

June 8, 2015

Dear Sir or Madam:

Enclosed please find the following documents for the quarter ended March 31, 2015, required pursuant to certain documents relating to certain Sutter Health System obligations. Please note that these documents are also available on the Municipal Securities Rulemaking Board's Electronic Municipal Market Access system ("EMMA") at <http://emma.msrb.org>.

- Unaudited financial statements of the Sutter Health System and Obligated Group
- Management Discussion and Analysis
- Continuing Disclosure Quarterly Report
- Cash and Investments
- Officer's Certificate of the Corporation as to Compliance with No Event of Default
- Supplemental Information

Should you have questions, please call the Sutter Health Finance Department at (916) 286-6557.

Sincerely,

Sutter Health Finance

# Sutter Health and Affiliates

## Interim Unaudited Consolidated Financial Statements and Supplementary Information

Three months ended March 31, 2015 and 2014 and the year ended December 31, 2014

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The consolidated financial statements of Sutter Health and Affiliates are presented as of March 31, 2015, March 31, 2014, and for the year ended December 31, 2014. Information contained herein is being filed by Sutter Health and Affiliates for complying with its obligations under Continuing Disclosure Agreements entered in connection with the issuance of bonds.

Sutter Health and Affiliates  
Consolidated Balance Sheets

*(Dollars in millions)*

	<b>Unaudited March 31,</b>		<b>Audited December 31,</b>
	<b>2015</b>	<b>2014</b>	<b>2014</b>
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ 235	\$ 355	\$ 257
Short-term investments	3,915	3,858	4,030
Patient accounts receivable (net of allowance for doubtful accounts of \$177 and \$318 in March 2015 and 2014, and \$197 in December 2014)	1,216	1,224	1,105
Other receivables	556	210	533
Inventories	97	92	95
Other	136	134	119
Total current assets	<u>6,155</u>	<u>5,873</u>	<u>6,139</u>
Non-current investments	652	800	655
Property, plant and equipment, net	7,130	6,764	7,113
Other	388	843	383
	<u>\$ 14,325</u>	<u>\$ 14,280</u>	<u>\$ 14,290</u>
<b>Liabilities and net assets</b>			
Current liabilities:			
Accounts payable	\$ 464	\$ 341	\$ 609
Accrued salaries and related benefits	562	537	555
Other accrued expenses	523	538	494
Current portion of long-term obligations	22	17	22
Total current liabilities	<u>1,571</u>	<u>1,433</u>	<u>1,680</u>
Non-current liabilities:			
Long-term obligations, less current portion	3,748	3,763	3,751
Other	862	681	867
Net assets:			
Unrestricted controlling	7,663	7,931	7,509
Unrestricted noncontrolling	78	88	79
Temporarily restricted	261	254	262
Permanently restricted	142	130	142
	<u>8,144</u>	<u>8,403</u>	<u>7,992</u>
	<u>\$ 14,325</u>	<u>\$ 14,280</u>	<u>\$ 14,290</u>

## Sutter Health and Affiliates

### Consolidated Statements of Operations and Changes in Net Assets

*(Dollars in millions)*

	<b>Unaudited</b>		<b>Audited</b>
	<b>Three months ended</b>		<b>Year ended</b>
	<b>March 31,</b>		<b>December 31,</b>
	<b>2015</b>	<b>2014</b>	<b>2014</b>
<b>Unrestricted net assets:</b>			
Operating revenues:			
Patient service revenues	\$ 2,363	\$ 2,158	\$ 9,025
Provision for bad debts	(30)	(111)	(189)
Patient service revenues less provision for bad debts	2,333	2,047	8,836
Capitation revenues	235	214	922
Contributions	1	1	9
Other	116	95	394
Total operating revenues	2,685	2,357	10,161
Operating expenses:			
Salaries and employee benefits	1,236	1,135	4,585
Purchased services	619	556	2,329
Supplies	303	271	1,125
Depreciation and amortization	145	131	564
Capitated purchased services	57	61	246
Rentals and leases	38	38	151
Interest	28	22	93
Insurance	4	13	14
Other	154	83	635
Total operating expenses	2,584	2,310	9,742
Income from operations	101	47	419
Investment income	23	48	280
Change in net unrealized gains and losses on investments classified as trading	22	(5)	(241)
Income	146	90	458
Less income attributable to noncontrolling interests	(13)	(13)	(56)
Income attributable to Sutter Health	133	77	402

Sutter Health and Affiliates

Consolidated Statements of Operations and Changes in Net Assets (continued)

(Dollars in millions)

	<b>Unaudited</b>		<b>Audited</b>
	<b>Three months ended</b>		<b>Year ended</b>
	<b>March 31,</b>		<b>December 31,</b>
	<b>2015</b>	<b>2014</b>	<b>2014</b>
<b>Unrestricted net assets (continued):</b>			
Unrestricted controlling net assets:			
Income attributable to Sutter Health	\$ 133	\$ 77	\$ 402
Change in net unrealized gains and losses on investments classified as other-than-trading	4	4	14
Net assets released from restrictions for equipment acquisition	4	1	13
Pension-related changes other than net periodic pension cost	14	2	(764)
Other	(1)	1	(2)
Increase (decrease) in unrestricted controlling net assets	<u>154</u>	<u>85</u>	<u>(337)</u>
Unrestricted noncontrolling net assets:			
Income attributable to noncontrolling interests	13	13	56
Distributions	(14)	(15)	(59)
Other	-	-	(8)
(Decrease) in unrestricted noncontrolling net assets	<u>(1)</u>	<u>(2)</u>	<u>(11)</u>
<b>Temporarily restricted net assets:</b>			
Contributions	5	5	39
Investment income	3	5	24
Change in net unrealized gains and losses on investments	-	(2)	(20)
Net assets released from restrictions	(9)	(10)	(38)
Other	-	(1)	-
(Decrease) increase in temporarily restricted net assets	<u>(1)</u>	<u>(3)</u>	<u>5</u>
<b>Permanently restricted net assets:</b>			
Contributions	-	-	12
Investment income	-	-	2
Change in net unrealized gains and losses on investments	-	-	(1)
Other	-	-	(1)
Increase in permanently restricted net assets	<u>-</u>	<u>-</u>	<u>12</u>
Increase (decrease) in net assets	<b>152</b>	<b>80</b>	<b>(331)</b>
Net assets, beginning of period	<b>7,992</b>	<b>8,323</b>	<b>8,323</b>
Net assets, end of period	<u><b>\$ 8,144</b></u>	<u><b>\$ 8,403</b></u>	<u><b>\$ 7,992</b></u>

Sutter Health and Affiliates  
Consolidated Statements of Cash Flows

*(Dollars in millions)*

	<b>Unaudited</b>		<b>Audited</b>
	<b>Three months ended</b>		<b>Year ended</b>
	<b>March 31,</b>		<b>December 31,</b>
	<b>2015</b>	<b>2014</b>	<b>2014</b>
	<hr/>	<hr/>	<hr/>
<b>Operating activities</b>			
Increase (decrease) in net assets	\$ 152	\$ 80	\$ (331)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:			
Depreciation and amortization	145	131	542
Amortization of bond issuance (premium) discount, net	(3)	(3)	(11)
Change in net unrealized gains and losses on investments	(26)	3	248
Provision for doubtful accounts	30	111	189
Restricted contributions and investment income	(8)	(10)	(77)
Loss on impairment of property, plant and equipment	-	-	15
Loss on impairment of goodwill	-	-	3
Net gain on disposal of property, plant and equipment	(1)	(3)	(22)
Change in net postretirement benefits	28	22	620
Net changes in operating assets and liabilities:			
Patient accounts receivable and other receivables	(164)	(131)	(413)
Inventories and other assets	(26)	(55)	(12)
Accounts payable and accrued expenses	(49)	23	220
Other non-current liabilities	(33)	14	59
Net cash provided by operating activities	<hr/> 45	<hr/> 182	<hr/> 1,030
<b>Investing activities</b>			
Purchases of property, plant and equipment	(220)	(261)	(983)
Proceeds from disposal of property, plant and equipment	1	5	37
Sales and (purchases) or maturities of investments, net	144	92	(180)
Other	-	(20)	(72)
Net cash used in investing activities	<hr/> (75)	<hr/> (184)	<hr/> (1,198)

Sutter Health and Affiliates

Consolidated Statements of Cash Flows (continued)

(Dollars in millions)

	<b>Unaudited</b>		<b>Audited</b>
	<b>Three months ended</b>		<b>Year ended</b>
	<b>March 31,</b>		<b>December 31,</b>
	<b>2015</b>	<b>2014</b>	<b>2014</b>
<b>Financing activities</b>			
Payments of long-term obligations	\$ (2)	\$ -	\$ (18)
Proceeds from issuance of long-term obligations	2	3	22
Restricted contributions and investment income	8	10	77
Net cash provided by financing activities	<u>8</u>	<u>13</u>	<u>81</u>
Net (decrease) increase in cash and cash equivalents	(22)	11	(87)
Cash and cash equivalents at beginning of period	257	344	344
Cash and cash equivalents at end of period	<u>\$ 235</u>	<u>\$ 355</u>	<u>\$ 257</u>

# Sutter Health and Affiliates

## Notes to Consolidated Financial Statements

*(Dollars in millions)*

### **ORGANIZATION**

Sutter Health is a California not-for-profit multi-provider integrated health care delivery system headquartered in Sacramento, California, which includes a centralized support group and various health care-related businesses operating primarily in Northern California. Sutter Health and its affiliates and subsidiaries provide health care, education, research and administration services.

Sutter Health's integrated health care delivery system includes acute care, medical foundations, fundraising foundations and a variety of other specialized health care services. These entities are commonly referred to as the affiliates. Most acute care hospitals provide a full range of medical services (e.g., surgical, intensive care, emergency room, and obstetrics). All emergency rooms provide emergency care, regardless of a patient's ability to pay. Sutter Health and its affiliates also serve their communities with programs including health education, health libraries, school-based clinics, home health care, hospice care, adult day care, prenatal clinics, community clinics, immunization services, and training health professionals.

### **ACCOUNTING POLICIES**

Basis of Consolidation: The unaudited interim consolidated financial statements for Sutter Health and its controlled affiliates and subsidiaries (Sutter) have been prepared in accordance with generally accepted accounting principles in the United States (GAAP) and should be read in conjunction with the audited financial statements as of and for the year ended December 31, 2014. All significant intercompany accounts and transactions have been eliminated in consolidation.

The interim consolidated financial statements include all normal and recurring adjustments that are considered necessary in the opinion of management for the fair presentation of the financial position and operating results for the periods reported. Certain estimates and assumptions are made to prepare these interim consolidated financial statements. Interim results of operations are not necessarily indicative of the results that may be expected for any future period or for a full year.

In April 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2015-03, *Interest-Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*. The core principle of the guidance in ASU 2015-03 requires debt issuance costs related to a recognized debt liability to be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. Sutter is evaluating the potential impact of this guidance, which will be effective in 2016.



# Sutter Health and Affiliates

## Notes to Consolidated Financial Statements (continued)

*(Dollars in millions)*

### **ACCOUNTING POLICIES (continued)**

In May 2015, FASB issued ASU No. 2015-07, *Fair Value Measurement (Topic 820) Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*. The amendments in ASU 2015-07 remove the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. The amendments also remove the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share practical expedient. Rather, those disclosures are limited to investments for which the entity has elected to measure the fair value using that practical expedient. Sutter is evaluating the potential impact of this guidance, which will be effective in 2016.

### **FAIR VALUE MEASUREMENTS**

Sutter accounts for certain assets at fair value. A fair value hierarchy for valuation inputs has been established to prioritize the valuation 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, which is determined by the lowest level input that is significant to the fair value measurement in its entirety. These levels are:

*Level 1:* Quoted prices are available in active markets for identical assets as of the measurement date.

*Level 2:* Pricing inputs are based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets.

*Level 3:* Pricing inputs are generally unobservable for the assets 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. The fair values are therefore determined using factors that involve judgment and interpretations, including, but not limited to, private and public comparables, third party appraisals, discounted cash flow models, fund manager estimates and net asset valuations provided by the underlying private investment companies and/or their administrators.

# Sutter Health and Affiliates

## Notes to Consolidated Financial Statements (continued)

*(Dollars in millions)*

### FAIR VALUE MEASUREMENTS (continued)

The fair value of Sutter's assets measured on a recurring basis consists of the following:

	March 31, 2015			
	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
<b>Liquid investments</b>				
Cash equivalents	\$ 165	\$ —	\$ —	\$ 165
<b>Equity securities</b>				
U.S. equity	1,334	34	—	1,368
Foreign equity	637	47	—	684
<b>Fixed income securities</b>				
U.S. government	185	—	—	185
U.S. government agencies	—	61	—	61
U.S. state and local government	—	26	—	26
U.S. federal agency mortgage-backed	—	390	—	390
Foreign government	—	317	—	317
U.S. corporate	46	572	—	618
Foreign corporate	3	397	—	400
<b>Other investments</b>				
Multi-strategy hedge fund portfolio	—	38	170	208
Private equity funds	—	—	36	36
Private equity real estate funds	—	—	66	66
Commodity-linked funds	—	43	—	43
	\$ 2,370	\$ 1,925	\$ 272	\$ 4,567

# Sutter Health and Affiliates

## Notes to Consolidated Financial Statements (continued)

*(Dollars in millions)*

### FAIR VALUE MEASUREMENTS (continued)

	December 31, 2014			
	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
<b>Liquid investments</b>				
Cash equivalents	\$ 148	\$ –	\$ –	\$ 148
<b>Equity securities</b>				
U.S. equity	1,326	32	–	1,358
Foreign equity	610	45	–	655
<b>Fixed income securities</b>				
U.S. government	177	–	–	177
U.S. government agencies	–	77	–	77
U.S. state and local government	–	21	–	21
U.S. federal agency mortgage-backed	–	388	–	388
Foreign government	–	294	–	294
U.S. corporate	46	716	–	762
Foreign corporate	3	442	–	445
<b>Other investments</b>				
Multi-strategy hedge fund portfolio	–	37	186	223
Private equity funds	–	–	33	33
Private equity real estate funds	–	–	57	57
Commodity-linked funds	–	47	–	47
	\$ 2,310	\$ 2,099	\$ 276	\$ 4,685

There were no transfers to or from Levels 1, 2, or 3 during the periods presented.

# Sutter Health and Affiliates

## Notes to Consolidated Financial Statements (continued)

*(Dollars in millions)*

### **FAIR VALUE MEASUREMENTS (continued)**

As of March 31, 2015 and December 31, 2014, the Level 2 and 3 instruments listed in the fair value hierarchy tables above use the following valuation techniques and inputs:

U.S. and Foreign Equity Securities: The fair value of the U.S. and foreign equity securities classified as Level 2 is primarily determined using the calculated net asset value per share (NAV). These are primarily commingled funds that invest in domestic and foreign equity securities, whose underlying values are based on Level 1 inputs. The fund managers receive prices from nationally recognized pricing services based on observable market transactions.

U.S. Government Agencies Securities: The fair value of investments in U.S. government agencies securities classified as Level 2 is primarily determined using consensus pricing methods of observable market-based data. Significant observable inputs include quotes, spreads, and data points for yield curves.

U.S. State and Local Government Securities: The fair value of U.S. state and local government securities classified as Level 2 is determined using a market approach. The inputs include yield benchmark curves, prepayment speeds, and observable market data such as institutional bids, dealer quotes, and two-sided markets.

U.S. Federal Agency Mortgage-backed Securities: The fair value of U.S. federal agency mortgage-backed securities classified as Level 2 is primarily determined using matrices. These matrices utilize observable market data of bonds with similar features, prepayment speeds, credit ratings, and discounted cash flows. Additionally, observed market movements, tranche cash flows and benchmark yields are incorporated in the pricing models.

Foreign Government and Corporate Securities: The fair value of investments in foreign government and corporate securities classified as Level 2 is primarily determined using consensus pricing methods of observable market-based data. In addition, a portion is determined using the calculated net asset value per share (NAV). Significant observable inputs include quotes, bid and ask yields, and issue-specific factors.

U.S. Corporate Securities: The fair value of investments in U.S. corporate securities classified as Level 2 is primarily determined using techniques that are consistent with the market approach. In addition, a portion is determined using the calculated net asset value per share (NAV). Significant observable inputs include reported trades, dealer quotes, security-specific characteristics, and multiple sources of spread data points in developing yield curves.

# Sutter Health and Affiliates

## Notes to Consolidated Financial Statements (continued)

(Dollars in millions)

### FAIR VALUE MEASUREMENTS (continued)

Other Investments: The fair value of the multi-strategy hedge fund portfolio, private equity funds, private equity real estate funds, and commodity-linked funds classified as Level 2 and Level 3 is determined using the calculated NAV. 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.

The change in the balance of Level 3 financial assets measured on a recurring basis consists of the following:

	<b>Multi-Strategy Hedge Fund Portfolio</b>	<b>Private Equity Funds</b>	<b>Private Equity Real Estate Funds</b>	<b>Total</b>
Balance at December 31, 2013	\$ 67	\$ 3	\$ 13	\$ 83
Total net realized and unrealized gains (losses)	2	(2)	1	1
Purchases	133	33	53	219
Sales	(16)	(1)	(10)	(27)
Balance at December 31, 2014	186	33	57	276
Total net realized and unrealized gains (losses)	2	-	(1)	1
Purchases	-	3	17	20
Sales	(18)	-	(7)	(25)
Balance at March 31, 2015	<b>\$ 170</b>	<b>\$ 36</b>	<b>\$ 66</b>	<b>\$ 272</b>
Change in unrealized gains on investments held as of December 31, 2014	\$ (3)	\$ (3)	\$ 1	\$ (5)
Change in unrealized (losses) gains on investments held as of March 31, 2015	<b>\$ 2</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 2</b>

# Sutter Health and Affiliates

## Notes to Consolidated Financial Statements (continued)

(Dollars in millions)

### FAIR VALUE MEASUREMENTS (continued)

Certain of the investments report fair value using a calculated NAV or its equivalent. These investments are not expected to be sold at amounts that are different from NAV. The following table and explanations identify attributes relating to the nature and risk of such investments:

	March 31, 2015			
	Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period (if currently eligible)
<b>Level 2</b>				
Commingled funds – U.S. equity securities	\$ 33	\$ –	Daily	1 day
Commingled funds – foreign equity securities	47	–	Monthly	30 days
Commingled funds – debt securities	64	–	Weekly, Monthly	0–15 days
Commodity-linked funds	43	–	Monthly	5 days
Multi-strategy hedge fund portfolio	38	–	Monthly, Quarterly	15–65 days
Total Level 2	225	–		
<b>Level 3</b>				
Multi-strategy hedge fund portfolio	170	–	Quarterly, Annually	45–197 days
Private equity funds	36	55	None	None
Private equity real estate funds	66	163	None	None
Total Level 3	272	218		
Total Level 2 and Level 3	\$ 497	\$ 218		

# Sutter Health and Affiliates

## Notes to Consolidated Financial Statements (continued)

*(Dollars in millions)*

### FAIR VALUE MEASUREMENTS (continued)

	December 31, 2014			
	Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period (if currently eligible)
<b>Level 2</b>				
Commingled funds – U.S. equity securities	\$ 32	\$ –	Daily	1 day
Commingled funds – foreign equity securities	45	–	Monthly	30 days
Commingled funds – debt securities	67	–	Weekly, Monthly	0-15 days
Commodity-linked funds	47	–	Monthly	5 days
Multi-strategy hedge fund portfolio	37	–	Monthly, Quarterly	15-65 days
Total Level 2	228	–		
<b>Level 3</b>				
Multi-strategy hedge fund portfolio	186	–	Quarterly, Annually	45-197 days
Private equity funds	33	70	None	None
Private equity real estate funds	57	116	None	None
Total Level 3	276	186		
Total Level 2 and Level 3	\$ 504	\$ 186		

Commingled Funds – Equity Securities: This class includes investments in commingled funds that invest primarily in domestic or foreign equity securities and attempt to match the returns of specific equity indices. As of March 31, 2015, approximately 42% of this class is redeemable daily with a 1-day notice period. The remaining 58% of this class is redeemable monthly with a 30-day notice period.

Commingled Funds – Debt Securities: This class includes investments in commingled funds that invest primarily in foreign and domestic debt and fixed income securities, of which the majority are traded in over-the-counter markets. As of March 31, 2015, approximately 92% of the value of this class is redeemable weekly, with a notice period of 0 to 5 days. The remaining 8% of this class is redeemable monthly with a 15-day notice period.

Commodity-Linked Funds: This class includes commodity-linked funds that pursue long-only fully collateralized commodity futures strategies to provide diversification and inflation protection. As of March 31, 2015, these funds are redeemable monthly with a 5-day notice before month end.

## Sutter Health and Affiliates

### Notes to Consolidated Financial Statements (continued)

*(Dollars in millions)*

#### **FAIR VALUE MEASUREMENTS (continued)**

**Multi-Strategy Hedge Fund Portfolio:** This class includes investments in hedge funds that expand the universe of potential investment approaches available by employing a variety of strategies and techniques within and across various asset classes. The primary objective for these funds is to balance returns while limiting volatility by allocating capital to external portfolio managers selected for expertise in one or more investment strategies which may include, but are not limited to, equity long/short, event driven, relative value, and directional. The following summarizes the redemption criteria for the multi-strategy hedge fund portfolio as of March 31, 2015:

<b>% of Multi-Strategy Hedge Fund Portfolio</b>	<b>Redemption Criteria</b>	<b>Notice Period</b>
Level 2		
11%	Redeemable monthly	15–60 days
8%	Redeemable quarterly	45–65 days
Level 3		
11%	Redeemable at the end of each calendar quarter	45–60 days
1%	Redeemable annually	95 days
29%	Limited to a 25% gate, redeemable quarterly	45–197 days
35%	One year lock-up expiring between May 2015 and November 2015	60–90 days
5%	Three year lock-up expiring November 2017	65 days

**Private Equity Funds:** This class includes domestic and foreign private equity funds that specialize in providing capital to a variety of investment groups, including but not limited to venture capital, leveraged buyout, mezzanine debt, distressed debt, and other strategies, which may include land, water processing, and alternative energy. There is no provision for redemptions during the life of these funds. Distributions from each fund will be received as the underlying investments of the funds are liquidated, estimated at March 31, 2015, to be over the next 10 to 15 years.

**Private Equity Real Estate Funds:** This class includes domestic and foreign investments in real estate that are held in limited partnership funds, joint ventures, and other investments comprised of retail, office, industrial, and multi-family properties. There is no provision for redemptions during the life of these funds. Distributions from each fund will be received as the underlying investments of the funds are liquidated, estimated at March 31, 2015, to be over the next 2 to 10 years.



## Sutter Health and Affiliates

### Notes to Consolidated Financial Statements (continued)

*(Dollars in millions)*

#### LONG-TERM OBLIGATIONS

Long-term obligations consist of the following:

	<u>March 31, 2015</u>
Non-taxable hospital revenue bonds and certificates of participation under the Sutter Health Master Indenture of Trust, fixed interest at 3.0% to 6.0%, through 2052 (includes net unamortized premium of \$61 as of March 31, 2015)	\$ 3,436
Taxable hospital revenue bonds and certificates of participation under the Sutter Health Master Indenture of Trust, fixed interest at 1.09% to 2.29%, through 2053	300
Various collateralized and unsecured obligations	26
Obligations under capital leases	<u>8</u>
Less current portion	<u>3,770</u> <u>(22)</u>
	<u><u>\$ 3,748</u></u>

The aggregate estimated fair market values of Sutter's revenue bonds and certificates of participation at March 31, 2015 of \$3,938 were established using discounted cash flow analyses based on: (i) the current market yield to maturity for similar types of publicly traded debt issues; and (ii) Sutter's current incremental borrowing rates for all other debt instruments. Based on the inputs and valuation techniques, the fair value of long-term debt is classified as Level 2 within the fair value hierarchy.

The central financing vehicle of credit for Sutter is the Obligated Group. Sutter Health, the legal entity, and certain affiliates are members of the Sutter Health Obligated Group (the "Obligated Group"), with their assets being subject to the indebtedness of the Obligated Group. Although the Obligated Group is not a legal entity, members of the Obligated Group are jointly and severally liable for repayment of the tax-exempt obligations issued through the California Health Facilities Financing Authority (CHFFA), California Statewide Communities Development Authority (CSCDA) and taxable obligations issued by Sutter. The related financing documents and various other debt agreements contain certain restrictive covenants requiring compliance by all members, including a pledge of gross revenue.

Sutter has a \$400 revolving line of credit with a syndicate of banks, with \$400 available for borrowing as of March 31, 2015.

## Sutter Health and Affiliates

### Notes to Consolidated Financial Statements (continued)

*(Dollars in millions)*

#### **PATIENT SERVICE AND CAPITATION REVENUES**

The health care industry is subject to voluminous and complex laws and regulations of federal, state and local governments. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement laws and regulations, anti-kickback and anti-referral laws and false claims prohibitions, and in the case of tax-exempt hospitals, the requirements of tax-exemption. In recent years, government activity has increased with respect to investigations and allegations concerning possible violations of reimbursement, false claims, anti-kickback and anti-referral statutes and regulations by health care providers. Sutter also operates an Ethics and Compliance Program, which reviews compliance with government health care program requirements and investigates allegations of non-compliance received from internal and external sources. From time to time, findings may result in repayment of monies previously received from government payers and/or disclosure of such overpayments, including, but not limited to, disclosure to Centers for Medicare and Medicaid Services (CMS) and its contracted agents, or the Office of Inspector General, Department of Health and Human Services. As a result, there is at least a reasonable possibility that the recorded estimates may change by a material amount in the near term.

Sutter also has entered into payment agreements with certain commercial insurance carriers, HMOs and preferred provider organizations. The basis for payment to Sutter under these agreements includes capitated arrangements, prospectively determined rates per diagnosis, discounts from established charges, and prospectively determined daily rates.

The state of California enacted legislation for a hospital fee program to fund certain Medi-Cal coverage expansions. The program obtains federal matching funds for Medi-Cal with the proceeds redistributed to California hospitals to treat Medi-Cal patients.

In September 2011, a 30-month program was established for the period from July 1, 2011 through December 31, 2013 (the "30-month Program"). In June 2012, legislation was passed to separate the fee-for-service from the managed care payments, and the 30-month Program received final approval for the fee-for-service payments. In May and June 2013, 24 months of the managed care payments were approved. In December 2014, the final 6 months of the managed care payments were approved. Payments for the 30-month Program of \$43 are included in patient service revenues, and fees of \$27 are included in other expenses for the year ended December 31, 2014. Since not all payments have been received, \$22 and \$43 were recorded in other receivables and \$12 and \$27 for the provider tax fee and

## Sutter Health and Affiliates

### Notes to Consolidated Financial Statements (continued)

*(Dollars in millions)*

#### **PATIENT SERVICE AND CAPITATION REVENUES (continued)**

pledges have been included in accounts payable as of March 31, 2015 and December 31, 2014, respectively.

In October 2013, a 36-month program was established for the period from January 1, 2014 through December 31, 2016 (the “36-month Program”). In December 2014, the fee-for-service payments were approved. Payments for the 36-month Program of \$335 are included in patient service revenues and other receivables, and fees and pledges of \$242 are included in other expenses and accounts payable for the year ended December 31, 2014. As of March 31, 2015, payments of \$81 are included in patient service revenues and fees of \$59 are included in expenses. Since not all payments have been received for the 36-month program, \$350 was recorded in other receivables and \$179 for the provider tax fee has been included in accounts payable as of March 31, 2015.

#### **POSTRETIREMENT BENEFITS**

Sutter sponsors and participates in various employee benefit plans, including a noncontributory defined benefit plan (the “Retirement Plan”) and several contributory defined contribution plans. Sutter’s total retirement benefit expense was \$73 and \$47 for the three months ended March 31, 2015 and 2014, respectively.

Sutter’s measurement date for plan assets, pension obligations and net periodic pension cost associated with the Retirement Plan is December 31. The Retirement Plan had a net accrued benefit cost of \$128 as of December 31, 2014. Sutter contributed \$240 to the Retirement Plan in 2014.

Included in net assets at December 31, 2014 are the following amounts that have not yet been recognized in net periodic benefit cost: unrecognized prior service costs of \$2, and unrecognized actuarial losses of \$802. The amounts included in net assets that are expected to be recognized in net periodic benefit cost during the year ended December 31, 2015, are \$2 for prior service cost and \$50 for actuarial loss.

## Sutter Health and Affiliates

### Notes to Consolidated Financial Statements (continued)

*(Dollars in millions)*

#### POSTRETIREMENT BENEFITS (continued)

The components of the Retirement Plan's net periodic benefit cost are as follows:

	<b>Three months ended March 31,</b>		<b>Year ended</b>
	<b>2015</b>	<b>2014</b>	<b>2014</b>
Service cost	\$ 59	\$ 47	\$ 188
Interest cost	37	34	137
Expected return on plan assets	(61)	(59)	(235)
Amortization of prior service cost	1	1	6
Amortization of actuarial loss	12	-	-
	<u>\$ 48</u>	<u>\$ 23</u>	<u>\$ 96</u>

In addition to the Retirement Plan, Sutter also has noncontributory postretirement health benefit plans (the "Health Plans"). Sutter's measurement date for plan assets, retiree medical obligations and net periodic retiree medical cost associated with the Health Plans is December 31.

The Health Plans had a net accrued benefit cost of \$85, as of December 31, 2014. An additional contribution to the Health Plans was made in February 2015 for the 2014 plan year of \$7.

Included in net assets at December 31, 2014 are the following amounts that have not yet been recognized in net periodic benefit cost: unrecognized prior service costs of \$6 and unrecognized actuarial loss of \$14. The amounts included in net assets that are expected to be recognized in net periodic benefit cost during the year ended December 31, 2015, are approximately \$2 for prior service cost and \$0 for actuarial gain.

The components of the Health Plans' net periodic benefit cost are as follows:

	<b>Three months ended March 31,</b>		<b>Year ended</b>
	<b>2015</b>	<b>2014</b>	<b>2014</b>
Service cost	\$ 3	\$ 2	\$ 10
Interest cost	2	2	10
Expected return on plan assets	(3)	(3)	(12)
Amortization of prior service cost	1	1	3
Amortization of actuarial gain	-	-	(1)
	<u>\$ 3</u>	<u>2</u>	<u>\$ 10</u>

## Sutter Health and Affiliates

### Notes to Consolidated Financial Statements (continued)

*(Dollars in millions)*

#### **POSTRETIREMENT BENEFITS (continued)**

Certain affiliates participate in multiemployer defined benefit retirement plans. Sutter's contributions to such plans were \$4 and \$3 as of March 31, 2015 and 2014, respectively.

Sutter also maintains various defined contribution plans for eligible employees. Sutter's contributions to such plans were \$18 and \$16 as of March 31, 2015 and 2014, respectively.

#### **CONTINGENCIES AND COMMITMENTS**

Contingencies: Sutter and certain affiliates were named in three class action complaints alleging meal and rest period and other wage-hour violations on behalf of certain employees. These class action suits were coordinated in the Alameda County Superior Court. In December 2012, the court denied plaintiffs' motion for class certification in its entirety. Plaintiffs from one of the suits appealed this decision. Sutter agreed to settle on an individual basis with the plaintiffs from the two other class actions. On June 3, 2014, the appellate court affirmed the trial court's denial of class certification and the appeal period has expired.

In January 2007, a class action complaint was filed against Sutter alleging lack of accessibility to Sutter facilities for people with disabilities. In 2008, Sutter entered into a settlement agreement with the plaintiffs. The settlement agreement provides for an implementation period of ten years, ending July 2018. The settlement terms address: (i) correction to certain physical barriers that may limit a disabled person's access to facilities; (ii) modification to or purchase of medical equipment to provide improved accessibility to medical equipment; and (iii) adoption of new policies and procedures to improve access to facilities. Assessment of physical barriers and potential modification is currently in progress and is expected to continue for several years. It is difficult to currently estimate the cost of these proposed modifications. There can be no assurance that the resolution of these matters will not have a material adverse effect on Sutter's consolidated financial position or results of operations.

As a part of its compliance activities, Sutter undertook an internal compliance audit process related to certain physician arrangements of certain affiliates in each of the five regions. Sutter elected to make voluntary self-disclosures to the federal government (in accordance with federal self-disclosure guidelines) related to certain physician financial arrangements that may constitute potential violations of federal regulatory standards. These disclosures were made in October and November 2010, November 2011, January 2014, and October 2014. This matter is nearing conclusion and any settlements are not expected to have a material adverse effect on Sutter's consolidated financial position or results of operations.

## Sutter Health and Affiliates

### Notes to Consolidated Financial Statements (continued)

*(Dollars in millions)*

#### **CONTINGENCIES AND COMMITMENTS (continued)**

In February 2015, Sutter received notification of a regulatory investigation regarding certain physician financial arrangements. The investigation spans a timeframe beginning in January 2006 through the present. The investigation is in its early stages and no final conclusions can be reached. The investigation could include payments to the government and/or the imposition of additional compliance requirements. At this time, management cannot accurately estimate the amounts of any payments or settlements that may result, or whether additional, related matters may arise. There can be no assurance that the resolution of this investigation will not have a material adverse effect on Sutter's consolidated financial position or results of operations.

Certain Sutter affiliates received a request to cooperate with the Department of Justice (the "DOJ") in a national investigation to determine whether implantable cardioverter defibrillators provided to certain Medicare beneficiaries were provided in accordance with national coverage criteria. The DOJ's investigation spanned a time frame beginning in October 2003 through June 2010. In May 2015, Sutter settled this matter for \$3 with no imposition of any additional corrective actions.

Sutter management is aware of two recent potentially material privacy and security incidents within Sutter. The first involved a stolen computer with limited data on approximately 4.25 million patients. Sutter received notice that it and certain affiliates were named in multiple state and federal class action lawsuits related to the stolen computer, claiming private class-wide damages for data breaches. These cases were coordinated in the Sacramento County Superior Court and alleged violation of the California Confidentiality of Medical Information Act (the "Act"), Violation of California Civil code, negligence, and invasion of privacy. In July 2014, the appellate court dismissed the lawsuits, determining that claims under the Act could not continue as no actual breach of confidentiality had occurred. Plaintiffs filed a Petition for Review with the California Supreme Court arising from the Court of Appeal's decision in Sutter's favor. The Petition for Review was denied and the case has now been dismissed in the Superior Court. The second involves the Alameda County Sheriff's Department's notification to Sutter that during an unrelated investigation, authorities recovered information of approximately 4,500 Sutter patients. As of this date, no penalties have been assessed and one class action lawsuit was filed with respect to this incident. In March 2015, the Superior Court struck the class action component of the lawsuit and the appeal period has expired. The related affiliates in each of these matters have taken action to notify affected patients, and continue to coordinate with relevant state and federal agencies. Penalties may be assessed by regulatory agencies and additional patients may file private legal causes of action. Courts in California have not previously

## Sutter Health and Affiliates

### Notes to Consolidated Financial Statements (continued)

*(Dollars in millions)*

#### **CONTINGENCIES AND COMMITMENTS (continued)**

certified a class in this type of litigation and it is premature to estimate whether any civil liability will result from these or similar lawsuits. There can be no assurance that the privacy and security incidents discussed above, taken individually or in the aggregate, will not have a material adverse effect on Sutter's consolidated financial position or results of operations.

In recent years, government activity has increased with respect to investigations and allegations concerning possible violations of reimbursement, false claims, anti-kickback and anti-referral statutes, and regulations by health care providers. Certain Sutter affiliates have received, and are in the process of responding to, requests from governmental agencies, including the Department of Justice, the California Attorney General, the California Department of Public Health and the Office of Civil Rights.

Sutter is involved in other litigation, as both plaintiff and defendant, and other routine labor matters, class-action complaints, tax examinations, security events resulting in potential privacy incidents and regulatory investigations and examinations arising in the ordinary course of business. There can be no assurance that the resolution of these matters will not have a material adverse effect on Sutter's consolidated financial position or results of operations.

As of March 31, 2015, Sutter had approximately 50,000 employees, of whom approximately 30,000 are full-time employees. Approximately 25% of these 50,000 employees are employed by 26 Sutter facilities and are represented by collective bargaining units. Of these employees, 30% are represented by collective bargaining agreements that expired from December 31, 2013 to March 31, 2015 and are in the process of being negotiated. Employee strikes or other adverse labor actions may have a material adverse impact on Sutter's consolidated financial position or results of operations.

**Commitments:** Sutter is required to remediate certain of its health care facilities to comply with earthquake retrofit requirements under a State of California law. Over half of Sutter's facilities are compliant, have received extensions, or extensions are pending making the facilities compliant until 2030 and Sutter is evaluating its facilities and is considering all options. There are three facilities currently in the construction phase with estimated remaining capital expenditures of \$2,004 (unaudited) that will bring those facilities into compliance. On July 9, 2013, the City and County of San Francisco (CCSF) approved certain projects proposed by Sutter West Bay Hospitals (SWBH), doing business as California Pacific Medical Center (CPMC). Pursuant to these approvals, SWBH plans to build a new hospital at Van Ness and Geary (the "Cathedral Hill Site") and a new hospital at

## Sutter Health and Affiliates

### Notes to Consolidated Financial Statements (continued)

*(Dollars in millions)*

#### **CONTINGENCIES AND COMMITMENTS (continued)**

site adjacent to the St. Luke's hospital in San Francisco. As a condition of obtaining approval of the projects, SWBH entered into a development agreement with CCSF that obligated SWBH to pay the aggregate sum of \$85, which is generally payable in installments beginning in 2013 and ending in 2017, with a remaining commitment of \$35 as of March 31, 2015. Since approval of the projects, management has been assessing the design and costs incurred. The remaining estimated cost of development and construction of these hospitals, plus the planning and entitlements for a new medical office building at the Cathedral Hill Site, is approximately \$1,994 (unaudited).

Sutter's capital allocation plan, which includes amounts for seismic retrofits, replacements, and relocations, is approximately \$4,612 (unaudited) from January 1, 2015 to December 31, 2019. Management and the Board of Directors evaluate Sutter's capital needs on an ongoing basis and are considering options, given the current economic conditions.

#### **SUBSEQUENT EVENTS**

Sutter has evaluated subsequent events and disclosed all material events through June 8, 2015, which is the date these Sutter consolidated financial statements were issued.



Sutter Health and Affiliates

Consolidated Balance Sheets - Sutter Health Obligated Group

(Dollars in millions)

	<b>Unaudited March 31,</b>		<b>Audited December 31,</b>
	<b>2015</b>	<b>2014</b>	<b>2014</b>
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ 159	\$ 255	\$ 179
Short-term investments	3,407	3,385	3,516
Patient accounts receivable (net of allowance for doubtful accounts of \$174 and \$313 in March 2015 and 2014, and \$195 in December 2014)	1,173	1,187	1,068
Other receivables	543	173	557
Inventories	96	91	95
Other	131	129	113
Total current assets	<u>5,509</u>	<u>5,220</u>	<u>5,528</u>
Non-current investments	320	503	331
Property, plant and equipment, net	7,012	6,663	6,997
Other	358	810	352
	<u>\$ 13,199</u>	<u>\$ 13,196</u>	<u>\$ 13,208</u>
<b>Liabilities and net assets</b>			
Current liabilities:			
Accounts payable	\$ 443	\$ 323	\$ 585
Accrued salaries and related benefits	550	526	543
Other accrued expenses	445	437	456
Current portion of long-term obligations	21	17	21
Total current liabilities	<u>1,459</u>	<u>1,303</u>	<u>1,605</u>
Non-current liabilities:			
Long-term obligations, less current portion	3,738	3,760	3,742
Other	741	565	753
Net assets:			
Unrestricted controlling	7,124	7,420	6,970
Unrestricted noncontrolling	62	71	61
Temporarily restricted	62	64	64
Permanently restricted	13	13	13
	<u>7,261</u>	<u>7,568</u>	<u>7,108</u>
	<u>\$ 13,199</u>	<u>\$ 13,196</u>	<u>\$ 13,208</u>

## Sutter Health and Affiliates

### Consolidated Statements of Operations & Changes in Net Assets – Sutter Health Obligated Group

*(Dollars in millions)*

	<b>Unaudited</b>		<b>Audited</b>
	<b>Three months ended</b>		<b>Year ended</b>
	<b>March 31,</b>		<b>December 31,</b>
	<b>2015</b>	<b>2014</b>	<b>2014</b>
<b>Unrestricted net assets:</b>			
Operating revenues:			
Patient service revenues	\$ 2,272	\$ 2,072	\$ 8,671
Provision for bad debts	(28)	(108)	(182)
Patient service revenues less provision for bad debts	2,244	1,964	8,489
Capitation revenues	223	202	873
Contributions	1	1	5
Other	99	76	348
Total operating revenues	2,567	2,243	9,715
Operating expenses:			
Salaries and employee benefits	1,195	1,095	4,419
Purchased services	571	513	2,143
Supplies	290	262	1,086
Depreciation and amortization	139	125	546
Capitated purchased services	53	57	229
Rentals and leases	34	34	135
Interest	28	21	90
Insurance	17	21	61
Other	126	63	564
Total operating expenses	2,453	2,191	9,273
Income from operations	114	52	442
Investment income	18	41	224
Change in net unrealized gains and losses on investments classified as trading	21	(8)	(204)
Income	153	85	462
Less income attributable to noncontrolling interests	(11)	(10)	(42)
Income attributable to Sutter Health	142	75	420

Sutter Health and Affiliates

Consolidated Statements of Operations & Changes in Net Assets –  
Sutter Health Obligated Group (continued)

(Dollars in millions)

	<b>Unaudited</b>		<b>Audited</b>
	<b>Three months ended</b>		<b>Year ended</b>
	<b>March 31,</b>		<b>December 31,</b>
	<b>2015</b>	<b>2014</b>	<b>2014</b>
<b>Unrestricted net assets (continued):</b>			
Unrestricted controlling net assets:			
Income attributable to Sutter Health	\$ 142	\$ 75	\$ 420
Change in net unrealized gains and losses on investments classified as other-than-trading	3	4	13
Net assets released from restrictions for equipment acquisition	3	1	12
Pension-related changes other than net periodic pension cost	14	2	(764)
Transfers with related entities, net	(9)	(17)	(66)
Other	1	(4)	(4)
Increase (decrease) in unrestricted controlling net assets	<u>154</u>	<u>61</u>	<u>(389)</u>
Unrestricted noncontrolling net assets:			
Income attributable to noncontrolling interests	11	10	42
Distributions	(10)	(12)	(50)
Other	-	-	(4)
Increase (decrease) in unrestricted noncontrolling net assets	<u>1</u>	<u>(2)</u>	<u>(12)</u>
<b>Temporarily restricted net assets:</b>			
Contributions	1	2	12
Investment income	-	-	2
Change in net unrealized gains and losses on investments	-	(1)	(6)
Net assets released from restrictions	(3)	(2)	(8)
Other	-	(3)	(4)
(Decrease) in temporarily restricted net assets	<u>(2)</u>	<u>(4)</u>	<u>(4)</u>
Increase (decrease) in net assets	<b>153</b>	<b>55</b>	<b>(405)</b>
Net assets, beginning of period	<b>7,108</b>	<b>7,513</b>	<b>7,513</b>
Net assets, end of period	<u><b>\$ 7,261</b></u>	<u><b>\$ 7,568</b></u>	<u><b>\$ 7,108</b></u>

## Sutter Health and Affiliates

### Consolidated Statements of Cash Flows – Sutter Health Obligated Group

*(Dollars in millions)*

	<b>Unaudited Three months ended March 31,</b>		<b>Audited Year ended December 31,</b>
	<b>2015</b>	<b>2014</b>	<b>2014</b>
<b>Operating activities</b>			
Increase (decrease) in net assets	\$ 153	\$ 55	\$ (405)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:			
Depreciation and amortization	139	125	524
Amortization of bond issuance (premium) discount, net	(3)	(3)	(11)
Change in net unrealized gains and losses on investments	(24)	5	197
Provision for doubtful accounts	28	108	182
Restricted contributions and investment income	(1)	(2)	(14)
Loss on impairment of property, plant and equipment	-	-	15
Loss on impairment of goodwill	-	-	3
Net gain on disposal of property, plant and equipment	(1)	(3)	(22)
Change in net postretirement benefits	28	22	620
Net changes in operating assets and liabilities:			
Patient accounts receivable and other receivables	(119)	(92)	(431)
Inventories and other assets	(26)	(51)	(12)
Accounts payable and accrued expenses	(86)	(21)	233
Other non-current liabilities	(40)	10	57
Net cash provided by operating activities	48	153	936
<b>Investing activities</b>			
Purchases of property, plant and equipment	(213)	(259)	(953)
Proceeds from disposal of property, plant and equipment	1	5	37
Sales and (purchases) or maturities of investments, net	144	117	(34)
Other	-	(20)	(72)
Net cash used in investing activities	(68)	(157)	(1,022)

Sutter Health and Affiliates

Consolidated Statements of Cash Flows - Sutter Health Obligated Group (continued)

(Dollars in millions)

	<b>Unaudited</b>		<b>Audited</b>
	<b>Three months ended</b>		<b>Year ended</b>
	<b>March 31,</b>		<b>December 31,</b>
	<b>2015</b>	<b>2014</b>	<b>2014</b>
<b>Financing activities</b>			
Payments of long-term obligations	\$ (1)	\$ -	\$ (17)
Proceeds from issuance of long-term obligations	-	2	13
Restricted contributions and investment income	1	2	14
Net cash provided by financing activities	-	4	10
Net decrease in cash and cash equivalents	(20)	-	(76)
Cash and cash equivalents at beginning of period	179	255	255
Cash and cash equivalents at end of period	<u>\$ 159</u>	<u>\$ 255</u>	<u>\$ 179</u>

# Sutter Health and Affiliates

## Management's Discussion & Analysis

*(Dollars in millions)*

### CONSOLIDATED ANALYSIS

#### **For the three months ended March 31, 2015 compared to March 31, 2014**

Total operating revenues for the three months ended March 31, 2015 are \$2,685, which is a \$328 or 13.9% increase compared to the same period in 2014. Total expenses are \$2,584, which is a \$274 or 11.9% increase compared to the same period in 2014. A portion of the increases is due to the hospital fee program. Payments of \$81 are included in revenue and fees of \$59 are included in expenses as of March 31, 2015. There were no corresponding amounts for the same period in 2014. Provision for doubtful accounts decreased by (\$81) or (73%) compared to the same period in 2014 mainly due to a change of payer mix reflecting a decline in self-pay revenue. Purchased services increased by \$63 or 11.3% compared to the same period in 2014 due to increases in nurse registry, medical group compensation and contracted services.

Total operating income of \$101 includes \$34 of year-to-date negative adjustments, the most significant of which are electronic health record costs of \$17 and breakthrough initiatives of \$7.

Earnings (excluding investment income) before interest expense, taxes, depreciation and amortization (EBITDA) is \$274 with a 10.2% EBITDA margin, which is an increase of \$74 compared to the same period in 2014.

Income attributable to Sutter Health is \$133, which is a \$56 or 72.7% increase compared to the same period in 2014. This increase is due to a \$54 increase in income from operations and a \$27 increase in change in net unrealized gains and losses from investments classified as trading, offset by a \$25 decrease in investment income.

For the three months ended March 31, 2015, Sutter Health reported gains in investments of \$23 and \$22 in the change in net unrealized gains and losses on investments classified as trading. For these investments, Sutter Health's asset allocation target is: 36% equities; 45% fixed income; and 19% alternatives.

Sutter Health's rating of AA- (stable) was affirmed on May 9, 2014 by Fitch Ratings. Fitch Ratings cited weaker profitability in 2013, but as an offsetting factor noted investment "in support function consolidation, care management initiatives, and a health plan, which is expected to enhance performance, lower cost structure, and transform healthcare delivery across the system." On June 2, 2014, Standard & Poor's Rating Services also affirmed Sutter Health's rating of AA- (stable). On July 1, 2014, Moody's Investors Service affirmed Sutter Health's Aa3 rating and revised the outlook to negative from stable.

## Sutter Health and Affiliates

### Management's Discussion & Analysis (continued)

*(Dollars in millions)*

#### **OBLIGATED GROUP ANALYSIS**

##### **For the three months ended March 31, 2015 compared to March 31, 2014**

Total operating revenues of the Obligated Group are \$2,567, which is a \$324 or 14.4% increase compared to the same period in 2014. Acute affiliates of the Obligated Group reported admissions of 47,603 for the three months ended March 31, 2015, compared to admissions of 47,283 reported during the same period in 2014. Operating income is \$114, which is an increase of \$62 compared to the same period in 2014. EBITDA of the Obligated Group is \$281, which is an increase of \$83 compared to the same period in 2014, and resulted in an EBITDA margin of 10.9%. Income attributable to Sutter Health is \$142, which is a \$67 or 89.3% increase compared to the same period in 2014. This increase is due to a \$62 increase in income from operations and a \$29 increase in change in net unrealized gains and losses from investments classified as trading, offset by a \$23 decrease in investment income.

**CONTINUING DISCLOSURE REPORT OF SUTTER HEALTH  
FOR THE QUARTER ENDED MARCH 31, 2015**

This report (the "Continuing Disclosure Report") contains an update of certain information contained in Appendix A of the Official Statements related to the issues identified below (collectively, the "Bonds") pursuant to Sutter Health's undertakings under the related continuing disclosure agreements (collectively, the "Disclosure Agreements").

<u>Bonds</u>	<u>CUSIP*</u>
<b>California Statewide Communities Development Authority Revenue Bonds (Sutter Health), Series 2003A</b>	130795EE3
<b>California Statewide Communities Development Authority Revenue Bonds (Sutter Health), Series 2003B</b>	130795EF0
<b>California Statewide Communities Development Authority Revenue Bonds (Sutter Health), Series 2004C</b>	130795TE7
<b>California Statewide Communities Development Authority Revenue Bonds (Sutter Health), Series 2004D</b>	130795TN7
<b>California Statewide Communities Development Authority Revenue Bonds (Sutter Health) Series 2005A</b>	130911U24
<b>California Statewide Communities Development Authority Revenue Bonds (Sutter Health), Series 2005B</b>	130795EG8
<b>California Statewide Communities Development Authority Revenue Bonds (Sutter Health), Series 2005C</b>	130795ED5
<b>California Health Facilities Financing Authority Revenue Bonds (Sutter Health), Series 2007A</b>	13033FQ37, 13033FQ45
<b>California Health Facilities Financing Authority Revenue Bonds (Sutter Health), Series 2008A</b>	13033F2Z2, 13033F2Y5, 13033F2T6, 13033F2U3, 13033F2V1, 13033F2W9, 13033F2X7
<b>California Statewide Communities Development Authority Revenue Bonds (Sutter Health), Series 2008B</b>	130795UD7

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\* A registered trademark of The American Bankers Association. CUSIP is provided by Standard & Poor's CUSIP Service Bureau, a Standard & Poor's Financial Services LLC business. CUSIP numbers are provided for convenience of reference only. Sutter Health does not assume any responsibility for the accuracy of such numbers.



<u>Bonds</u>	<u>CUSIP*</u>
<b>California Statewide Communities Development Authority Revenue Bonds (Sutter Health), Series 2008C</b>	130795TD9
<b>California Statewide Communities Development Authority Revenue Bonds (Sutter Health), Series 2011A</b>	1307952F3, 1307952G1, 1307952H9, 1307952J5, 1307952K2, 1307952L0, 1307952M8, 1307952N6, 1307952R7, 1307952P1, 1307952Q9
<b>California Health Facilities Financing Authority (Sutter Health), Series 2011B</b>	13033LKL0, 13033LKM8, 13033LKN6, 13033LKP1, 13033LKQ9, 13033LKR7, 13033LKS5, 13033LKT3, 13033LKX4, 13033LKU0, 13033LKV8, 13033LKW6
<b>California Statewide Communities Development Authority Revenue Bonds (Sutter Health), Series 2011C</b>	1307954L8, 1307954M6, 1307954N4, 1307954P9, 1307954V6, 1307954Q7, 1307954W4, 1307954R5, 1307954X2, 1307954S3, 1307954T1, 1307954Y0, 1307954U8
<b>California Health Facilities Financing Authority Revenue Bonds (Sutter Health), Series 2011D</b>	13033LVL8, 13033LVM6, 13033LVN4, 13033LVP9, 13033LVQ7, 13033LVR5, 13033LVS3, 13033LVT1, 13033LVU8, 13033LVX2, 13033LVV6, 13033LVW4
<b>California Statewide Communities Development Authority Revenue Bonds (Sutter Health), Series 2012A</b>	1307955Z6, 1307956L6, 1307956A0, 1307956R3, 1307956M4, 1307956B8, 1307956N2, 1307956C6, 1307956D4, 1307956P7, 1307956E2, 1307956F9, 1307956G7, 1307956H5, 1307956J1, 1307956Q5, 1307956S1, 1307956K8
<b>California Health Facilities Financing Authority Revenue Bonds (Sutter Health), Series 2013A</b>	13033LW52
<b>Sutter Health Taxable Bonds, Series 2013A</b>	86944B AA1
<b>Sutter Health Taxable Bonds, Series 2013B</b>	86944B AB9
<b>Sutter Health Taxable Bonds, Series 2013C</b>	86944B AC7

## **Employees, Unions and Collective Bargaining Units**

As of March 31, 2015, the Sutter Health system had approximately 50,000 employees, of which approximately 30,000 are full-time employees. Approximately 4,000 of these 50,000 employees are employed by Sutter Health and the remaining employees are employed by Affiliated Entities. Approximately 25% of these employees (employed at 26 Sutter Health facilities) are represented by collective bargaining units, with 54 collective bargaining agreements in place that are subject to renegotiation from time to time. Renegotiation could result in work stoppages or other adverse labor actions and potential sympathy walkouts. Labor strikes have occurred in the past at the Obligated Group's facilities and likely will occur again in the future.

\* A registered trademark of The American Bankers Association. CUSIP is provided by Standard & Poor's CUSIP Service Bureau, a Standard & Poor's Financial Services LLC business. CUSIP numbers are provided for convenience of reference only. Sutter Health does not assume any responsibility for the accuracy of such numbers.

## List of Obligated Group Members

As of March 31, 2015, the Obligated Group Members consisted of the following:

- Eden Medical Center
- Mills-Peninsula Health Services
- Palo Alto Medical Foundation for Health Care, Research and Education
- Sutter Central Valley Hospitals
- Sutter Coast Hospital
- Sutter East Bay Hospitals
- Sutter Gould Medical Foundation
- Sutter Health
- Sutter Health Sacramento Sierra Region
- Sutter Medical Center Castro Valley
- Sutter Medical Foundation
- Sutter Visiting Nurse Association and Hospice
- Sutter West Bay Hospitals

## Obligated Group Utilization Information

The following table summarizes the Obligated Group's acute care utilization data for the quarter ended March 31, 2015.

### Obligated Group Acute Care Facility Utilization

	<u>Quarter Ended March 31, 2015</u>
Licensed Beds	4,237 <sup>(1)</sup>
Beds in Service	4,198
Admissions <sup>(2)</sup>	47,603
Patient Days <sup>(2)</sup>	225,347
Average Length of Stay (Days)	4.7
Occupancy % <sup>(3)</sup>	58.8%
Emergency Room Visits <sup>(4)</sup>	229,099

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<sup>(1)</sup> As of March 31, 2013, revised from past continuing disclosure reports to conform to the Office of Statewide Health Planning and Development's definition of "licensed bed."

<sup>(2)</sup> Excluding well newborns.

<sup>(3)</sup> Based on Beds in Service.

<sup>(4)</sup> Does not include Emergency Room patients subsequently admitted as inpatients.

## Obligated Group Long –Term Care Facility Data

Certain prior official statements and continuing disclosure reports related to the Bonds erroneously identified and provided long-term care utilization statistics related to Mills-Peninsula Extended Care (“MPEC”), which closed on May 2, 2013, as the Sutter Health system’s only freestanding skilled nursing facility. Rather, prior to its closure, MPEC operated under Mills-Peninsula Health Services’ license and Medicare provider number. This continuing disclosure report correctly identifies Mills-Peninsula Skilled Nursing (“MPSN”) as the Sutter Health system’s only freestanding skilled nursing facility and provides related long-term care utilization statistics for the fiscal years ended 2010-2014 and as of March 31, 2015 as required under the Disclosure Agreements.

### Obligated Group Long-Term Care Facility Utilization Data <sup>(1)</sup>

	Fiscal Year Ended December 31,					Quarter Ended March 31,
	2010	2011	2012	2013	2014	2015
Licensed Beds	62	62	62	62	62	62
Patient Days	14,028	14,144	13,329	13,556	12,085	3,393
Occupancy %	62.0%	62.5%	58.9%	59.9%	53.4%	60.8%

<sup>(1)</sup> Reflects Mills-Peninsula Skilled Nursing as the only freestanding skilled nursing facility operating under its own license and Medicare provider number.

The following table presents the net losses of MPEC and MPSN for the fiscal years ended 2010-2014 and as of March 31, 2015, noting MPEC closed on May 2, 2013.

### Obligated Group Long-Term Care Facility Financial Data

	Fiscal Year Ended December 31,					Quarter Ended March 31,
	2010	2011	2012	2013	2014	2015
Mills-Peninsula Extended Care	\$(7,558,564)	\$(6,896,368)	\$(5,240,126)	\$(2,281,942)	N/A	N/A
Mills-Peninsula Skilled Nursing	\$(5,136,017)	\$(4,891,408)	\$(3,360,692)	\$(5,025,485)	\$(3,279,110)	\$(804,116)

## Obligated Group Medical Foundations Operating Data

The following table summarizes the operating data for medical foundations within the Obligated Group for the quarter ended March 31, 2015.

### Obligated Group Medical Foundations Operating Data

	Quarter Ended March 31, 2015
Physicians	1,849
Facilities	161
Capitated Members	252,732
Outpatient Visits	2,157,441

## Sources of Revenues

Following is a summary of gross patient revenue for the Obligated Group by payer source for the quarter ended March 31, 2015.

### Obligated Group Payer Mix March 31, 2015

	Medicare		Medi-Cal		Commercial Programs		Other Payers
	Non-Capitated	Capitated	Non-Capitated	Capitated	Non-Capitated	Capitated	
Total Obligated Group	37.0%	4.6%	20.9%	0.1%	31.4%	2.0%	4.0%
Acute Care Hospitals	39.0%	4.4%	24.6%	0.0%	26.8%	.8%	4.4%
Medical Foundations	28.1%	5.4%	4.0%	0.4%	52.0%	7.3%	2.8%

The following summarizes the number of individuals in each region for whom Sutter Health system physician organizations and hospitals provide health care services on a capitated basis as of March 31, 2015.

### Sutter Health Capitated Members <sup>(1)</sup> March 31, 2015

	Central Valley Region	East Bay Region	Peninsula Coastal Region	Sacramento Sierra Region	West Bay Region	Total
Physician Organizations <sup>(2)</sup>	33,900	12,827	112,725	80,629	12,651	252,732
Hospitals	15,612	3,201	12,786	53,393	6,076	91,068
Elimination <sup>(3)</sup>	(15,612)	(3,201)	(12,786)	(53,393)	(6,076)	(91,068)
Totals	<u>33,900</u>	<u>12,827</u>	<u>112,725</u>	<u>80,629</u>	<u>12,651</u>	<u>252,732</u>

<sup>(1)</sup> Includes Capitated Members of Non-Obligated Group Members.

<sup>(2)</sup> Includes Capitated Members of Aligned IPAs and the Sutter Health system's Medical Foundations.

<sup>(3)</sup> Eliminates Capitated Members that are covered by both hospitals as well as physician organizations.

## Summary Financial Information

A copy of Sutter Health's unaudited financial statements for the quarter ended March 31, 2015 (the "Financial Statements") has been provided within this package. Please note that this Continuing Disclosure Report should be read in conjunction with the Financial Statements. Included within the Financial Statements is a summary statement of operations of the Obligated Group and a summary balance sheet of the Obligated Group, each for the quarter ended March 31, 2015.

### Fixed Payment Coverage Ratio

The table below sets forth the Obligated Group's funds generated to cover fixed payments for fiscal year 2014, and the Obligated Group's maximum annual fixed payment requirements of long-term debt and capital leases outstanding for that period.

	Fiscal Year Ended December 31, 2014
Income	420
Depreciation, amortization, loss on disposal of assets	546
Interest expense	<u>90</u>
Income available for debt service <sup>(1)</sup>	<u>\$1,056</u>
Interest and principal on long-term debt and payment requirements on capital leases	<u>\$231</u>
Fixed payment coverage ratio (times)	<u>4.6</u>

<sup>(1)</sup> Calculated in accordance with the Master Indenture.

### Capitalization

The following table sets forth the actual capitalization of the Obligated Group as of March 31, 2015.

	Quarter Ended March 31, 2015
Long-Term Debt, including current portion	<u>3,675</u>
Total Long-Term Debt	<u>\$3,675</u>
Net Assets:	
Unrestricted	7,186
Temporarily restricted	62
Permanently restricted	<u>13</u>
Total Net Assets	<u>\$7,261</u>
Total Capitalization	<u>\$10,936</u>
Long-Term Debt to Capitalization Ratio	33.6%

## Contractual Obligations and Other Contingent Commercial Commitments of the Obligated Group

The Obligated Group's contractual debt and capital lease obligations at March 31, 2015, are shown in the table below.

### Contractual Debt and Capital Lease Obligations As of March 31, 2015 (dollars in thousands)

	Total Outstanding	Principal Due During Fiscal Year 2015	Principal Due During Fiscal Years 2016 through 2018	Principal Due During Fiscal Years 2019 and thereafter
Long-term debt <sup>(1)</sup>	3,675,175	16,555	131,830	3,526,790
Capital Leases <sup>(2)</sup>	7,487	1,052	1,404	5,031

<sup>(1)</sup> Secured under the Master Indenture.

<sup>(2)</sup> Not secured under the Master Indenture.

The Obligated Group also is obligated with respect to the following contingent obligations, which are secured under the Master Indenture. Sutter Health management expects to renew or replace any letters of credit, as they expire, in accordance with the terms of such letters of credit.

### Contingent Commercial Obligations As of March 31, 2015 (dollars in thousands)

	Total Outstanding Commitment	Total Outstanding Commitment During Fiscal Year 2015	Total Outstanding Commitment During Fiscal Years 2016 and thereafter
Letters of credit	365	250	115

### Other Matters

This Continuing Disclosure Report is provided solely pursuant to the Disclosure Agreements. The filing of this Continuing Disclosure Report does not constitute or imply any representation (i) that all of the information provided herein is material to investors, (ii) regarding any other financial, operating or other information about Sutter Health, the Obligated Group Members or the Bonds, or (iii) that no changes, circumstances or events have occurred since the end of the quarter to which this Continuing Disclosure Report relates (other than as contained in this Continuing Disclosure Report), or any other date specified with respect to any of the information contained in this Continuing Disclosure Report, or that no other information exists, which may have a bearing on the security for the Bonds, or an investor's decision to buy, sell, or hold the Bonds. The information contained in this Continuing Disclosure Report has been obtained from sources which are believed to be reliable, but such information is not guaranteed as to accuracy or completeness. No statement in this Continuing Disclosure Report should be construed as a prediction or representation about future financial performance of Sutter Health or any Obligated Group Member.

Dated: June 8, 2015

SUTTER HEALTH, a California nonprofit public benefit corporation, on behalf of itself and the other Obligated Group Members

By:



Senior Vice President and Chief Financial Officer

Sutter Health and Affiliates  
Cash and Investment Balances  
*(Dollars in millions)*

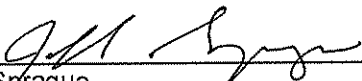
	Year Ended 12/31/14	Quarter Ended 3/31/15
Assets held in trust:		
Principal, interest and other reserves held in trust under bond indentures and escrow	\$ 91	\$ 89
Restricted Charitable Contributions	142	142
Insurance Reserves/Professional Liability	234	237
Deferred Compensation and Other	16	16
Total Restricted	<u>\$ 483</u>	<u>\$ 484</u>
Temporarily Restricted		
Temporarily Restricted Charitable Contributions	\$ 222	\$ 222
Unrestricted		
Board Designated:		
Other	298	307
Sutter 2013ABC taxable bonds	47	41
Unrestricted Funds	3,536	3,354
Unrestricted Charitable Contributions	356	394
Total Unrestricted	<u>\$ 4,237</u>	<u>\$ 4,096</u>
Total Cash & Investments	\$ 4,942	\$ 4,802
Less cash and current portion	(4,287)	(4,150)
Non-current investments	<u>\$ 655</u>	<u>\$ 652</u>

**Officer's Certificate of the Corporation**  
as to Compliance with No Event of Default Covenant

I, Jeff Sprague, Senior Vice President and Chief Financial Officer of Sutter Health (formerly Sutter Health/California Healthcare System), do hereby certify, in accordance with Section 3.09(c) of the Master Indenture of Trust by and between Sutter Health, the other Obligated Group Members (as defined therein) and U. S. Bank Trust, National Association, as Trustee, dated August 1, 1985, that, to the best of my knowledge,

No event which constitutes an Event of Default has occurred and is continuing as of the date of this certificate.

Certified by:

  
\_\_\_\_\_  
Jeff Sprague  
Senior Vice President and Chief Financial Officer  
Sutter Health

June 8, 2015



**Supplemental Information**

**Acute Care Payer Mix**

As of March 31, 2015	Medicare		Medi-Cal		Commercial		Other	Total
	Non-Capitated	Risk	Non-Capitated	Risk	Non-Sutter Risk	Risk		
Sutter Medical Center-Sacramento	31.4%	7.1%	34.1%	0.0%	20.6%	1.7%	5.1%	100.0%
Sutter Solano Medical Center	40.5%	0.2%	40.0%	0.0%	15.1%	0.3%	3.9%	100.0%
Sutter Davis Hospital	31.3%	7.3%	22.4%	0.0%	31.8%	2.3%	4.9%	100.0%
Sutter Coast Hospital	47.2%	0.0%	28.5%	0.0%	22.3%	0.0%	2.0%	100.0%
Sutter Delta Medical Center	43.5%	0.2%	33.6%	0.0%	18.4%	0.0%	4.3%	100.0%
Sutter Auburn Faith Hospital	48.6%	9.2%	17.1%	0.0%	20.0%	1.0%	4.1%	100.0%
Sutter Tracy Community Hospital	35.2%	0.0%	33.6%	0.0%	27.4%	0.0%	3.8%	100.0%
Sutter Roseville Medical Center	42.1%	6.4%	17.7%	0.0%	28.0%	1.5%	4.3%	100.0%
California Pacific Medical Center	43.9%	0.0%	17.5%	0.0%	33.8%	0.2%	4.6%	100.0%
Sutter Maternity and Surgery Center	24.0%	0.0%	11.9%	0.0%	57.4%	0.0%	6.7%	100.0%
Mills Peninsula Health Services	34.0%	12.2%	11.9%	0.0%	35.5%	2.8%	3.6%	100.0%
Sutter Lakeside Hospital	50.7%	0.0%	31.6%	0.0%	14.6%	0.0%	3.1%	100.0%
Memorial Medical Center & Memorial Hospital Los Banos	36.0%	13.7%	26.1%	0.0%	20.2%	1.0%	3.0%	100.0%
Novato Community Hospital	53.5%	0.0%	15.1%	0.0%	28.1%	0.0%	3.3%	100.0%
Alta Bates Summit Medical Center	39.1%	0.0%	27.3%	0.0%	29.2%	0.0%	4.4%	100.0%
Sutter Medical Center-Santa Rosa	38.2%	4.9%	28.5%	0.0%	24.9%	0.0%	3.5%	100.0%
Sutter Amador Hospital	54.2%	0.6%	23.5%	0.0%	16.1%	0.1%	5.5%	100.0%
Sutter Medical Center Castro Valley	42.8%	0.1%	25.0%	0.0%	26.0%	0.1%	6.0%	100.0%
Menlo Park Surgical Hospital	24.1%	0.0%	3.3%	0.0%	63.9%	0.0%	8.7%	100.0%
<b>Total Acute Care Payer Mix (%)</b>	<b>39.0%</b>	<b>4.4%</b>	<b>24.6%</b>	<b>0.0%</b>	<b>26.8%</b>	<b>0.8%</b>	<b>4.4%</b>	<b>100.0%</b>

**Sutter Health**  
Acute Care Utilization Statistics

	2012 (Restated)	2013	2014	Q1 2014	Q1 2015
<b>Obligated Group Total</b>					
Current Licensed Beds <sup>1,2</sup>	4,490	4,335	4,260	4,338	4,237
Beds in Service <sup>2</sup>	4,451	4,287	4,212	4,290	4,198
Admissions	202,875	196,608	189,056	47,283	47,603
Patient Days	913,574	871,630	833,561	216,272	225,347
Average Length of Stay	4.5	4.4	4.4	4.6	4.7
% Occupancy Based on Beds in Service	56.2%	54.7%	54.2%	55.2%	58.8%
Emergency Room Visits	798,681	780,927	797,148	202,067	229,099
Outpatient Revenues	7,564,643,148	7,720,898,674	7,933,235,329	1,930,845,506	2,083,322,171
Total Gross Revenues	21,311,278,201	21,229,567,653	21,241,410,547	5,368,729,662	5,612,001,273
Outpatient Revenue as % of Total Revenues	35.5%	36.4%	37.3%	36.0%	37.1%
<b>Sutter Medical Center Sacramento</b>					
Current Licensed Beds	723	727	727	727	719
Beds in Service	723	727	727	727	719
Admissions	32,811	32,381	31,498	7,974	7,375
Patient Days	146,582	146,269	141,659	36,580	39,126
Average Length of Stay	4.5	4.5	4.5	4.6	5.3
% Occupancy Based on Beds in Service	56%	55%	53%	55%	60%
Emergency Room Visits	88,304	88,280	92,974	23,371	27,662
Outpatient Revenues	733,065,752	783,542,404	855,197,509	205,109,267	231,128,704
Total Gross Revenues	3,088,134,431	3,182,340,788	3,205,688,477	807,530,440	870,738,934
Outpatient Revenue as % of Total Revenues	23.7%	24.6%	26.7%	25.4%	26.5%
<b>Novato Community Hospital</b>					
Current Licensed Beds	47	47	47	47	47
Beds in Service	47	47	47	47	47
Admissions	1,592	1,614	1,620	411	463
Patient Days	5,596	5,172	4,558	1,361	1,535
Average Length of Stay	3.5	3.2	2.8	3.3	3.3
% Occupancy Based on Beds in Service	33%	30%	27%	32%	36%
Emergency Room Visits	15,015	14,486	14,222	3,645	3,813
Outpatient Revenues	114,667,399	107,760,601	124,078,495	29,375,237	32,812,558
Total Gross Revenues	221,275,567	205,428,486	218,643,869	57,468,485	61,729,895
Outpatient Revenue as % of Total Revenues	51.8%	52.5%	56.7%	51.1%	53.2%
<b>Sutter Coast Hospital</b>					
Current Licensed Beds	49	49	49	49	49
Beds in Service	49	49	49	49	49
Admissions	2,195	2,278	2,079	534	554
Patient Days	6,926	7,286	6,731	1,616	1,956
Average Length of Stay	3.2	3.2	3.2	3.0	3.5
% Occupancy Based on Beds in Service	39%	41%	38%	36%	44%
Emergency Room Visits	21,969	20,913	20,484	4,747	5,457
Outpatient Revenues	130,627,854	136,007,523	139,235,645	33,066,634	33,989,095
Total Gross Revenues	200,004,167	213,723,693	211,593,359	50,910,282	54,464,408
Outpatient Revenue as % of Total Revenues	65.3%	63.6%	65.8%	65.0%	62.4%
<b>Sutter Solano Medical Center</b>					
Current Licensed Beds	102	102	102	102	102
Beds in Service	102	102	102	102	102
Admissions	4,938	4,539	4,110	1,015	1,047
Patient Days	18,344	17,945	16,149	4,151	4,616
Average Length of Stay	3.7	4.0	3.9	4.1	4.4
% Occupancy Based on Beds in Service	49%	48%	43%	45%	50%
Emergency Room Visits	39,137	39,096	39,947	9,940	11,254
Outpatient Revenues	227,309,212	246,397,910	258,702,457	61,688,737	67,131,374
Total Gross Revenues	526,378,051	554,008,047	527,262,472	129,716,866	140,388,321
Outpatient Revenue as % of Total Revenues	43.2%	44.5%	49.1%	47.6%	47.8%

**Sutter Health**  
Acute Care Utilization Statistics

	2012 (Restated)	2013	2014	Q1 2014	Q1 2015
<b>Sutter Davis Hospital</b>					
Current Licensed Beds	48	48	48	48	48
Beds in Service	48	48	48	48	48
Admissions	3,501	3,608	3,770	889	940
Patient Days	8,232	8,485	8,162	2,114	2,250
Average Length of Stay	2.4	2.4	2.2	2.4	2.4
% Occupancy Based on Beds in Service	47%	48%	47%	48%	51%
Emergency Room Visits	23,208	24,383	25,604	6,474	7,589
Outpatient Revenues	156,105,223	166,824,841	177,161,263	43,873,584	49,526,907
Total Gross Revenues	279,341,590	297,465,653	308,889,299	78,824,010	85,731,644
Outpatient Revenue as % of Total Revenues	55.9%	56.1%	57.4%	55.7%	57.8%
<b>Sutter Auburn Faith Hospital</b>					
Current Licensed Beds	75	69	72	72	72
Beds in Service	75	69	72	72	72
Admissions	3,979	3,856	3,506	880	935
Patient Days	12,976	12,274	11,406	2,921	3,044
Average Length of Stay	3.3	3.2	3.3	3.3	3.3
% Occupancy Based on Beds in Service	47%	49%	43%	44%	46%
Emergency Room Visits	24,406	24,985	26,707	6,501	7,541
Outpatient Revenues	179,583,915	211,462,127	235,432,458	57,163,310	61,149,271
Total Gross Revenues	356,900,151	385,815,312	394,309,680	99,184,831	105,843,054
Outpatient Revenue as % of Total Revenues	50.3%	54.8%	59.7%	57.6%	57.8%
<b>Sutter Delta Medical Center</b>					
Current Licensed Beds	145	145	145	145	145
Beds in Service	137	137	137	137	137
Admissions	8,176	7,501	7,790	1,914	2,158
Patient Days	29,915	27,105	27,151	6,783	7,944
Average Length of Stay	3.7	3.6	3.5	3.5	3.7
% Occupancy Based on Beds in Service	60%	54%	54%	54%	64%
Emergency Room Visits	54,160	46,901	50,401	14,095	15,978
Outpatient Revenues	233,299,224	236,796,594	261,561,804	62,522,043	72,940,107
Total Gross Revenues	664,130,080	651,069,347	683,922,719	168,369,776	198,448,593
Outpatient Revenue as % of Total Revenues	35.1%	36.4%	38.2%	37.1%	36.8%
<b>Sutter Lakeside Hospital</b>					
Current Licensed Beds	25	25	25	25	30
Beds in Service	25	25	25	25	30
Admissions	2,062	2,033	1,774	442	456
Patient Days	6,719	6,607	5,973	1,555	1,454
Average Length of Stay	3.3	3.2	3.4	3.5	3.2
% Occupancy Based on Beds in Service	74%	72%	65%	68%	53%
Emergency Room Visits	18,614	17,481	18,042	4,463	5,119
Outpatient Revenues	122,309,389	119,137,639	122,395,984	29,106,351	31,563,944
Total Gross Revenues	197,812,858	191,381,312	191,603,259	46,549,584	48,710,549
Outpatient Revenue as % of Total Revenues	61.8%	62.3%	63.9%	62.5%	64.8%
<b>Sutter Amador Hospital</b>					
Current Licensed Beds	52	52	52	52	52
Beds in Service	52	42	42	42	42
Admissions	2,354	2,436	2,474	643	605
Patient Days	7,993	8,230	8,442	2,307	2,306
Average Length of Stay	3.4	3.4	3.4	3.6	3.8
% Occupancy Based on Beds in Service	52%	54%	55%	60%	60%
Emergency Room Visits	19,047	19,852	20,870	5,074	5,854
Outpatient Revenues	94,553,528	95,879,714	103,958,422	25,252,897	28,655,911
Total Gross Revenues	188,441,522	204,610,907	220,004,830	56,825,364	60,268,907
Outpatient Revenue as % of Total Revenues	50.2%	46.9%	47.3%	44.4%	47.5%

**Sutter Health**  
Acute Care Utilization Statistics

	2012 (Restated)	2013	2014	Q1 2014	Q1 2015
<b>Sutter Tracy Community Hospital</b>					
Current Licensed Beds	82	82	82	82	81
Beds in Service	82	82	82	82	81
Admissions	3,777	3,606	3,978	1,015	1,035
Patient Days	13,840	11,339	12,294	3,284	3,242
Average Length of Stay	3.7	3.1	3.1	3.2	3.1
% Occupancy Based on Beds in Service	46%	38%	41%	44%	44%
Emergency Room Visits	31,026	32,236	35,034	8,930	10,430
Outpatient Revenues	249,030,470	250,542,416	261,851,964	63,960,459	69,958,883
Total Gross Revenues	431,312,638	423,254,254	448,789,167	112,682,345	119,474,421
Outpatient Revenue as % of Total Revenues	57.7%	59.2%	58.3%	56.8%	58.6%
<b>Sutter Roseville Medical Center</b>					
Current Licensed Beds	328	328	328	328	328
Beds in Service	328	328	328	328	328
Admissions	20,088	20,051	19,216	4,764	4,245
Patient Days	90,931	88,612	80,939	20,820	20,920
Average Length of Stay	4.5	4.4	4.2	4.4	4.9
% Occupancy Based on Beds in Service	76%	74%	68%	70%	70%
Emergency Room Visits	74,095	75,657	79,014	19,913	20,317
Outpatient Revenues	418,158,017	463,056,671	524,606,295	126,100,523	128,101,854
Total Gross Revenues	1,526,934,444	1,617,561,820	1,686,544,864	423,773,629	422,185,350
Outpatient Revenue as % of Total Revenues	27.4%	28.6%	31.1%	29.8%	30.3%
<b>Sutter Maternity and Surgery Center</b>					
Current Licensed Beds	30	30	30	30	30
Beds in Service	30	30	30	30	30
Admissions	1,645	1,374	1,473	335	353
Patient Days	4,182	3,911	4,216	970	1,003
Average Length of Stay	2.5	2.8	2.9	2.9	2.8
% Occupancy Based on Beds in Service	38%	36%	39%	35%	37%
Emergency Room Visits	-	-	-	-	-
Outpatient Revenues	95,711,936	102,584,558	110,731,543	25,864,587	27,550,886
Total Gross Revenues	147,424,137	147,874,956	170,110,496	39,211,469	41,702,278
Outpatient Revenue as % of Total Revenues	64.9%	69.4%	65.1%	66.0%	66.1%
<b>Sutter Santa Rosa Regional Hospital <sup>3</sup></b>					
Current Licensed Beds	135	135	135	135	84
Beds in Service	115	116	116	116	84
Admissions	6,077	6,215	6,320	1,565	1,491
Patient Days	24,862	23,642	24,843	6,757	5,967
Average Length of Stay	4.1	3.8	3.9	4.3	4.0
% Occupancy Based on Beds in Service	59%	56%	59%	64%	78%
Emergency Room Visits	26,508	27,040	29,700	6,380	7,870
Outpatient Revenues	187,756,545	178,835,039	216,189,780	47,653,575	62,185,636
Total Gross Revenues	500,222,502	482,774,007	541,442,679	134,850,491	143,657,774
Outpatient Revenue as % of Total Revenues	37.5%	37.0%	39.9%	35.3%	43.3%
<b>Memorial Medical Center &amp; Memorial Hospital Los Banos</b>					
Current Licensed Beds	469	469	469	469	467
Beds in Service	462	462	462	462	460
Admissions	19,826	18,684	18,348	4,602	4,668
Patient Days	90,518	85,844	81,611	21,761	20,995
Average Length of Stay	4.6	4.6	4.4	4.7	4.5
% Occupancy Based on Beds in Service	54%	51%	48%	52%	50%
Emergency Room Visits	90,740	90,346	100,271	24,258	30,225
Outpatient Revenues	910,765,431	941,473,437	1,008,431,268	240,444,640	265,550,512
Total Gross Revenues	2,396,255,297	2,447,735,635	2,454,526,982	619,486,652	631,979,361
Outpatient Revenue as % of Total Revenues	38.0%	38.5%	41.1%	38.8%	42.0%

**Sutter Health**  
Acute Care Utilization Statistics

	2012 (Restated)	2013	2014	Q1 2014	Q1 2015
<b>Alta Bates Summit Medical Center</b>					
Current Licensed Beds	855	819	750	819	767
Beds in Service	855	819	750	819	767
Admissions	33,852	30,686	28,612	7,364	7,586
Patient Days	177,296	164,641	151,942	41,723	43,056
Average Length of Stay	5.2	5.4	5.3	5.7	5.7
% Occupancy Based on Beds in Service	57%	55%	56%	56%	62%
Emergency Room Visits	83,459	77,656	80,008	22,456	23,136
Outpatient Revenues	1,417,688,852	1,372,728,940	1,205,078,242	318,813,204	310,909,234
Total Gross Revenues	3,843,903,530	3,597,481,929	3,413,548,738	910,762,037	910,427,196
Outpatient Revenue as % of Total Revenues	36.9%	38.2%	35.3%	35.0%	34.1%
<b>Mills-Peninsula Health Services</b>					
Current Licensed Beds	293	293	293	293	301
Beds in Service	293	293	293	293	291
Admissions	13,445	14,117	13,563	3,471	3,542
Patient Days	58,360	58,580	58,358	15,354	16,116
Average Length of Stay	4.3	4.1	4.3	4.4	4.5
% Occupancy Based on Beds in Service	55%	55%	55%	57%	61%
Emergency Room Visits	46,911	45,446	48,122	12,214	12,703
Outpatient Revenues	657,755,708	673,815,686	674,198,786	164,959,408	170,863,728
Total Gross Revenues	1,500,800,072	1,540,788,145	1,503,379,854	386,507,716	393,838,438
Outpatient Revenue as % of Total Revenues	43.8%	43.7%	44.8%	42.7%	43.4%
<b>Menlo Park Surgical Hospital</b>					
Current Licensed Beds	16	16	16	16	16
Beds in Service	12	12	12	12	12
Admissions	308	256	226	60	63
Patient Days	368	302	242	71	89
Average Length of Stay	1.2	1.2	1.1	1.2	1.4
% Occupancy Based on Beds in Service	8%	7%	6%	6%	8%
Emergency Room Visits	-	-	-	-	-
Outpatient Revenues	27,202,189	32,455,189	38,546,851	9,550,045	8,706,907
Total Gross Revenues	39,535,068	43,021,207	47,758,475	12,121,844	11,673,341
Outpatient Revenue as % of Total Revenues	68.8%	75.4%	80.7%	78.8%	74.6%
<b>California Pacific Medical Center</b>					
Current Licensed Beds	793	769	760	769	769
Beds in Service	793	769	760	769	769
Admissions	29,747	30,133	29,876	7,205	7,929
Patient Days	158,207	147,617	151,888	36,945	40,420
Average Length of Stay	5.3	4.9	5.1	5.1	5.1
% Occupancy Based on Beds in Service	55%	53%	55%	53%	58%
Emergency Room Visits	81,013	80,145	77,103	19,313	21,917
Outpatient Revenues	1,230,131,997	1,187,912,149	1,238,613,045	295,767,038	324,932,802
Total Gross Revenues	3,970,589,024	3,800,685,241	3,929,359,179	967,986,030	1,035,877,441
Outpatient Revenue as % of Total Revenues	31.0%	31.3%	31.5%	30.6%	31.4%
<b>Eden Medical Center<sup>4</sup></b>					
Current Licensed Beds	93	93	N/A	N/A	N/A
Beds in Service	93	93			
Admissions	11,821	2,501			
Patient Days	48,848	10,724			
Average Length of Stay	4.1	4.3			
% Occupancy Based on Beds in Service	52%	38%			
Emergency Room Visits	58,261	23,329			
Outpatient Revenues	356,730,726	101,093,604			
Total Gross Revenues	1,157,756,623	231,729,416			
Outpatient Revenue as % of Total Revenues	30.8%	43.6%	N/A	N/A	N/A

**Sutter Health**  
Acute Care Utilization Statistics

	2012 (Restated)	2013	2014	Q1 2014	Q1 2015
<b>Sutter Medical Center Castro Valley<sup>4</sup></b>					
Current Licensed Beds	130	130	130	130	130
Beds in Service	130	130	130	130	130
Admissions	681	8,739	8,823	2,200	2,158
Patient Days	2,879	37,045	36,997	9,199	9,308
Average Length of Stay	4.2	4.2	4.2	4.2	4.3
% Occupancy Based on Beds in Service	74%	78%	78%	78%	78%
Emergency Room Visits	2,808	32,695	38,645	10,293	12,234
Outpatient Revenues	22,189,781	312,591,632	377,263,518	90,573,967	105,663,858
Total Gross Revenues	74,126,449	1,010,817,498	1,084,032,149	265,967,811	274,861,368
Outpatient Revenue as % of Total Revenues	29.9%	30.9%	34.8%	34.1%	38.4%

Notes:

1. Revised from prior continuing disclosure reports to conform to the Office of Statewide Health Planning and Development's definition of "licensed bed."
2. Total year-end 2013 Current Licensed Beds (4,335) and Beds in Service (4,287) exclude beds reported for Eden Medical Center. Ownership of Eden's San Leandro Hospital was transferred to Alameda Health System as of October 30, 2013.
3. On October 25, 2014, the Sutter Santa Rosa Medical Center changed its name to Sutter Santa Rosa Regional Hospital.
4. As of November 30, 2012 the Eden Medical Center transferred functions to Sutter Medical Center Castro Valley, which began operations on December 1, 2012. As of December 1, 2013 Eden Medical Center statistics represent activity for San Leandro Hospital only.