



**Nadder Mirsepassi**  
Assistant Treasurer  
Director of Treasury Operations

*2200 River Plaza Drive  
Sacramento, CA 95833  
(916) 286-6679 (Tel)  
(916) 286-6668 (Fax)  
[mirsepn@sutterhealth.org](mailto:mirsepn@sutterhealth.org)*

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Enclosed please find the following documents for the quarter ended September 30, 2014 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 contact me at (916) 286-6679.

# Sutter Health and Affiliates

## Interim Unaudited Consolidated Financial Statements and Supplementary Information

Nine months ended September 30, 2014 and 2013 and the year ended December 31, 2013

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The consolidated financial statements of Sutter Health and Affiliates are presented as of September 30, 2014, September 30, 2013, and for the year ended December 31, 2013. 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</b>		<b>Audited</b>
	<b>September 30,</b>		<b>December 31,</b>
	<b>2014</b>	<b>2013</b>	<b>2013</b>
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ 291	\$ 199	\$ 344
Short-term investments	4,131	3,673	3,908
Patient accounts receivable (net of allowance for doubtful accounts of \$239 and \$316 in September 2014 and 2013, and \$314 in December 2013)	1,128	1,259	1,196
Other receivables	228	323	218
Inventories	93	90	91
Other	147	92	63
Total current assets	<b>6,018</b>	5,636	5,820
Non-current investments	655	990	845
Property, plant and equipment, net	6,956	6,527	6,705
Other	817	353	845
	<b>\$ 14,446</b>	\$ 13,506	\$ 14,215
<b>Liabilities and net assets</b>			
Current liabilities:			
Accounts payable	\$ 337	\$ 290	\$ 433
Accrued salaries and related benefits	559	537	536
Other accrued expenses	562	586	476
Current portion of long-term obligations	20	16	16
Total current liabilities	<b>1,478</b>	1,429	1,461
Non-current liabilities:			
Long-term obligations, less current portion	3,749	3,764	3,764
Other	699	739	667
Net assets:			
Unrestricted controlling	8,055	7,110	7,846
Unrestricted noncontrolling	76	86	90
Temporarily restricted	257	248	257
Permanently restricted	132	130	130
	<b>8,520</b>	7,574	8,323
	<b>\$ 14,446</b>	\$ 13,506	\$ 14,215

## Sutter Health and Affiliates

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

*(Dollars in millions)*

	Unaudited Three months ended September 30,		Unaudited Nine months ended September 30,		Audited Year ended December 31,
	2014	2013	2014	2013	2013
<b>Unrestricted net assets:</b>	<i>(As Adjusted)</i>		<i>(As Adjusted)</i>		<i>(As Adjusted)</i>
Operating revenues:					
Patient service revenues	\$ 2,188	\$ 2,114	\$ 6,446	\$ 6,585	\$ 8,771
Provision for bad debts	(39)	(99)	(161)	(321)	(410)
Patient service revenues less provision for bad debts	2,149	2,015	6,285	6,264	8,361
Capitation revenues	245	251	681	717	939
Contributions	2	1	5	4	8
Other	82	76	270	247	341
Total operating revenues	2,478	2,343	7,241	7,232	9,649
Operating expenses:					
Salaries and employee benefits	1,144	1,087	3,430	3,330	4,470
Purchased services	608	571	1,713	1,759	2,367
Supplies	284	265	829	778	1,056
Depreciation and amortization	136	213	403	463	603
Capitated purchased services	59	66	179	192	250
Rentals and leases	39	36	114	105	140
Interest	25	21	66	55	78
Insurance	(3)	6	10	14	17
Other	102	188	273	554	690
Total operating expenses	2,394	2,453	7,017	7,250	9,671
Income (loss) from operations	84	(110)	224	(18)	(22)
Investment income	91	41	200	98	177
Change in net unrealized gains and losses on investments classified as trading	(199)	144	(196)	118	203
Income (loss)	(24)	75	228	198	358
Less income attributable to noncontrolling interests	(13)	(15)	(40)	(41)	(58)
Income (loss) attributable to Sutter Health	(37)	60	188	157	300

## Sutter Health and Affiliates

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

*(Dollars in millions)*

	Unaudited Three months ended September 30, 2014		Unaudited Nine months ended September 30, 2014		Audited Year ended December 31, 2013
<b>Unrestricted net assets (continued):</b>					
Unrestricted controlling net assets:					
Income attributable to Sutter Health	\$ (37)	\$ 60	\$ 188	\$ 157	\$ 300
Change in net unrealized gains and losses on investments classified as other-than-trading	(3)	(1)	11	(20)	(25)
Net assets released from restrictions for equipment acquisition	2	3	5	4	7
Pension-related changes other than net periodic pension cost	2	14	6	41	634
Other	1	(1)	(1)	(2)	-
(Decrease) increase in unrestricted controlling net assets	(35)	75	209	180	916
Unrestricted noncontrolling net assets:					
Income attributable to noncontrolling interests	13	15	40	41	58
Distributions	(8)	(14)	(41)	(41)	(55)
Contributed capital	(5)	-	(8)	1	1
Other	(6)	-	(5)	14	15
(Decrease) increase in unrestricted noncontrolling net assets	(6)	1	(14)	15	19
<b>Temporarily restricted net assets:</b>					
Contributions	8	13	23	23	39
Investment income	6	2	19	4	6
Change in net unrealized gains and losses on investments	(12)	7	(17)	9	11
Net assets released from restrictions	(8)	(8)	(25)	(19)	(28)
Other	-	(1)	-	(1)	(3)
(Decrease) increase in temporarily restricted net assets	(6)	13	-	16	25
<b>Permanently restricted net assets:</b>					
Contributions	2	-	2	-	1
Investment Income	-	-	1	-	1
Change in net unrealized gains and losses on investments	(1)	-	(1)	1	2
Other	-	-	-	-	(3)
Increase in permanently restricted net assets	1	-	2	1	1
(Decrease) increase in net assets	(46)	89	197	212	961
Net assets, beginning of period	8,566	7,485	8,323	7,362	7,362
Net assets, end of period	<u>\$ 8,520</u>	<u>\$ 7,574</u>	<u>\$ 8,520</u>	<u>\$ 7,574</u>	<u>\$ 8,323</u>

Sutter Health and Affiliates  
Consolidated Statements of Cash Flows

*(Dollars in millions)*

	<b>Unaudited</b>		<b>Audited</b>
	<b>Nine months ended</b>		<b>Year ended</b>
	<b>September 30,</b>		<b>December 31,</b>
	<b>2014</b>	<b>2013</b>	<b>2013</b>
<b>Operating activities</b>	<i>(As Adjusted)</i>		
Increase in net assets	\$ 197	\$ 212	\$ 961
Adjustments to reconcile increase in net assets to net cash provided by operating activities:			
Depreciation and amortization	398	378	509
Amortization of bond issuance (premium) discount, net	(8)	(7)	(10)
Change in net unrealized gains and losses on investments	203	(108)	(191)
Provision for doubtful accounts	161	321	410
Restricted contributions and investment income	(45)	(27)	(47)
Loss on impairment of property, plant and equipment	2	84	92
Loss on impairment of goodwill	3	-	-
Net (gain) on disposal of property, plant and equipment	(5)	(1)	-
Change in net postretirement benefits	66	68	(486)
Net changes in operating assets and liabilities:			
Patient accounts receivable and other receivables	(103)	(599)	(520)
Inventories and other assets	(46)	(9)	14
Accounts payable and accrued expenses	74	133	131
Other non-current liabilities	29	(8)	(8)
Net cash provided by operating activities	<u>926</u>	<u>437</u>	<u>855</u>
<b>Investing activities</b>			
Purchases of property, plant and equipment	(723)	(741)	(1,023)
Proceeds from disposal of property, plant and equipment	8	7	7
Sales and (purchases) or maturities of investments, net	(236)	(728)	(735)
Other	(70)	(9)	(16)
Net cash used in investing activities	<u>(1,021)</u>	<u>(1,471)</u>	<u>(1,767)</u>

## Sutter Health and Affiliates

### Consolidated Statements of Cash Flows (continued)

*(Dollars in millions)*

	<b>Unaudited</b>		<b>Audited</b>
	<b>Nine months ended</b>		<b>Year ended</b>
	<b>September 30,</b>		<b>December 31,</b>
	<b>2014</b>	<b>2013</b>	<b>2013</b>
<b>Financing activities</b>			
Payments of long-term obligations	\$ (19)	\$ (17)	\$ (18)
Proceeds from issuance of long-term obligations	16	753	757
Bond issuance costs	-	(6)	(6)
Bond issuance premium	-	38	38
Restricted contributions and investment income	45	27	47
Net cash provided by financing activities	42	795	818
Net decrease in cash and cash equivalents	(53)	(239)	(94)
Cash and cash equivalents at beginning of period	344	438	438
Cash and cash equivalents at end of period	\$ 291	\$ 199	\$ 344

# 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 five geographic regions, principally in Northern California. Sutter Health and its affiliates and subsidiaries provide health care, education, research and administration services.

The five geographic regions include 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, 2013. 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.

Certain amounts in Sutter's 2014 unaudited interim consolidated financial statements have been reclassified to conform with the presentation of its 2013 audited financial statements. These reclassifications had no impact on previously reported net assets.



# Sutter Health and Affiliates

## Notes to Consolidated Financial Statements (continued)

*(Dollars in millions)*

### **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:

	September 30, 2014			
	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Balance
<b>Liquid investments</b>				
Cash equivalents	\$ 212	\$ -	\$ -	\$ 212
<b>Equity securities</b>				
U.S. equity	1,328	27	-	1,355
Foreign equity	594	50	-	644
<b>Fixed income securities</b>				
U.S. government	225	-	-	225
U.S. government agencies	-	76	-	76
U.S. state and local government	-	22	-	22
U.S. federal agency mortgage-backed	-	387	-	387
Foreign government	-	253	-	253
U.S. corporate	48	828	-	876
Foreign corporate	5	487	-	492
<b>Other investments</b>				
Multi-strategy hedge funds	-	-	117	117
Private equity funds	-	-	75	75
Commodity-linked funds	-	52	-	52
	\$ 2,412	\$ 2,182	\$ 192	\$ 4,786

Sutter Health and Affiliates

Notes to Consolidated Financial Statements (continued)

(Dollars in millions)

**FAIR VALUE MEASUREMENTS (continued)**

	<b>December 31, 2013</b>			
	<b>Quoted Prices in Active Markets for Identical Instruments (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>	<b>Total Balance</b>
<b>Liquid investments</b>				
Cash equivalents	\$ 209	\$ -	\$ -	\$ 209
<b>Equity securities</b>				
U.S. equity	1,534	42	-	1,576
Foreign equity	715	-	-	715
<b>Fixed income securities</b>				
U.S. government	146	-	-	146
U.S. government agencies	-	103	-	103
U.S. state and local government	-	29	-	29
U.S. federal agency mortgage-backed	-	452	-	452
Foreign government	-	279	-	279
U.S. corporate	50	636	-	686
Foreign corporate	5	411	-	416
<b>Other investments</b>				
Multi-strategy hedge funds	-	33	67	100
Private equity funds	-	-	16	16
Commodity-linked funds	-	26	-	26
	<b>\$ 2,659</b>	<b>\$ 2,011</b>	<b>\$ 83</b>	<b>\$ 4,753</b>

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 September 30, 2014 and December 31, 2013, 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. 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. 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)

Hedge Fund Investments, Private Equity and Commodity-Linked Funds: The fair value of hedge fund investments, private equity 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 Funds</b>	<b>Private Equity Funds</b>	<b>Total</b>
Balance at December 31, 2012	\$ 32	\$ 9	\$ 41
Total net realized and unrealized gains	5	1	6
Purchases	30	18	48
Sales	-	(12)	(12)
Balance at December 31, 2013	67	16	83
Total net realized and unrealized gains (losses)	3	(2)	1
Purchases	50	75	125
Sales	(3)	(14)	(17)
Balance at September 30, 2014	\$ 117	\$ 75	\$ 192
Change in unrealized gains on investments held as of December 31, 2013	\$ 5	\$ 1	\$ 6
Change in unrealized gains (losses) on investments held as of September 30, 2014	\$ 2	\$ (2)	\$ -

# Sutter Health and Affiliates

## Notes to Consolidated Financial Statements (continued)

*(Dollars in millions)*

### FAIR VALUE MEASUREMENTS (continued)

Certain of the investments above report fair value using a calculated NAV or its equivalent. The following table and explanations identify attributes relating to the nature and risk of such investments:

	<b>September 30, 2014</b>			
	<b>Fair Value</b>	<b>Unfunded Commitments</b>	<b>Redemption Frequency (if currently eligible)</b>	<b>Redemption Notice Period (if currently eligible)</b>
<b>Level 2</b>				
Commingled funds – U.S. equity securities	\$ 27	\$ -	Monthly	1 day
Commingled funds – foreign equity securities	50	-	Monthly	30 days
Commingled funds – U.S. debt securities	65	-	Weekly, Monthly	0-30 days
Commodity-linked funds	52	-	Monthly	5 days
Total Level 2	<u>194</u>	-		
<b>Level 3</b>				
Multi-strategy hedge funds	117	-	Quarterly, Annually	60-100 days
Private equity funds	75	186	None	None
Total Level 3	<u>192</u>	<u>186</u>		
Total Level 2 and Level 3	<u>\$ 386</u>	<u>\$ 186</u>		
<b>December 31, 2013</b>				
	<b>Fair Value</b>	<b>Unfunded Commitments</b>	<b>Redemption Frequency (if currently eligible)</b>	<b>Redemption Notice Period (if currently eligible)</b>
<b>Level 2</b>				
Commingled funds – equity securities	\$ 42	\$ -	Quarterly	60 days
Commingled funds – debt securities	55	-	Weekly, Monthly	0-30 days
Multi-strategy hedge funds	33	-	Quarterly	65 days
Commodity-linked funds	26	-	Monthly	5 days
Total Level 2	<u>156</u>	-		
<b>Level 3</b>				
Multi-strategy hedge funds	67	-	Quarterly, Annually	95-100 days
Private equity funds	16	59	None	None
Total Level 3	<u>83</u>	<u>59</u>		
Total Level 2 and Level 3	<u>\$ 239</u>	<u>\$ 59</u>		

## Sutter Health and Affiliates

### Notes to Consolidated Financial Statements (continued)

*(Dollars in millions)*

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

Commingled Funds – U.S. Equity Securities: This class includes investments in commingled funds that invest primarily in domestic equity securities and attempt to match the returns of specific equity indices. The entire value of this class is redeemable monthly with a one day notice period.

Commingled Funds – Foreign Equity Securities: This class includes investments in commingled funds that invest primarily in foreign equity securities, of which the majority are traded in over-the-counter markets, redeemable monthly, with a notice of 30 days.

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. Approximately 87% of the value of this class is redeemable monthly, with a notice period of 15 to 30 days. The remaining 13% of this class are redeemable monthly with no 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. These funds are redeemable monthly with five days notice before month end.

Multi-Strategy Hedge Funds: This class includes investments in hedge funds that pursue diversification of both domestic and foreign fixed income and equity securities through multiple investment strategies. 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, long/short equity, event driven, relative value, and global asset allocation. Approximately 43% of the multi-strategy hedge funds are redeemable quarterly, with a notice period of 60 days. During the first year, which ends in May 2015, a 5% charge is imposed on redemptions of these funds. A 25% quantity redemption limitation has been imposed for investments representing approximately 27% of the multi-strategy hedge fund, with a notice period of 100 days. The remaining 30% of the value of the multi-strategy hedge funds is redeemable annually, with a notice period of 95 days.

Private Equity Funds: This class includes 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 over the next 2 to 15 years.

# Sutter Health and Affiliates

## Notes to Consolidated Financial Statements (continued)

*(Dollars in millions)*

### FAIR VALUE MEASUREMENTS (continued)

The investments included above are not expected to be sold at amounts that are different from NAV.

### LONG-TERM OBLIGATIONS

Long-term obligations consist of the following:

	<u>September 30,</u> <u>2014</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 \$67 and \$78 at September 30, 2014 and 2013, respectively)	\$ 3,442
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	19
Obligations under capital leases	8
	<u>3,769</u>
Less current portion	<u>(20)</u>
	<u>\$ 3,749</u>

The aggregate estimated fair market values of Sutter's revenue bonds and certificates of participation at September 30, 2014 and 2013, of \$3,936 and \$3,729, respectively, 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.



## Sutter Health and Affiliates

### Notes to Consolidated Financial Statements (continued)

*(Dollars in millions)*

#### **LONG-TERM OBLIGATIONS (continued)**

The related financing documents and various other debt agreements contain certain restrictive covenants requiring compliance by all members, including a pledge of gross revenue.

In April 2013, \$450 of Series A CHFFA tax-exempt revenue bonds was issued on behalf of Sutter. Also, in April 2013, \$100 of Series A, \$100 of Series B and \$100 of Series C Sutter Health taxable revenue bonds were issued by Sutter. The proceeds of the bonds are being used to finance capital expenditures.

Sutter has a \$400 revolving line of credit with a syndicate of banks, with \$399 available for borrowing as of September 30, 2014.

#### **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.

The state of California enacted legislation for a quality assurance fee program for hospitals to obtain federal matching funds for Medi-Cal. The proceeds of the quality assurance fee program and the federal matching funds are to be redistributed to California hospitals that treat Medi-Cal patients to fund certain Medi-Cal coverage expansions. In September 2011, a

## Sutter Health and Affiliates

### Notes to Consolidated Financial Statements (continued)

*(Dollars in millions)*

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

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. Payments for the 30-month Program of \$416 are included in patient service revenues and fees of \$294 are included in other expenses as of December 31, 2013. The remaining six months of the 30-month Managed Care Program is still pending approval. A 36-month program has been established for the period of January 1, 2014 through December 31, 2016 (the “36-month Program”). No related entries have been recorded as the 36-month Program has not yet been approved.

#### **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 \$138 and \$190 for the nine months ended September 30, 2014 and 2013, 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 prepaid benefit cost of \$471 as of December 31, 2013. Sutter did not contribute to the Retirement Plan in 2013.

Included in net assets at December 31, 2013 are the following amounts that have not yet been recognized in net periodic benefit cost: unrecognized prior service costs of \$8, and unrecognized actuarial losses of \$53. The amounts included in net assets that are expected to be recognized in net periodic benefit cost during the year ended December 31, 2014, are \$6 for prior service cost and \$0 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>Nine months ended September 30,</b>		<b>Year ended</b>
	<b>2014</b>	<b>2013</b>	<b>2013</b>
Service cost	\$ 141	\$ 148	\$ 198
Interest cost	103	85	114
Expected return on plan assets	(176)	(154)	(206)
Amortization of actuarial loss	-	33	43
Amortization of prior service cost	4	4	6
	\$ 72	\$ 116	\$ 155

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 \$64, as of December 31, 2013. There was no contribution to the Health Plans in 2014 for the 2013 plan year.

Included in net assets at December 31, 2013 are the following amounts that have not yet been recognized in net periodic benefit cost: unrecognized prior service costs of \$10 and unrecognized actuarial (gain) of (\$12). The amounts included in net assets that are expected to be recognized in net periodic benefit cost during the year ended December 31, 2014, are approximately \$3 for prior service cost and (\$1) for actuarial (gain).

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

	<b>Nine months ended September 30,</b>		<b>Year ended</b>
	<b>2014</b>	<b>2013</b>	<b>2013</b>
Service cost	\$ 7	\$ 8	\$ 11
Interest cost	8	6	8
Expected return on plan assets	(9)	(7)	(10)
Amortization of actuarial gain	(1)	-	-
Amortization of prior service cost	2	4	6
	\$ 7	11	\$ 15

## 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 \$10 and \$15 as of September 30, 2014 and 2013, respectively.

Sutter also maintains various defined contribution plans for eligible employees. Sutter's contributions to such plans were \$47 and \$48 as of September 30, 2014 and 2013, 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.

Like other health care organizations, many Sutter affiliates bill for anesthesia services on a unit-of-time basis. In February 2010, certain Sutter affiliates were served with a Qui Tam action pursuant to the California Insurance Frauds Prevention Act, alleging, among other things, that they fraudulently billed for anesthesia services on a unit-of-time basis.

## Sutter Health and Affiliates

### Notes to Consolidated Financial Statements (continued)

*(Dollars in millions)*

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

In May 2011, California's Insurance Commissioner intervened in the case alleging violation of California insurance code provisions, which allows, among other things, damages of three times the amount of each claim. In October 2013, Sutter settled this matter for \$46, and the payment is reflected in Sutter's 2013 consolidated financial statements.

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. In December 2011, initial discussions commenced and are continuing between Sutter and the federal government regarding the matters detailed within the disclosures. Enforcement remedies that may result from Sutter's voluntary disclosure could include payments to the government and/or the imposition of additional compliance requirements. At this time, management cannot accurately estimate the amounts of all payments or settlements that may result, or whether additional, related matters may arise. There can be no assurance that any resulting payments or settlements will not have a material adverse effect on Sutter's consolidated financial position or results of operations.

Certain Sutter affiliates have received, and are in the process of responding to, 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 spans a time frame beginning in October 2003 through June 2010. This investigation is ongoing, and no final conclusions have been reached that the selected claims did not meet Medicare reimbursement criteria. No estimates of liability, if any, have been or can be reached relative to the impact of the investigation. 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.

Sutter management is aware of two recent potentially material security incidents within Sutter. The first involves a stolen computer with limited data on approximately 4.25 million patients. Following a detailed internal review, Sutter determined that the stolen computer did not contain patient financial records, social security numbers, patients' health plan identification numbers or medical records. However, the computer contained some personal information, including names, addresses and birthdates. Additionally, for approximately

## Sutter Health and Affiliates

### Notes to Consolidated Financial Statements (continued)

*(Dollars in millions)*

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

930,000 of the patients, the computer contained some medical diagnoses and procedures used for billing purposes. 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 has been filed with respect to this incident. 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 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 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 recently received, and are in the process of responding to, requests from governmental agencies, including the Federal Trade Commission, 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, 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 September 30, 2014, Sutter had approximately 49,000 employees, of whom approximately 30,000 are full-time employees. Approximately 26% of these 49,000

## Sutter Health and Affiliates

### Notes to Consolidated Financial Statements (continued)

*(Dollars in millions)*

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

employees are employed by 26 Sutter facilities and are represented by collective bargaining units. Of these employees, 25% are represented by collective bargaining agreements that expired from December 31, 2013 to September 30, 2014 and are in the process of being negotiated. Three collective bargaining agreements, which represent 2% of these employees, will expire in the remainder of 2014. Employee strikes or other adverse labor actions may have a material adverse impact on Sutter's combined financial position or results of operations.

Commitments: In 2008, the Eden Township Healthcare District (the "Eden District"), Sutter and Eden Medical Center (EMC) entered into certain agreements (the "2008 Agreements"). The 2008 Agreements addressed certain disputes that had arisen among the parties under related agreements entered into in 2004 (the "2004 Agreements") concerning the Eden District's acquisition of San Leandro Hospital (SLH) and its simultaneous lease to EMC. Pursuant to the 2008 Agreements, Sutter agreed to develop and construct a 130-bed replacement facility in Castro Valley, California (to be owned and operated by Sutter Medical Center, Castro Valley, a Sutter affiliate), on property adjacent to the existing EMC hospital. The 2008 Agreements also included an amended lease for SLH, wherein Sutter and EMC received an option to purchase SLH and certain other properties (the "Option"). Sutter exercised the Option to purchase SLH in July 2009, but the Eden District failed to convey title. In March 2010, Sutter and the Eden District further entered into a stipulated judgment pursuant to which the Eden District agreed to an arbitrator's award that required the Eden District to convey title of SLH to Sutter on or before March 31, 2010. The Eden District failed to convey title pursuant to the arbitrator's award, resulting in a series of additional legal disputes under the 2008 Agreements. In November 2010, the Alameda County Superior Court upheld the validity of the 2008 Agreements. Over the next several years, the Eden District filed a series of appeals, and Sutter Health, the legal entity (SH), acquired title of SLH in September 2012.

SH, EMC, Alameda County Medical Center Alameda Health System (AHS) and the County of Alameda entered into a donation and transfer agreement regarding SLH, which closed on October 30, 2013. The general terms of this agreement included: (i) SH's donation of SLH to AHS with the requirement that ownership and operational control must remain with a public entity or public health care authority as defined by statute; and (ii) SH's contribution of \$14 to an operating fund. SH has also obtained an arbitration award and associated damages against the Eden District in the amount of \$20 as a result of its pursuit of damages and attorney's fees related to the matter in the preceding paragraph, the satisfaction of which currently remains under negotiation.

## Sutter Health and Affiliates

### Notes to Consolidated Financial Statements (continued)

*(Dollars in millions)*

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

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 five facilities currently in the construction phase with estimated remaining capital expenditures of \$2,170 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 two new hospitals at the Cathedral Hill site and a 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 and others 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 \$51 as of September 30, 2014. Since approval of the projects, management has been assessing the design and costs incurred. Based on the assessment, an impairment of \$83 for project resizing of design and pre-construction services for CPMC Cathedral Hill and St. Luke's Hospitals was recorded in September 2013, and is included in depreciation and amortization. The remaining estimated cost of development and construction of these hospitals, plus the planning and entitlements for a new medical office building at Cathedral Hill, is approximately \$2,022.

Sutter's capital allocation plan, which includes amounts for seismic retrofits, replacements, and relocations, is approximately \$5,288 from January 1, 2014 to December 31, 2018. 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 December 9, 2014, 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 September 30,</b>		<b>Audited December 31,</b>
	<b>2014</b>	<b>2013</b>	<b>2013</b>
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ 207	\$ 139	\$ 255
Short-term investments	3,601	3,171	3,445
Patient accounts receivable (net of allowance for doubtful accounts of \$237 and \$311 in September 2014 and 2013, and \$310 in December 2013)	1,092	1,227	1,163
Other receivables	238	309	213
Inventories	93	90	90
Other	143	88	60
Total current assets	5,374	5,024	5,226
Non-current investments	362	728	565
Property, plant and equipment, net	6,855	6,424	6,602
Other	785	335	812
	\$ 13,376	\$ 12,511	\$ 13,205
<b>Liabilities and net assets</b>			
Current liabilities:			
Accounts payable	\$ 314	\$ 272	\$ 413
Accrued salaries and related benefits	548	526	524
Other accrued expenses	501	514	422
Current portion of long-term obligations	18	16	16
Total current liabilities	1,381	1,328	1,375
Non-current liabilities:			
Long-term obligations, less current portion	3,747	3,762	3,762
Other	573	630	555
Net assets:			
Unrestricted controlling	7,541	6,639	7,359
Unrestricted noncontrolling	59	70	73
Temporarily restricted	62	69	68
Permanently restricted	13	13	13
	7,675	6,791	7,513
	\$ 13,376	\$ 12,511	\$ 13,205

## Sutter Health and Affiliates

### Consolidated Statements of Operations and Changes in Net Assets - Sutter Health Obligated Group

*(Dollars in millions)*

	<b>Unaudited</b>		<b>Unaudited</b>		<b>Audited</b>
	<b>Three months ended</b>		<b>Nine months ended</b>		<b>Year ended</b>
	<b>September 30,</b>		<b>September 30,</b>		<b>December 31,</b>
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>	<b>2013</b>
	<i>(As Adjusted)</i>		<i>(As Adjusted)</i>		<i>(As Adjusted)</i>
<b>Unrestricted net assets:</b>					
Operating revenues:					
Patient service revenues	\$ 2,102	\$ 2,032	\$ 6,186	\$ 6,349	\$ 8,447
Provision for bad debts	(39)	(96)	(156)	(313)	(400)
Patient service revenues less provision for bad debts	<b>2,063</b>	1,936	<b>6,030</b>	6,036	8,047
Capitation revenues	<b>232</b>	237	<b>644</b>	676	887
Contributions	<b>1</b>	1	<b>3</b>	2	4
Other	<b>70</b>	73	<b>232</b>	230	324
Total operating revenues	<b>2,366</b>	2,247	<b>6,909</b>	6,944	9,262
Operating expenses:					
Salaries and employee benefits	<b>1,102</b>	1,046	<b>3,307</b>	3,213	4,311
Purchased services	<b>559</b>	525	<b>1,575</b>	1,609	2,168
Supplies	<b>274</b>	258	<b>800</b>	756	1,025
Depreciation and amortization	<b>134</b>	209	<b>390</b>	450	585
Capitated purchased services	<b>55</b>	62	<b>166</b>	179	233
Rentals and leases	<b>34</b>	32	<b>102</b>	94	126
Interest	<b>25</b>	20	<b>64</b>	53	75
Insurance	<b>9</b>	19	<b>48</b>	54	72
Other	<b>78</b>	169	<b>210</b>	506	629
Total operating expenses	<b>2,270</b>	2,340	<b>6,662</b>	6,914	9,224
Income (loss) from operations	<b>96</b>	(93)	<b>247</b>	30	38
Investment income	<b>84</b>	41	<b>170</b>	89	151
Change in net unrealized gains and losses on investments classified as trading	<b>(181)</b>	129	<b>(181)</b>	113	196
Income (loss)	<b>(1)</b>	77	<b>236</b>	232	385
Less income attributable to noncontrolling interests	<b>(10)</b>	(11)	<b>(30)</b>	(31)	(44)
Income (loss) attributable to Sutter Health	<b>(11)</b>	66	<b>206</b>	201	341

## Sutter Health and Affiliates

### Consolidated Statements of Operations and Changes in Net Assets - Sutter Health Obligated Group (continued)

*(Dollars in millions)*

	Unaudited		Unaudited		Audited
	Three months ended		Nine months ended		Year ended
	September 30,		September 30,		December 31,
	2014	2013	2014	2013	2013
<b>Unrestricted net assets (continued):</b>					
Unrestricted controlling net assets:					
Income attributable to Sutter Health	\$ (11)	\$ 66	\$ 206	\$ 201	\$ 341
Change in net unrealized gains and losses on investments classified as other-than-trading	(2)	(2)	11	(20)	(23)
Net assets released from restrictions for equipment acquisition	2	1	5	2	6
Pension-related changes other than net periodic pension cost	2	14	6	41	634
Transfers with related entities, net	(6)	(39)	(42)	(86)	(100)
Other	1	(1)	(4)	16	16
(Decrease) increase in unrestricted controlling net assets	(14)	39	182	154	874
Unrestricted noncontrolling net assets:					
Income attributable to noncontrolling interests	10	11	30	31	44
Distributions	(8)	(11)	(35)	(31)	(42)
Contributed Capital	(4)	1	(7)	2	2
Other	(3)	-	(2)	14	15
(Decrease) increase in unrestricted noncontrolling net assets	(5)	1	(14)	16	19
<b>Temporarily restricted net assets:</b>					
Contributions	3	5	8	9	10
Investment income	-	-	1	-	1
Change in net unrealized gains and losses on investments	(2)	2	(5)	2	1
Net assets released from restrictions	(1)	(2)	(6)	(5)	(7)
Other	-	(1)	(4)	(1)	(1)
Increase (decrease) in temporarily restricted net assets	-	4	(6)	5	4
(Decrease) increase in net assets	(19)	44	162	175	897
Net assets, beginning of period	7,694	6,747	7,513	6,616	6,616
Net assets, end of period	<u>\$ 7,675</u>	<u>\$ 6,791</u>	<u>\$ 7,675</u>	<u>\$ 6,791</u>	<u>\$ 7,513</u>

## Sutter Health and Affiliates

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

(Dollars in millions)

	<b>Unaudited</b>		<b>Audited</b>
	<b>Nine months ended</b>	<b>September 30,</b>	<b>Year ended</b>
	<b>2014</b>	<b>2013</b>	<b>December 31,</b>
			<b>2013</b>
<b>Operating activities</b>		<i>(As Adjusted)</i>	
Increase in net assets	\$ 162	\$ 175	\$ 897
Adjustments to reconcile increase in net assets to net cash provided by operating activities:			
Depreciation and amortization	385	365	492
Amortization of bond issuance (premium) discount, net	(8)	(7)	(10)
Change in net unrealized gains and losses on investments	175	(95)	(174)
Provision for doubtful accounts	156	313	400
Restricted contributions and investment income	(9)	(9)	(11)
Loss on impairment of property, plant and equipment	2	84	92
Loss on impairment of goodwill	3	-	-
Net (gain) on disposal of property, plant and equipment	(5)	(1)	(1)
Change in net postretirement benefits	66	68	(486)
Net changes in operating assets and liabilities:			
Patient accounts receivable and other receivables	(110)	(583)	(510)
Inventories and other assets	(48)	(40)	(2)
Accounts payable and accrued expenses	65	114	147
Other non-current liabilities	15	(5)	(8)
Net cash provided by operating activities	<b>849</b>	379	826
<b>Investing activities</b>			
Purchases of property, plant and equipment	(712)	(735)	(1,032)
Proceeds from disposal of property, plant and equipment	8	7	7
Sales and (purchases) or maturities of investments, net	(128)	(652)	(684)
Other	(69)	(9)	(16)
Net cash used in investing activities	<b>(901)</b>	(1,389)	(1,725)

## Sutter Health and Affiliates

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

*(Dollars in millions)*

	<b>Unaudited Nine months ended September 30,</b>		<b>Audited Year ended December 31,</b>
	<b>2014</b>	<b>2013</b>	<b>2013</b>
<b>Financing activities</b>			
Payments of long-term obligations	\$ (16)	\$ (16)	\$ (17)
Proceeds from issuance of long-term obligations	11	753	757
Bond issuance costs	-	(6)	(6)
Bond issuance premium	-	38	38
Restricted contributions and investment income	9	9	11
Net cash provided by financing activities	4	778	783
Net decrease in cash and cash equivalents	(48)	(232)	(116)
Cash and cash equivalents at beginning of period	255	371	371
Cash and cash equivalents at end of period	\$ 207	\$ 139	\$ 255

# Sutter Health and Affiliates

## Management's Discussion & Analysis

*(Dollars in millions)*

### **CONSOLIDATED ANALYSIS**

#### **For the nine months ended September 30, 2014 compared to September 30, 2013**

Total operating revenues are \$7,241, which is a \$9 or .1% increase compared to the same period in 2013. Total expenses are \$7,017, which is a (\$233) or (3.2%) decrease compared to the same period in 2013. Patient service revenues and Other expense do not include the hospital provider fee for the nine months ended 2014, because the 2014-2016 36-month hospital provider fee program has not been approved yet. Due to the implementation of State programs, there was an increase in Medi-cal services being provided, resulting in decreased bad debt expense and charity care write-offs. Provision for doubtful accounts decreased by (\$160) or (50%) compared to the same period in 2013. Purchased services decreased by (\$46) or (2.6%) compared to the same period in 2013.

Total operating income of \$224 includes \$89 of year-to-date expenses for Support Function Transformation costs of \$30, electronic health record costs of \$26, ICD-10 of \$17, other breakthrough initiatives of \$13, and settlements of \$5 which were offset by payer settlements of \$47 and gain on sale of assets of \$2.

Earnings (excluding investment income) before interest expense, taxes, depreciation and amortization (EBITDA) is \$693 with an 9.6% EBITDA margin, which is an increase of \$193 compared to the same period in 2013.

Income attributable to Sutter Health is \$188, which is a \$31 or 19.7% increase compared to the same period in 2013. This increase is due to a \$242 increase in income from operations, \$102 increase in investment income, offset by \$314 decrease in the change in net unrealized gains and losses from investments classified as trading

For the nine months ended 2014, Sutter Health reported investment gains of \$200 and a loss in the change in net unrealized gains and losses on investments classified as trading of (\$196). 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 nine months ended September 30, 2014 compared to September 30, 2013**

Total operating revenues of the Obligated Group are \$6,909, which is a (\$35) or (0.5%) decrease compared to the same period in 2013. Acute affiliates of the Obligated Group reported admissions of 141,877 for the nine months ended September 30, 2014, compared to admissions of 148,069 reported during the same period in 2013. Operating income is \$247, which is an increase of \$217 compared to the same period in 2013. EBITDA of the Obligated Group is \$701 with a 10.1% EBITDA margin, which is an increase of \$168 compared to the same period in 2013. Income attributable to Sutter Health is \$206, which is \$5 or 1.7% increase compared to the same period in 2013. This increase is due to a \$217 increase in income from operations, \$81 increase in investment income offset by \$294 decrease in change in net unrealized gains and losses from investments classified as trading.

**CONTINUING DISCLOSURE REPORT OF SUTTER HEALTH  
FOR THE QUARTER ENDED SEPTEMBER 30, 2014**

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 September 30, 2014, the Sutter Health system had approximately 49,000 employees, of which approximately 30,000 are full-time employees. Approximately 4,000 of these 49,000 employees are employed by Sutter Health and the remaining employees are employed by Affiliated Entities. Approximately 26% of these employees (employed at 26 Sutter Health facilities) are represented by collective bargaining units, with 49 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 September 30, 2014, 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 utilization data for the quarter ended September 30, 2014.

### Obligated Group Acute Care Facility Utilization

	Quarter Ended <u>September 30, 2014</u>
Licensed Beds	4,260 <sup>(1)</sup>
Beds in Service	4,198
Admissions <sup>(2)</sup>	141,877
Patient Days <sup>(2)</sup>	627,034
Average Length of Stay (Days)	4.4
Occupancy % <sup>(3)</sup>	54.6%
Emergency Room Visits <sup>(4)</sup>	596,637

<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 Utilization Data

As of September 30, 2014, there were no free-standing skilled nursing facilities operating under their own license or Medicare provider numbers.

## Obligated Group Medical Foundations Operating Data

The following table summarizes the operating data for medical foundations within the Obligated Group for the quarter ended September 30, 2014.

### Obligated Group Medical Foundations Operating Data

	Quarter Ended September 30, 2014
Physicians	1,842
Facilities	159
Capitated Members	253,970
Outpatient Visits	6,022,779

## Sources of Revenues

Following is a summary of gross patient revenue for the Obligated Group by payer source for the quarter ended September 30, 2014.

### Obligated Group Payer Mix September 30, 2014

	Medicare		Medi-Cal		Commercial Programs		Other Payers
	Non-Capitated	Capitated	Non-Capitated	Capitated	Non-Capitated	Capitated	
Total Obligated Group	35.7%	5.0%	19.4%	0.1%	32.6%	2.3%	4.9%
Acute Care Hospitals	37.4%	4.8%	22.7%	0.0%	28.7%	.9%	5.5%
Medical Foundations	27.3%	6.0%	4.6%	0.4%	50.6%	9.1%	2.0%

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 September 30, 2014.

### Sutter Health Capitated Members <sup>(1)</sup> September 30, 2014

	Central Valley Region	East Bay Region	Peninsula Coastal Region	Sacramento Sierra Region	West Bay Region	Total
Physician Organizations <sup>(2)</sup>	33,872	12,854	117,860	77,796	11,588	253,970
Hospitals	14,374	2,855	13,089	47,886	6,114	84,318
Elimination <sup>(3)</sup>	(14,374)	(2,855)	(13,089)	(47,886)	(6,114)	(84,318)
Totals	33,872	12,854	117,860	77,796	11,588	253,970

<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 September 30, 2014 (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 September 30, 2014.

## Fixed Payment Coverage Ratio

The table below sets forth the Obligated Group's funds generated to cover fixed payments for fiscal year 2013, and the Obligated Group's maximum annual fixed payment requirements of long-term debt and capital leases outstanding for that period.

### Sutter Health Obligated Group Fixed Payment Coverage Ratio (dollars in millions)

	<u>Fiscal Year Ended December 31, 2013</u>
Income	341
Depreciation, amortization, loss on disposal of assets	585
Interest expense	<u>75</u>
Income available for debt service <sup>(1)</sup>	<u>\$1,001</u>
Interest and principal on long-term debt and payment requirements on capital leases	<u>\$231</u>
Fixed payment coverage ratio (times)	<u>4.3</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 September 30, 2014.

### Capitalization of the Obligated Group (dollars in millions)

	<u>Quarter Ended September 30, 2014</u>
Long-Term Debt, including current portion	<u>3,675</u>
Total Long-Term Debt	<u>\$3,675</u>
Net Assets:	
Unrestricted	7,600
Temporarily restricted	62
Permanently restricted	<u>13</u>
Total Net Assets	<u>\$7,675</u>
Total Capitalization	<u>\$11,350</u>
Long-Term Debt to Capitalization Ratio	32.4%

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

The Obligated Group's contractual debt and capital lease obligations at September 30, 2014, are shown in the table below.

### Contractual Debt and Capital Lease Obligations As of September 30, 2014 (dollars in thousands)

	Total Outstanding	Principal Due During Fiscal Year 2014	Principal Due During Fiscal Years 2015 through 2017	Principal Due During Fiscal Years 2018 and thereafter
Long-term debt <sup>(1)</sup>	3,675,175	14,570	104,895	3,555,710
Capital Leases <sup>(2)</sup>	7,356	394	0	6,962

<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 September 30, 2014 (dollars in thousands)

	Total Outstanding Commitment	Total Outstanding Commitment During Fiscal Year 2014	Total Outstanding Commitment During Fiscal Years 2015 and thereafter
Letters of credit	1,284	0	1,284

## 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: December 9, 2014

SUTTER HEALTH

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

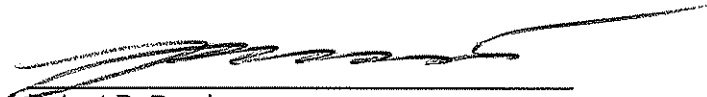
	Year Ended 12/31/13	Quarter Ended 9/30/14
Assets held in trust:		
Principal, interest and other reserves held in trust under bond indentures and escrow	\$ 232	\$ 110
Restricted Charitable Contributions	127	119
Insurance Reserves/Professional Liability	247	253
Deferred Compensation and Other	16	16
Total Restricted	\$ 622	\$ 498
Temporarily Restricted		
Temporarily Restricted Charitable Contributions	\$ 171	\$ 156
Unrestricted		
Board Designated:		
Other	298	279
Sutter 2013ABC taxable bonds	100	50
Unrestricted Funds	3,552	3,738
Unrestricted Charitable Contributions	354	356
Total Unrestricted	\$ 4,304	\$ 4,423
Total Cash & Investments	\$ 5,097	\$ 5,077
Less cash and current portion	(4,252)	(4,422)
Non-current investments	\$ 845	\$ 655

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

I, Robert D. Reed, 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:



Robert D. Reed  
Senior Vice President and Chief Financial Officer  
Sutter Health

December 9, 2014

**Supplemental Information**

**Acute Care Payer Mix**

As of <b>September 30, 2014</b>	Medicare		Medi-Cal		Commercial		Other	Total
	Non-Capitated	Risk	Non-Capitated	Risk	Non-Sutter Risk	Risk		
Sutter Medical Center-Sacramento	31.7%	7.4%	30.4%	0.0%	22.3%	2.0%	6.2%	100.0%
Sutter Solano Medical Center	40.3%	0.0%	38.8%	0.0%	16.0%	0.0%	4.9%	100.0%
Sutter Davis Hospital	28.9%	6.8%	23.9%	0.0%	32.2%	2.3%	5.9%	100.0%
Sutter Coast Hospital	44.0%	0.0%	25.3%	0.0%	22.3%	0.0%	8.4%	100.0%
Sutter Delta Medical Center	41.0%	0.1%	32.6%	0.0%	21.2%	0.1%	5.0%	100.0%
Sutter Auburn Faith Hospital	47.3%	8.0%	14.7%	0.0%	19.9%	1.4%	8.7%	100.0%
Sutter Tracy Community Hospital	34.8%	0.0%	28.0%	0.0%	32.3%	0.0%	4.9%	100.0%
Sutter Roseville Medical Center	39.2%	8.2%	15.8%	0.0%	26.8%	1.8%	8.2%	100.0%
California Pacific Medical Center	40.6%	0.3%	17.2%	0.0%	36.9%	0.1%	4.9%	100.0%
Sutter Maternity and Surgery Center	25.6%	0.0%	10.9%	0.0%	58.6%	0.0%	4.9%	100.0%
Mills Peninsula Health Services	33.2%	12.2%	10.4%	0.0%	37.4%	3.1%	3.7%	100.0%
Sutter Lakeside Hospital	50.0%	0.0%	25.8%	0.0%	19.2%	0.0%	5.0%	100.0%
Memorial Medical Center & Memorial Hospital Los Banos	35.4%	14.4%	23.8%	0.0%	22.0%	0.9%	3.5%	100.0%
Novato Community Hospital	52.4%	0.0%	12.8%	0.0%	29.1%	0.0%	5.7%	100.0%
Alta Bates Summit Medical Center	38.0%	0.1%	24.4%	0.0%	31.4%	0.3%	5.8%	100.0%
Sutter Medical Center-Santa Rosa	35.8%	5.1%	28.9%	0.0%	24.5%	0.0%	5.5%	99.8%
Sutter Amador Hospital	53.7%	0.0%	18.9%	0.0%	18.7%	0.0%	8.7%	100.0%
Sutter Medical Center Castro Valley	38.6%	0.2%	27.2%	0.0%	28.1%	0.0%	5.9%	100.0%
Menlo Park Surgical Hospital	23.3%	0.0%	1.3%	0.0%	66.0%	0.0%	9.4%	100.0%
<b>Total Acute Care Payer Mix (%)</b>	<b>37.4%</b>	<b>4.8%</b>	<b>22.7%</b>	<b>0.0%</b>	<b>28.7%</b>	<b>0.9%</b>	<b>5.5%</b>	<b>100.0%</b>



**Sutter Health**  
Acute Care Utilization Statistics

	2011 (Restated)	2012 (Restated)	2013	Q3 2013	Q3 2014
<b>Obligated Group Total</b>					
Current Licensed Beds <sup>1,2</sup>	4,541	4,490	4,335	4,428	4,260
Beds in Service <sup>2</sup>	4,502	4,451	4,287	4,390	4,198
Admissions	205,250	202,875	196,608	148,069	141,877
Patient Days	942,070	913,574	871,630	659,575	627,034
Average Length of Stay	4.6	4.5	4.4	4.5	4.4
% Occupancy Based on Beds in Service	57.3%	56.2%	54.7%	54.9%	54.6%
Emergency Room Visits	785,425	798,681	780,927	594,503	596,637
Outpatient Revenues	7,200,550,390	7,564,643,148	7,720,898,674	5,765,049,834	5,898,741,509
Total Gross Revenues	21,173,341,219	21,311,278,201	21,229,567,653	15,939,983,745	15,920,042,878
Outpatient Revenue as % of Total Revenues	34.0%	35.5%	36.4%	36.2%	37.1%
<b>Sutter Medical Center Sacramento</b>					
Current Licensed Beds	723	723	727	727	727
Beds in Service	723	723	727	727	727
Admissions	32,488	32,811	32,381	24,349	23,873
Patient Days	147,614	146,582	146,269	110,352	107,121
Average Length of Stay	4.5	4.5	4.5	4.5	4.5
% Occupancy Based on Beds in Service	56%	56%	55%	55%	54%
Emergency Room Visits	84,608	88,304	88,280	66,670	69,359
Outpatient Revenues	705,940,907	733,065,752	783,542,404	585,680,846	630,940,478
Total Gross Revenues	3,020,654,081	3,088,134,431	3,182,340,788	2,393,622,561	2,397,035,208
Outpatient Revenue as % of Total Revenues	23.4%	23.7%	24.6%	24.5%	26.3%
<b>Novato Community Hospital</b>					
Current Licensed Beds	47	47	47	47	47
Beds in Service	47	47	47	47	47
Admissions	1,616	1,592	1,614	1,229	1,171
Patient Days	5,606	5,596	5,172	3,954	3,446
Average Length of Stay	3.5	3.5	3.2	3.2	2.9
% Occupancy Based on Beds in Service	33%	33%	30%	31%	27%
Emergency Room Visits	15,451	15,015	14,486	10,921	10,766
Outpatient Revenues	119,570,327	114,667,399	107,760,601	80,251,101	92,491,385
Total Gross Revenues	222,369,652	221,275,567	205,428,486	153,891,052	164,427,871
Outpatient Revenue as % of Total Revenues	53.8%	51.8%	52.5%	52.1%	56.3%
<b>Sutter Coast Hospital</b>					
Current Licensed Beds	49	49	49	49	49
Beds in Service	49	49	49	49	49
Admissions	2,259	2,195	2,278	1,701	1,591
Patient Days	7,568	6,926	7,286	5,544	4,982
Average Length of Stay	3.4	3.2	3.2	3.3	3.1
% Occupancy Based on Beds in Service	42%	39%	41%	41%	37%
Emergency Room Visits	22,627	21,969	20,913	15,825	15,281
Outpatient Revenues	139,517,323	130,627,854	136,007,523	101,772,186	103,848,527
Total Gross Revenues	212,142,889	200,004,167	213,723,693	160,683,698	157,541,417
Outpatient Revenue as % of Total Revenues	65.8%	65.3%	63.6%	63.3%	65.9%
<b>Sutter Solano Medical Center</b>					
Current Licensed Beds	102	102	102	102	102
Beds in Service	102	102	102	102	102
Admissions	5,116	4,938	4,539	3,490	3,087
Patient Days	19,186	18,344	17,945	13,608	12,055
Average Length of Stay	3.8	3.7	4.0	3.9	3.9
% Occupancy Based on Beds in Service	52%	49%	48%	49%	43%
Emergency Room Visits	36,767	39,137	39,096	29,643	29,984
Outpatient Revenues	220,595,916	227,309,212	246,397,910	183,611,375	194,475,109
Total Gross Revenues	520,101,520	526,378,051	554,008,047	419,702,374	396,591,109
Outpatient Revenue as % of Total Revenues	42.4%	43.2%	44.5%	43.7%	49.0%

**Sutter Health**  
Acute Care Utilization Statistics

	2011 (Restated)	2012 (Restated)	2013	Q3 2013	Q3 2014
<b>Sutter Davis Hospital</b>					
Current Licensed Beds	48	48	48	48	48
Beds in Service	48	48	48	48	48
Admissions	3,696	3,501	3,608	2,724	2,731
Patient Days	8,445	8,232	8,485	6,314	6,142
Average Length of Stay	2.3	2.4	2.4	2.3	2.2
% Occupancy Based on Beds in Service	48%	47%	48%	48%	47%
Emergency Room Visits	21,445	23,208	24,383	18,497	18,963
Outpatient Revenues	140,708,165	156,105,223	166,824,841	125,344,274	128,703,244
Total Gross Revenues	269,684,734	279,341,590	297,465,653	224,115,068	228,010,915
Outpatient Revenue as % of Total Revenues	52.2%	55.9%	56.1%	55.9%	56.4%
<b>Sutter Auburn Faith Hospital</b>					
Current Licensed Beds	80	75	69	69	72
Beds in Service	80	75	69	69	72
Admissions	4,178	3,979	3,856	2,978	2,539
Patient Days	13,573	12,976	12,274	9,457	8,364
Average Length of Stay	3.2	3.3	3.2	3.2	3.3
% Occupancy Based on Beds in Service	46%	47%	49%	50%	42%
Emergency Room Visits	24,356	24,406	24,985	19,019	20,060
Outpatient Revenues	156,699,312	179,583,915	211,462,127	159,376,476	176,483,121
Total Gross Revenues	338,935,420	356,900,151	385,815,312	294,308,316	294,202,170
Outpatient Revenue as % of Total Revenues	46.2%	50.3%	54.8%	54.2%	60.0%
<b>Sutter Delta Medical Center</b>					
Current Licensed Beds	145	145	145	145	145
Beds in Service	137	137	137	137	123
Admissions	7,754	8,176	7,501	5,527	5,855
Patient Days	30,581	29,915	27,105	20,416	20,470
Average Length of Stay	3.9	3.7	3.6	3.7	3.5
% Occupancy Based on Beds in Service	61%	60%	54%	54%	61%
Emergency Room Visits	53,839	54,160	46,901	35,344	38,311
Outpatient Revenues	222,608,546	233,299,224	236,796,594	175,573,081	194,096,394
Total Gross Revenues	645,816,613	664,130,080	651,069,347	484,486,758	511,251,419
Outpatient Revenue as % of Total Revenues	34.5%	35.1%	36.4%	36.2%	38.0%
<b>Sutter Lakeside Hospital</b>					
Current Licensed Beds	25	25	25	25	25
Beds in Service	25	25	25	25	25
Admissions	2,056	2,062	2,033	1,536	1,319
Patient Days	6,821	6,719	6,607	5,038	4,412
Average Length of Stay	3.3	3.3	3.2	3.3	3.3
% Occupancy Based on Beds in Service	75%	74%	72%	74%	64%
Emergency Room Visits	18,100	18,614	17,481	13,241	13,630
Outpatient Revenues	124,184,664	122,309,389	119,137,639	91,289,499	91,783,064
Total Gross Revenues	196,437,267	197,812,858	191,381,312	147,243,491	142,969,768
Outpatient Revenue as % of Total Revenues	63.2%	61.8%	62.3%	62.0%	64.2%
<b>Sutter Amador Hospital</b>					
Current Licensed Beds	42	52	52	52	52
Beds in Service	42	52	42	52	42
Admissions	2,199	2,354	2,436	1,841	1,830
Patient Days	7,527	7,993	8,230	6,250	6,292
Average Length of Stay	3.4	3.4	3.4	3.4	3.4
% Occupancy Based on Beds in Service	49%	52%	54%	44%	55%
Emergency Room Visits	18,295	19,047	19,852	15,108	15,481
Outpatient Revenues	103,811,104	94,553,528	95,879,714	71,592,863	78,323,659
Total Gross Revenues	189,201,005	188,441,522	204,610,907	153,917,821	164,976,682
Outpatient Revenue as % of Total Revenues	54.9%	50.2%	46.9%	46.5%	47.5%

**Sutter Health**  
Acute Care Utilization Statistics

	2011 (Restated)	2012 (Restated)	2013	Q3 2013	Q3 2014
<b>Sutter Tracy Community Hospital</b>					
Current Licensed Beds	82	82	82	82	82
Beds in Service	82	82	82	82	82
Admissions	3,975	3,777	3,606	2,652	3,044
Patient Days	14,464	13,840	11,339	8,347	9,463
Average Length of Stay	3.6	3.7	3.1	3.1	3.1
% Occupancy Based on Beds in Service	48%	46%	38%	37%	42%
Emergency Room Visits	31,497	31,026	32,236	24,280	26,238
Outpatient Revenues	225,257,311	249,030,470	250,542,416	188,485,728	193,554,576
Total Gross Revenues	394,248,471	431,312,638	423,254,254	315,535,600	337,920,590
Outpatient Revenue as % of Total Revenues	57.1%	57.7%	59.2%	59.7%	57.3%
<b>Sutter Roseville Medical Center</b>					
Current Licensed Beds	328	328	328	328	328
Beds in Service	328	328	328	328	328
Admissions	18,847	20,088	20,051	15,157	14,439
Patient Days	86,881	90,931	88,612	67,690	60,971
Average Length of Stay	4.6	4.5	4.4	4.5	4.2
% Occupancy Based on Beds in Service	73%	76%	74%	75%	68%
Emergency Room Visits	71,249	74,095	75,657	56,706	59,331
Outpatient Revenues	381,244,040	418,158,017	463,056,671	343,407,437	388,312,989
Total Gross Revenues	1,393,375,023	1,526,934,444	1,617,561,820	1,211,850,984	1,270,429,644
Outpatient Revenue as % of Total Revenues	27.4%	27.4%	28.6%	28.3%	30.6%
<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	1,645	1,374	994	1,072
Patient Days	4,415	4,182	3,911	2,726	3,073
Average Length of Stay	2.7	2.5	2.8	2.7	2.9
% Occupancy Based on Beds in Service	40%	38%	36%	33%	37%
Emergency Room Visits	-	-	-	-	-
Outpatient Revenues	78,730,481	95,711,936	102,584,558	74,294,231	81,098,373
Total Gross Revenues	132,169,610	147,424,137	147,874,956	107,641,677	124,504,221
Outpatient Revenue as % of Total Revenues	59.6%	64.9%	69.4%	69.0%	65.1%
<b>Sutter Medical Center of Santa Rosa</b>					
Current Licensed Beds	135	135	135	135	135
Beds in Service	115	115	116	116	116
Admissions	5,542	6,077	6,215	4,713	4,737
Patient Days	23,340	24,862	23,642	18,042	19,012
Average Length of Stay	4.2	4.1	3.8	3.8	4.0
% Occupancy Based on Beds in Service	56%	59%	56%	57%	60%
Emergency Room Visits	25,845	26,508	27,040	20,416	22,000
Outpatient Revenues	187,311,545	187,756,545	178,835,039	132,904,047	158,549,441
Total Gross Revenues	483,562,254	500,222,502	482,774,007	363,227,137	407,457,412
Outpatient Revenue as % of Total Revenues	38.7%	37.5%	37.0%	36.6%	38.9%
<b>Memorial Medical Center &amp; Memorial Hospital Los Banos</b>					
Current Licensed Beds	469	469	469	469	469
Beds in Service	462	462	462	462	462
Admissions	21,511	19,826	18,684	13,984	13,893
Patient Days	101,067	90,518	85,844	65,439	62,110
Average Length of Stay	4.7	4.6	4.6	4.7	4.5
% Occupancy Based on Beds in Service	60%	54%	51%	52%	49%
Emergency Room Visits	89,517	90,740	90,346	68,286	73,947
Outpatient Revenues	922,606,069	910,765,431	941,473,437	704,407,692	755,818,132
Total Gross Revenues	2,504,420,550	2,396,255,297	2,447,735,635	1,839,455,083	1,860,938,120
Outpatient Revenue as % of Total Revenues	36.8%	38.0%	38.5%	38.3%	40.6%

**Sutter Health**  
Acute Care Utilization Statistics

	2011 (Restated)	2012 (Restated)	2013	Q3 2013	Q3 2014
<b>Alta Bates Summit Medical Center</b>					
Current Licensed Beds	855	855	819	819	750
Beds in Service	855	855	819	819	750
Admissions	35,617	33,852	30,686	23,100	21,452
Patient Days	193,464	177,296	164,641	123,179	114,626
Average Length of Stay	5.4	5.2	5.4	5.3	5.3
% Occupancy Based on Beds in Service	62%	57%	55%	55%	56%
Emergency Room Visits	86,261	83,459	77,656	59,577	60,793
Outpatient Revenues	1,175,247,113	1,417,688,852	1,372,728,940	1,023,066,127	903,066,105
Total Gross Revenues	3,949,054,677	3,843,903,530	3,597,481,929	2,682,465,938	2,569,499,989
Outpatient Revenue as % of Total Revenues	29.8%	36.9%	38.2%	38.1%	35.1%
<b>Mills-Peninsula Health Services</b>					
Current Licensed Beds	301	293	293	293	293
Beds in Service	301	293	293	293	293
Admissions	13,272	13,445	14,117	10,578	10,186
Patient Days	55,606	58,360	58,580	43,517	43,933
Average Length of Stay	4.2	4.3	4.1	4.1	4.3
% Occupancy Based on Beds in Service	51%	55%	55%	54%	55%
Emergency Room Visits	44,738	46,911	45,446	34,302	36,133
Outpatient Revenues	667,792,509	657,755,708	673,815,686	501,250,319	503,423,104
Total Gross Revenues	1,490,467,898	1,500,800,072	1,540,788,145	1,146,762,771	1,131,884,179
Outpatient Revenue as % of Total Revenues	44.8%	43.8%	43.7%	43.7%	44.5%
<b>Menlo Park Surgical Hospital</b>					
Current Licensed Beds	16	16	16	16	16
Beds in Service	12	12	12	12	12
Admissions	369	308	256	197	164
Patient Days	441	368	302	229	172
Average Length of Stay	1.2	1.2	1.2	1.2	1.0
% Occupancy Based on Beds in Service	10%	8%	7%	7%	5%
Emergency Room Visits	-	-	-	-	-
Outpatient Revenues	24,453,479	27,202,189	32,455,189	23,250,270	28,177,137
Total Gross Revenues	37,877,364	39,535,068	43,021,207	31,381,424	34,765,128
Outpatient Revenue as % of Total Revenues	64.6%	68.8%	75.4%	74.1%	81.1%
<b>California Pacific Medical Center</b>					
Current Licensed Beds	793	793	769	769	760
Beds in Service	793	793	769	769	760
Admissions	29,841	29,747	30,133	22,567	22,224
Patient Days	159,850	158,207	147,617	112,032	113,095
Average Length of Stay	5.4	5.3	4.9	5.0	5.1
% Occupancy Based on Beds in Service	55%	55%	53%	53%	54%
Emergency Room Visits	81,348	81,013	80,145	60,917	57,442
Outpatient Revenues	1,227,898,612	1,230,131,997	1,187,912,149	882,375,572	917,352,984
Total Gross Revenues	3,909,911,229	3,970,589,024	3,800,685,241	2,853,725,899	2,923,126,685
Outpatient Revenue as % of Total Revenues	31.4%	31.0%	31.3%	30.9%	31.4%
<b>Eden Medical Center<sup>3</sup></b>					
Current Licensed Beds	271	93	93	93	N/A
Beds in Service	271	93	93	93	
Admissions	13,269	11,821	2,501	2,297	
Patient Days	55,621	48,848	10,724	9,853	
Average Length of Stay	4.2	4.1	4.3	4.3	
% Occupancy Based on Beds in Service	56%	52%	38%	39%	
Emergency Room Visits	59,482	58,261	23,329	21,170	
Outpatient Revenues	376,372,967	356,730,726	101,093,604	90,494,333	
Total Gross Revenues	1,262,910,962	1,157,756,623	231,729,416	211,257,420	
Outpatient Revenue as % of Total Revenues	29.8%	30.8%	43.6%	42.8%	N/A

**Sutter Health**  
Acute Care Utilization Statistics

	2011 (Restated)	2012 (Restated)	2013	Q3 2013	Q3 2014
<b>Sutter Medical Center Castro Valley<sup>3</sup></b>					
Current Licensed Beds	N/A	130	130	130	130
Beds in Service		130	130	130	130
Admissions		681	8,739	6,455	6,670
Patient Days		2,879	37,045	27,588	27,295
Average Length of Stay		4.2	4.2	4.3	4.1
% Occupancy Based on Beds in Service		74%	78%	78%	77%
Emergency Room Visits		2,808	32,695	24,581	28,918
Outpatient Revenues		22,189,781	312,591,632	226,622,377	278,243,687
Total Gross Revenues		74,126,449	1,010,817,498	744,708,673	802,510,351
Outpatient Revenue as % of Total Revenues	N/A	29.9%	30.9%	30.4%	34.7%

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. 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.