.3%	11.8%
Return on Net Assets	(1.1)%	17.0%	11.9%	0.7%
Debt Service Coverage ⁽⁶⁾	3.4x	4.9x	4.9x	5.0x
Total Cash and Investments ⁽²⁾	\$2,807.3	\$2,263.3	\$2,411.9	\$2,081.4
Unrestricted Cash and Investments ⁽³⁾	\$2,665.1	\$2,170.2	\$2,303.1	\$1,989.8
Days Cash on Hand – Total ⁽⁴⁾	405	333	349	309
Days Cash on Hand – Unrestricted ⁽⁵⁾	385	319	334	295
Cushion Ratio ⁽⁶⁾	33.4x	24.2x	27.3x	22.4x
Unrestricted Cash to Net Long-Term Debt ⁽⁶⁾	215.7%	172.2%	181.9%	154.3%
Debt to Capitalization ⁽⁶⁾	31.1%	29.3%	28.5%	31.6%

(1) Defined as operating income + depreciation and amortization + interest

(2) Net of amounts due to/due from broker

(3) Excludes trustee held funds, self-insured risk funds and net assets with donor restrictions subject to endowment spending policy

(4) Days Cash on Hand – Total = Total Cash and Investments / ((trailing 12-months total operating expenses – trailing 12-months depreciation and amortization) / 365)

(5) Days Cash on Hand – Unrestricted = Unrestricted Cash and Investments / ((trailing 12-months total operating expenses – trailing 12-months depreciation and amortization) / 365)

(6) For the six months ended June 30, 2019, the ratios have been restated under the revised and restated MTI, effectuated October 1, 2019, which excludes operating leases from indebtedness.



SCL Health

Utilization Statistics – Consolidated Operations (Unaudited)

	Six Months Ended June 30		Twelve Months Ended December 31	
	2020	2019	2019	2018
Licensed Beds	1,933	1,971	1,933	1,971
Available Beds	1,796	1,832	1,801	1,804
Admissions – Acute	32,958	37,367	73,735	75,245
Admissions – Total	34,885	39,864	78,377	80,082
Adjusted Admissions ⁽¹⁾	68,301	78,911	156,591	157,578
Expense per CMIAA ⁽²⁾	\$8,661	\$7,495	\$7,668	\$7,587
Newborn Deliveries	5,830	5,861	11,986	12,323
Patient Days – Acute	156,123	167,984	331,567	331,395
Patient Days – Total	179,927	194,252	382,887	382,836
Adjusted Patient Days ⁽³⁾	352,279	384,523	764,978	753,312
Occupancy on Available Beds	55.0%	58.6%	58.2%	58.1%
Average Daily Census	989	1,073	1,049	1,049
Average Length of Stay	5.2	4.9	4.9	4.8
Emergency Room Visits ⁽⁵⁾	128,606	150,666	300,640	305,218
Outpatient Visits ^{(4) (5)}	359,449	417,903	840,592	815,576
Inpatient Surgeries	8,819	10,652	21,386	22,061
Outpatient Surgeries ⁽⁵⁾	19,305	23,104	45,604	48,887
Full Time Equivalent Employees	13,434	13,345	13,464	13,346

(1) Adjusted Admissions = Total Admissions + (Outpatient Revenue/(Inpatient Revenue/Total Admissions))

(2) Expense per CMIAA = Acute Hospital costs (excluding Medicare Provider Fees, depreciation and interest) / Case Mix index Adjusted Admissions

(3) Adjusted Patient Days = Total Patient Days + (Outpatient Revenue/(Inpatient Revenue/Total Patient Days))

(4) Outpatient Visits = Includes hospital based clinic visits, home health visits and all outpatient ancillary visits except surgeries, emergency department visits and observation cases.

(5) Statistics for emergency room visits, outpatient visits and outpatient surgeries include joint venture activity. Joint ventures included are Yellowstone Surgery Center, LLC, Denver West Endoscopy, LLC, E+PET Imaging X, LP, Lutheran Campus ASC, LLC, Touchstone Imaging, GI Endoscopy – Northglenn, Emerus Holdings, Inc., Summit Surgery Center, Grand Valley Surgical Center, LLC and San Juan Cancer Center.



SCL Health

Consolidated Balance Sheets

	Unaudited June 30	Audited December 31
	2020	2019
<i>(In Millions)</i>		
Assets		
Current assets:		
Cash and cash equivalents	\$ 382.8	\$ 215.0
Current portion of investments	610.6	159.0
Accounts receivable:		
Patient	261.9	291.6
Pledges and other	41.3	69.2
Third-party settlements	8.8	3.9
Inventory	53.2	51.4
Prepaid and other assets	42.1	55.5
Total current assets	1,400.7	845.6
Investments:		
Investments, net of current portion	1,743.6	1,980.9
Assets limited as to use:		
Self-insured risks	65.2	49.5
Trustee-held funds	21.1	13.8
	86.3	63.3
Land, buildings, and equipment, net	2,126.6	2,140.2
Other assets:		
Investments in joint ventures	28.7	29.5
Pledges receivable, net	2.4	2.5
Operating lease right-of-use assets	82.6	55.9
Other assets	29.2	31.7
	142.9	119.6
Total assets	\$ 5,500.1	\$ 5,149.6



SCL Health

Consolidated Balance Sheets (continued)

	Unaudited June 30	Audited December 31
	2020	2019
<i>(In Millions)</i>		
Liabilities and net assets		
Current liabilities:		
Accounts payable	\$ 78.0	\$ 97.6
Accrued salaries, wages, and benefits	127.9	131.3
Accrued interest payable	22.1	15.2
Other accrued expenses	51.5	29.4
Advanced payments	184.2	–
Third-party settlements	35.6	54.6
Current maturities of long-term obligations	138.2	143.6
Draws on lines of credit	200.0	–
Operating lease liability	20.2	17.4
Due to broker	16.0	6.3
Total current liabilities	873.7	495.6
Other noncurrent liabilities:		
Reserve for self-insured risks	43.8	49.5
Accrued swap liability	21.5	16.0
Long-term operating lease liability	64.6	40.9
Other liabilities	46.2	48.0
	176.1	154.4
Capital structure:		
Bonds payable	1,194.0	1,228.3
Other notes and capital lease obligations	66.5	68.7
	1,260.5	1,297.0
Less current maturities	138.2	143.8
	1,122.3	1,153.2
Total liabilities	2,172.1	1,803.2
Net assets:		
Net assets attributable to SCL Health	3,240.3	3,259.5
Net assets attributable to non-controlling interest	1.3	1.4
Total net assets without donor restrictions	3,241.6	3,260.9
Net assets with donor restrictions	86.4	85.5
Total net assets	3,328.0	3,346.4
Total liabilities and net assets	\$ 5,500.1	\$ 5,149.6



SCL Health
Consolidated Statements of Operations

	Unaudited Six Months Ended March 31	
	2020	2019
	<i>(In Millions)</i>	
Operating Revenue:		
Net patient service revenue	\$ 1,263.4	\$ 1,375.9
Other operating revenue	104.8	36.6
Total operating revenue	1,368.2	1,412.5
Operating Expenses:		
Salaries and wages	581.1	568.2
Associate benefits	136.1	127.6
Supplies	241.5	248.5
Other operating expenses	273.1	262.8
Depreciation and amortization	89.3	83.6
Interest and amortization	20.3	28.4
Total operating expenses	1,341.4	1,319.1
Income from continuing operations	26.8	93.4
Non-operating Gains (Losses)		
Income tax expense	(2.0)	(1.9)
Investment income (loss)	(42.5)	172.9
Total non-operating gains (losses), net	(44.5)	171.0
Excess (deficit) of revenue over expenses	(17.7)	264.4
Less amounts attributable to non-controlling interest	0.5	1.3
Excess (deficit) of revenue over expenses attributable to SCL Health	\$ (18.2)	\$ 263.1



SCL Health

Consolidated Statements of Changes in Net Assets

	Unaudited Six Months Ended June 30	
	2020	2019
	<i>(In Millions)</i>	
Net assets without donor restriction		
Excess (deficit) of revenue over expenses	\$ (17.7)	\$ 264.4
Gain related to discontinued operations	–	1.2
Amortization of accumulated losses on interest rate swaps	0.9	0.9
Distributions to non-controlling interest	(0.6)	(2.1)
Net assets released for capital acquisitions	0.1	–
Net assets reclassification	(2.0)	(0.1)
Change in accounting principle	–	(2.4)
Other	–	0.8
	(19.3)	262.7
Net assets with donor restrictions		
Contributions	8.2	3.9
Net investment income	0.4	2.8
Net assets released from restrictions	(9.7)	(3.7)
Net asset reclassification	2.0	0.1
	0.9	3.1
Increase (decrease) in net assets	(18.4)	265.8
Beginning net assets	3,346.4	2,932.4
Ending net assets	\$ 3,328.0	\$ 3,198.2



SCL Health

Consolidated Statements of Cash Flows

	Unaudited Six Months Ended June 30	
	2020	2019
	<i>(In Millions)</i>	
Operating activities		
Increase (decrease) in net assets	\$ (18.4)	\$ 265.8
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	93.0	86.2
Change in accounting principle	–	2.4
Amortization of accumulated losses on interest rate swaps	(0.9)	(0.9)
Restricted contributions	(8.2)	(3.9)
Net income from joint ventures	(0.2)	(0.8)
Net gain from disposal of assets	–	(0.3)
(Increase) decrease in accounts receivable	52.7	(0.3)
(Increase) decrease in investments	(237.3)	(251.5)
Increase in other assets	14.3	9.5
Increase (decrease) in liabilities	(14.4)	(42.7)
Net cash provided by (used in) operating activities	<u>(119.4)</u>	<u>63.5</u>
Investing activities		
Acquisition of land, buildings and equipment, excluding capitalized original issue discount	(75.7)	(102.1)
Proceeds from disposal of land, buildings and equipment	–	0.1
(Contributions to) distributions from investments in joint ventures	1.0	(1.0)
Net cash used in investing activities	<u>(74.7)</u>	<u>(103.0)</u>
Financing activities		
Restricted contributions	8.2	3.9
Advanced payments	184.2	–
Proceeds from draws on lines of credit	200.0	–
Payments on bonds, notes and capital lease obligations	(30.5)	(30.7)
Net cash provided by (used in) financing activities	<u>361.9</u>	<u>(26.8)</u>
Net increase (decrease) in cash and cash equivalents	167.8	(66.3)
Beginning cash and cash equivalents	215.0	200.9
Ending cash and cash equivalents	<u>\$ 382.8</u>	<u>\$ 134.6</u>



Restricted Affiliates Statistics and Financial Ratios

The financial and statistical tables which follow are presented for the continuing operations of the Obligated Group under the Master Indenture (Restricted Affiliates). A complete list of the Restricted Affiliates can be found in the 2019 Consolidated Financial Statements.

Historical Capitalization Ratio (Unaudited)

The following table presents the capitalization of continuing operations of SCL Health Restricted Affiliates as of June 30, 2020 and December 31, 2019 and 2018.

	Restricted		
	June 30	December 31	
	2020	2019	2018
	<i>(In Millions)</i>		
Long-term debt:			
Master Indenture debt (net of original issue premium and issuance costs, net)	\$ 1,194.3	\$ 1,228.3	\$ 1,246.5
Other long-term indebtedness	5.6	5.8	3.7
Total long-term debt	<u>1,199.9</u>	1,234.1	1,250.2
Less current maturities	(133.7)	(141.0)	(175.0)
Plus variable portion not scheduled	111.0	111.0	148.0
Net long-term debt	<u>1,175.7</u>	1,204.1	1,223.2
Net assets attributable to obligated group without donor restrictions	<u>3,078.0</u>	3,016.5	2,628.8
Total capitalization	<u>\$ 4,253.7</u>	\$ 4,220.6	\$ 3,852.0
Percent of net long-term debt to total capitalization ⁽¹⁾	<u>27.6%</u>	28.5%	31.8%



Historical Debt Service Coverage Requirements (Unaudited)

The table below presents the debt service coverage for the continuing operations of SCL Health Restricted Affiliates for the six months ended June 30, 2020 and the years ended December 31, 2019 and 2018.

	Restricted		
	Six Months Ended June 30	Year Ended December 31	
	2020	2019	2018
	<i>(In Millions)</i>		
Income available for debt service:			
Excess of revenue over expenses attributable to SCL Health	\$ 44.8	\$ 363.6	\$ 96.7
Loss on early extinguishment of debt	–	4.0	–
Change in unrealized (gains) losses, net	47.0	(188.0)	205.7
Depreciation and amortization	80.5	161.7	145.7
Interest	19.2	50.2	54.4
Total income available for debt service	<u>\$ 191.5</u>	<u>\$ 391.5</u>	<u>\$ 502.5</u>
Consolidated annual debt service requirements ⁽¹⁾	<u>\$ 75.5</u>	<u>\$ 79.8</u>	<u>\$ 84.4</u>
Actual debt service coverage ratio – all long-term debt ⁽²⁾	<u>5.1x</u>	<u>4.9x</u>	<u>6.0x</u>

(1) Annual debt service = principal paid + interest paid
2018 annual debt service = principal paid + interest paid + 20% of interest and principal for guaranteed debt

(2) Debt service coverage = total income available for debt service / annual debt service. Six months debt service calculation is annualized.



Financial Performance (*Unaudited*)

The following table highlights the financial results for continuing operations of SCL Health Restricted Affiliates for the six months ended June 30, 2020 and the years ended December 31, 2019 and 2018.

	Restricted		
	Six Months Ended June 30	Year Ended December 31	
	2020	2019	2018
EBITDA margin ⁽¹⁾	15.8%	14.7%	15.7%
Operating margin ⁽²⁾	7.3%	5.8%	7.1%
Return on net assets ⁽³⁾	2.9%	12.1%	3.7%
Debt service coverage ⁽⁴⁾	5.1x	4.9x	6.0x
Days cash on hand (excluding self-insured risk funds, trustee-held funds and net assets with donor restrictions subject to endowment spending policy) ⁽⁵⁾	457	381	338
Cushion ratio ⁽⁶⁾	34.1x	27.3x	22.2x

(1) EBITDA margin = (operating income + interest + depreciation) / operating revenue.

(2) Operating margin = operating income / operating revenue

(3) Return on net assets = excess of revenue over expenses / unrestricted net assets. Six months return on net assets calculation is annualized.

(4) Debt service coverage = (excess of revenue over expenses – change in unrealized gains (losses), net + depreciation and amortization + interest and amortization) / annual debt service.

(5) Days cash on hand = (cash and cash equivalents + investments – net assets with donor restrictions subject to endowment spending policy) / ((total operating expenses – depreciation and amortization) / cumulative days).

(6) Cushion ratio = (cash and cash equivalents + investments + trustee-held funds) / annual debt service.

