Scripps

Obligated Group Financial Statements

3rd Quarter
June 30, 2015

Scripps Health
Obligated Group

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For the Quarter and Nine Months Ended June 30, 2015

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SCRIPPS HEALTH
OBLIGATED GROUP
STATEMENTS OF FINANCIAL POSITION
June 30, 2015
($000s)

	June 2015	June 2014	September 2014
ASSETS			
Current Assets:			
Cash and Cash Equivalents	$ 311,842	$ 342,879	$ 283,239
Accounts Receivable, Net	309,797	321,157	273,844
Assets Limited As To Use	9	10	5,357
Other Current Assets	118,814	75,164	98,963
Total Current Assets	740,462	739,210	661,403
Investments:			
Assets Limited As To Use	224,170	228,615	218,443
Unrestricted	1,879,784	1,769,025	1,827,712
Property, Plant and Equipment	2,870,544	2,625,730	2,699,434
Less Accumulated Depreciation	(1,359,558)	(1,242,079)	(1,266,511)
Property, Plant and Equipment, Net	1,510,986	1,383,651	1,432,923
Other Assets	152,857	107,725	112,777
Total Assets	$ 4,508,259	$ 4,228,226	$ 4,253,258
LIABILITIES AND EQUITY			
Current Liabilities:			
Current Portion of Long-term Debt	$ 19,918	$ 19,833	$ 20,967
Accounts Payable	134,481	120,817	112,904
Accrued Liabilities	232,045	216,201	220,749
Total Current Liabilities	386,444	356,851	354,620
Long Term Debt	867,508	849,623	847,745
Other Liabilities	89,830	100,222	96,396
Total Liabilities	1,343,781	1,306,696	1,298,761
Equity:			
Unrestricted	2,953,007	2,705,879	2,747,775
Temporarily Restricted	132,101	136,274	127,888
Permanently Restricted	79,369	79,377	78,834
Total Equity	3,164,478	2,921,530	2,954,497
Total Liabilities and Equity	$ 4,508,259	$ 4,228,226	$ 4,253,258

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

	For the Quarter Ended	
	June 30, 2015	June 30, 2014
Operating revenues:		
Patient services revenue, net of contractual allowances and discounts	$ 602,017	$ 550,016
Provision for bad debts	(10,551)	(7,517)
Net patient service revenue less provision for bad debts before provider fee	591,466	542,499
Provider fee	25,124	-
Net patient service revenue less provision for bad debts	616,591	542,499
Capitation premium	35,894	30,144
Other	19,475	19,776
Meaningful use	-	375
Equity released from restrictions used for operations	2,630	3,950
Total operating revenues	674,589	596,745
Operating expenses:		
Wages and benefits	301,561	283,162
Supplies	109,035	95,702
Physician services	92,320	86,743
Other services	76,805	67,557
Provider fee	22,429	-
Capitation services	687	286
Depreciation and Amortization	33,261	25,077
Interest	5,179	3,597
Loss on impairment	-	4,000
Total operating expenses	641,277	566,123
Operating income before corporate overhead allocation and income tax	33,313	30,622
Corporate overhead allocation	1,611	679
Provision for income tax expense	55	34
Operating income after corporate overhead allocation and income tax	34,978	31,335
Nonoperating gains (losses):		
Interest and dividends	7,975	7,321
Realized gains	33,484	19,975
Holding (losses) gains on trading portfolio	(33,349)	24,093
Unrealized losses on insurance contracts	-	(2,353)
Contributions	3,618	148
Market adjustment on interest rate swaps	4,405	(1,685)
Excess of revenues over expenses	$ 51,111	$ 78,834

SCRIPPS HEALTH

OBLIGATED GROUP

STATEMENTS OF CHANGES IN NET ASSETS

($000s)

	For the Quarter Ended	
	June 30, 2015	June 30, 2014
Unrestricted net assets:		
Excess of revenue over expenses	$ 51,111	$ 78,834
Other changes affecting unrestricted net assets		
Net assets released from restrictions used for purchase of property and equipment	3,476	4,909
Other	(118)	3,932
Increase in unrestricted net assets	54,469	87,675
Temporarily restricted net assets:		
Contributions	6,758	7,225
Interest and dividends	511	471
Realized gains	1,886	1,296
Holding (losses) gains on trading portfolio	(1,751)	1,665
Net assets released from restrictions used for operations	(2,630)	(3,950)
Net assets released from restrictions used for purchases of property	-	
and equipment	(3,476)	(4,909)
Change in value of deferred gifts	88	445
Other	(64)	149
(Decrease) increase in temporarily restricted net assets	1,322	2,391
Permanently restricted net assets:		
Contributions	90	(10)
Change in value of deferred gifts	-	-
Other	16	1
Increase in permanently restricted net assets	105	(9)
Total increase in net assets	$ 55,896	$ 90,057

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

	For the Nine Months Ended June 30, 2015	For the Nine Months Ended June 30, 2014
Operating revenues:		
Patient services revenue, net of contractual allowances and discounts	$ 1,746,668	$ 1,709,443
Provision for bad debts	(30,042)	(43,823)
Net patient service revenue less provision for bad debts before provider fee	1,716,625	1,665,620
Provider fee	131,163	21,047
Net patient service revenue less provision for bad debts	1,847,788	1,686,668
Capitation premium	109,091	63,382
Other	60,018	58,154
Meaningful use	1,150	4,940
Equity released from restrictions used for operations	13,166	11,751
Total operating revenues	2,031,213	1,824,896
Operating expenses:		
Wages and benefits	886,158	850,531
Supplies	316,504	293,876
Physician services	274,382	258,044
Other services	220,857	209,405
Provider fee	106,443	14,778
Capitation services	1,653	921
Depreciation and Amortization	93,120	73,876
Interest	15,556	11,661
Loss on impairment	-	4,033
Total operating expenses	1,914,673	1,717,124
Operating income before corporate overhead allocation and income tax	116,540	107,772
Corporate overhead allocation	4,546	2,039
Provision for income tax expense	57	13
Operating income after corporate overhead allocation and income tax	121,143	109,825
Nonoperating gains (losses):		
Interest and dividends	25,501	21,238
Realized gains	181,647	84,380
Holding (losses) gains on trading portfolio	(144,755)	47,404
Unrealized losses on insurance contracts	-	(2,510)
Contributions	4,462	779
Market adjustment on interest rate swaps	(1,287)	(1,132)
Excess of revenues over expenses	$ 186,710	$ 259,985

SCRIPPS HEALTH

OBLIGATED GROUP

STATEMENTS OF CHANGES IN NET ASSETS

($000s)

	For the Nine Months Ended	
	June 30, 2015	June 30, 2014
Unrestricted net assets:		
Excess of revenue over expenses	$ 186,710	$ 259,985
Other changes affecting unrestricted net assets	-	
Net assets released from restrictions used for purchase of property and equipment	16,875	14,140
Other	(323)	3,734
Increase in unrestricted net assets	203,262	277,860
Temporarily restricted net assets:		
Contributions	29,867	19,289
Interest and dividends	1,820	1,583
Realized gains	11,533	5,788
Holding (losses) gains on trading portfolio	(8,774)	3,648
Net assets released from restrictions used for operations	(13,166)	(11,751)
Net assets released from restrictions used for purchases of property and equipment	(16,875)	(14,140)
Change in value of deferred gifts	249	774
Other	(441)	(22)
Increase in temporarily restricted net assets	4,213	5,169
Permanently restricted net assets:		
Contributions	446	522
Change in value of deferred gifts	16	(113)
Other	74	8
Increase in permanently restricted net assets	535	417
Total increase in net assets	$ 208,011	$ 283,445

Scripps

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

	For the Nine Months Ended	
	June 30, 2015	June 30, 2014
Operating activities and nonoperating gains		
Total increase in net assets	$208,011	$283,445
Reconciliation of total change in net assets to cash flows provided by operating activities and nonoperating gains and losses:		
Depreciation and amortization	93,120	73,876
Amortization of debt issuance costs	303	319
Amortization of original issue premium	(455)	(456)
Provision for bad debts	30,032	43,888
Realized and unrealized gains on investments	(39,650)	(90,168)
Increase in investments designated as trading	(12,801)	(164,118)
Market adjustment on interest rate swaps	1,287	1,132
Loss on impairment	-	4,033
Loss (gain) on disposal of property	19	(33)
Restricted contributions and investment income	(43,666)	(27,182)
Change in assets and liabilities:		
Accounts receivable - net	(65,985)	(68,007)
Other current assets	(19,851)	46,409
Other assets	(41,339)	(11,426)
Accounts payable and accrued liabilities	28,586	(41,769)
Other liabilities	(4,597)	(6,232)
Net cash provided by operating activities:	133,014	43,711
Investing activities:		
Purchases of property, plant and equipment	(167,304)	(181,293)
Net cash used in investing activities:	(167,304)	(181,293)
Financing activities:		
Proceeds from restricted contributions and investment income	39,252	26,885
Proceeds from line of credit	35,976	-
Payments on notes / lease payable	(2,724)	(2,379)
Payments on long-term debt	(14,945)	(14,490)
Proceeds from sale of donated financial assets	5,334	297
Net cash provided by financing activities:	62,893	10,313
Increase (decrease) in cash and cash equivalents	28,603	(127,269)
Cash and cash equivalents at beginning of period	283,239	470,148
Cash and cash equivalents at end of period	$311,842	$342,879

SCRIPPS HEALTH
OBLIGATED GROUP
NOTES TO THE OBLIGATED GROUP FINANCIAL STATEMENTS
(UNAUDITED)

NOTE (1) BASIS OF PRESENTATION

In the opinion of management, all adjustments, consisting of normal recurring adjustments necessary for the fair presentation of the statements of financial position and results of operations as of and for the quarter and nine months ended June 30, 2015 and 2014 as well as for the year-to-date September 30, 2014 have been made.

NOTE (2) FAIR VALUE MEASUREMENTS

Scripps Health accounts for certain assets and liabilities at fair value. A fair value hierarchy for valuation inputs prioritizes the inputs into three levels based on the extent to which inputs used in measuring fair value are observable in the market. Each fair value measurement is reported in one of the three levels and is determined by the lowest level input that is significant to the fair value measurement in its entirety. These levels are:

Level 1: Quoted prices are available in active markets for identical assets or liabilities as of the measurement date. Financial assets and liabilities in Level 1 include U.S. and foreign equity securities, as well as mutual funds.

Level 2: Pricing inputs are based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the asset or liabilities. Financial assets and liabilities in this category generally include U.S. and foreign government securities, asset-backed securities, U.S. and foreign corporate bonds and loans, municipal bonds, commingled funds, interest rate swaps, real estate, and pledges receivable.

Level 3: Pricing inputs are generally unobservable for the assets or liabilities and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require management's judgment or estimation of assumptions that market participants would use in pricing the assets or liabilities. The fair values are therefore determined using factors that involve considerable judgment and interpretations, including but not limited to private and public comparables, third-party appraisals, discounted cash flow models and fund manager estimates. There are no Level 3 financial assets or liabilities at June 30, 2015 and 2014.

Assets and liabilities measured at fair value are based on one or more of the three valuation techniques. The three valuation techniques are identified in the tables below. Where more than one technique is noted, individual assets or liabilities were valued using one or more of the noted techniques. The valuation techniques are as follows:

a) Market approach. Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.

b) Cost approach. Amount that would be required to replace the service capacity of asset (replacement cost).

c) Income approach. Techniques to convert future amounts to a single present amount based on market expectations (including present value techniques, option-pricing, and excess earnings models).

The following represents financial assets and liabilities measured at fair value on a recurring basis as of June 30, 2015 (in thousands). Alternative investments are accounted for using the equity method of accounting, which is not a fair value measurement.

	June 30, 2015	Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Fair Value	Equity Method	Valuation Technique (a,b,c)
Investments:						
Liquid investments						
Cash equivalents	$ 10,536	$ 10,536	$ -	$ 10,536	$ -	a
Equity securities						
U.S. equity	$ 74,662	$ 74,662	$ -	$ 74,662	$ -	a
U.S. equity (commingled)	308,064	-	308,064	308,064	-	a
Foreign equity	470,245	470,245	-	470,245	-	a
Foreign equity (commingled)	77,765	-	77,765	77,765	-	a
	$ 930,736	$ 544,907	$ 385,829	$ 930,736	$ -	
Fixed income securities						
U.S. government	$ 21,256	$ -	$ 21,256	$ 21,256	$ -	a
U.S. government agencies	56,753	-	56,753	56,753	-	a
U.S. federal agency mortgage-backed	11,243	-	11,243	11,243	-	a
Foreign government	502	-	502	502	-	a
U.S. corporate	355,657	-	355,657	355,657	-	a
U.S. corporate (commingled)	259,491	-	259,491	259,491	-	a
Foreign corporate	10,000	-	10,000	10,000	-	a
	$ 714,902	$ -	$ 714,902	$ 714,902	$ -	
Other investments						
Multi-strategy hedge funds	$ 418,620	$ -	-	$ -	$ 418,620	a
Private equity funds	21,064	-	-	-	21,064	a
Real estate	8,105	-	8,105	8,105	-	a
	$ 447,789	$ -	$ 8,105	$ 8,105	$ 439,684	
Total investments	$ 2,103,963	$ 555,443	$ 1,108,836	$ 1,664,279	$ 439,684	
Other assets						
Pledges receivable, net	$ 17,371	$ -	$ 17,371	$ 17,371	$ -	c
	$ 17,371	$ -	$ 17,371	$ 17,371	$ -	
Total assets at fair value	$ 2,121,334	$ 555,443	$ 1,126,207	$ 1,681,650	$ 439,684	
Current liabilities						
Swap hedge	$ 21,652	$ -	$ 21,652	$ 21,652	$ -	c
	$ 21,652	$ -	$ 21,652	$ 21,652	$ -	
Other liabilities						
Annuity/unitrust liabilities	$ 10,724	$ -	$ 10,724	$ 10,724	$ -	c
	$ 10,724	$ -	$ 10,724	$ 10,724	$ -	
Total liabilities at fair value	$ 32,376	$ -	$ 32,376	$ 32,376	$ -	

The following represents financial assets and liabilities measured at fair value on a recurring basis as of September 30, 2014 (in thousands). Alternative investments are accounted for using the equity method of accounting, which is not a fair value measurement.

	September 30, 2014	Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Fair Value	Equity Method	Valuation Technique (a,b,c)
Investments:						
Liquid investments						
Cash equivalents	$ 15,728	$ 15,728	$ -	$ 15,728	$ -	a
Equity securities						
U.S. equity	$ 183,495	$ 183,495	$ -	$ 183,495	$ -	a
U.S. equity (commingled)	262,355	-	262,355	262,355	-	a
Foreign equity	389,551	389,551	-	389,551	-	a
Foreign equity (commingled)	95,389	-	95,389	95,389	-	a
	$ 930,790	$ 573,046	$ 357,744	$ 930,790	$ -	
Fixed income securities						
U.S. government	$ 21,788	$ -	$ 21,788	$ 21,788	$ -	a
U.S. government agencies	1,996	-	1,996	1,996	-	a
U.S. federal agency mortgage-backed	11,815	-	11,815	11,815	-	a
Foreign government	1,284	-	1,284	1,284	-	a
Foreign government (commingled)	143,602	-	143,602	143,602	-	a
U.S. corporate	271,019	-	271,019	271,019	-	a
U.S. corporate (commingled)	253,964	-	253,964	253,964	-	a
Foreign corporate	9,187	-	9,187	9,187	-	a
	$ 714,655	$ -	$ 714,655	$ 714,655	$ -	
Other investments						
Multi-strategy hedge funds	$ 368,111	$ -	-	$ -	$ 368,111	a
Private equity funds	13,480	-	-	-	13,480	a
Real estate	8,748	-	8,748	8,748	-	a
	$ 390,339	$ -	$ 8,748	$ 8,748	$ 381,591	
Total investments	$ 2,051,512	$ 588,774	$ 1,081,147	$ 1,669,921	$ 381,591	
Other assets						
Pledges receivable, net	$ 18,291	$ -	$ 18,291	$ 18,291	$ -	c
	$ 18,291	$ -	$ 18,291	$ 18,291	$ -	
Total assets at fair value	$ 2,069,803	$ 588,774	$ 1,099,438	$ 1,688,212	$ 381,591	
Current liabilities						
Swap hedge	$ 20,365	$ -	$ 20,365	$ 20,365	$ -	c
	$ 20,365	$ -	$ 20,365	$ 20,365	$ -	
Other liabilities						
Annuity/unitrust liabilities	$ 11,711	$ -	$ 11,711	$ 11,711	$ -	c
	$ 11,711	$ -	$ 11,711	$ 11,711	$ -	
Total liabilities at fair value	$ 32,076	$ -	$ 32,076	$ 32,076	$ -	

Transfers to/from Levels 1, 2 and 3 are recognized at the end of the reporting period. There were no transfers for the nine months ended June 30, 2015 and 2014.

As of June 30, 2015 and September 30, 2014, the Level 2 instruments listed in the fair value hierarchy table above use the following valuation techniques and inputs:

U.S. and Foreign Government Securities

The fair value of investments in U.S. and foreign government securities, classified as Level 2, was primarily determined using techniques consistent with the income approach. Significant observable inputs to the income approach include data points for benchmark constant maturity curves and spreads.

U.S. and Foreign Corporate Bonds

The fair value of the investments in U.S. and foreign corporate bonds, including mutual and commingled funds that invest primarily in such bonds, classified as Level 2 was primarily determined using techniques that are consistent with the market approach. Significant observable inputs include benchmark yields, reported trades, observable broker/dealer quotes, issuer spreads, and security specific characteristics (such as early redemption options).

Real Estate and Land Held for Sale

The fair value of the real estate investments classified as Level 2 was primarily determined using techniques that are consistent with the cost approach. Significant observable inputs include sales of comparable properties, market rents and market rent growth trends.

Pledges Receivable Annuity/Unitrust Liabilities, and Cease Use Liability

The fair value of the pledges receivable and annuity/unitrust liabilities, and cease use liability classified as Level 2 was primarily determined using techniques that are consistent with the income approach. Significant observable inputs to the income approach include data points for benchmark constant maturity curves and spreads.

Commingled Funds

The fair value of investments in U.S. equity commingled funds, classified as Level 2, was primarily determined using the calculated net asset value per share (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 fair value of all other commingled fund investments classified as Level 2 was 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. Due to the significant unobservable inputs present in these valuations, Scripps Health classifies all such investments as Level 2.

Swap Hedge

The fair value of the Swap hedge liability classified as Level 2 is based on independent valuations obtained and is determined by calculating the fair value of the discounted cash flows of the differences between the fixed interest rate of the interest rate swaps and the counterparty's forward LIBOR curve, which is the input used in the valuation, taking also into account any non-performance risk.

Included within the assets above are investments in certain entities that 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 as of June 30, 2015 (in thousands):

NAV Valuation		Fair Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Commingled:					
Equity securities	(1)	$ 77,765	$ -	Monthly	10 days
Fixed income securities	(2)	259,491	-	Daily	0–15 days
		$ 337,256	$		

(1) Commingled Funds: Equity – This category includes investments in commingled funds with underlying investments that are fair value estimates determined either internally or by an external fund manager based on recent filings, operating results, balance sheet stability, growth and other business and market sector fundamentals. The investments are diversified by geography, sector, and organization. Liquidity is provided on a monthly basis.

(2) Commingled Funds: Fixed Income – This category includes investments in three commingled funds with underlying investments that are fair value estimates determined either internally or by an external fund manager based on recent filings, operating results, balance sheet stability, growth and other business and market sector fundamentals. The investments are diversified by geography, sector, maturity, and issue. Liquidity is provided on a daily and/or monthly basis. As of June 30, 2015, the category consisted of 100% daily liquidity.

NOTE (3) ENDOWMENTS

The Organization's endowments consist of 84 and 81 individual funds as of June 30, 2015 and 2014, respectively, established for a variety of purposes. Net assets associated with the endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

On September 30, 2008, California Senate Bill No. 1329 was signed into law which enacted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) for California. The Board of Trustees of the Organization has interpreted this as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of the interpretation, the Organization classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence described by UPMIFA. In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) duration and preservation of the fund, (2) purposes of the Organization and the donor-restricted endowment fund, (3) general economic conditions, (4) possible effect of inflation or deflation, (5) expected total return from income and the appreciation of investments, (6) other resources of the Organization, and (7) investment policies of the Organization.

From time-to-time, the fair value of assets associated with individual endowment funds may fall below the level that the donor or UPMIFA requires the Organization to retain as a fund of perpetual duration.
The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results while assuming a moderate level of investment risk. The Organization expects its endowment funds, over time, to provide an average rate of return of approximately 5% over the rate of inflation annually. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate-of-return objectives, the Organization relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Organization targets a diversified asset allocation that places an emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

The Organization has a policy of appropriating for distribution each year 6% (with an additional 1% administrative fee) of its endowment fund’s average fair value over the prior three-year rolling average market values. In establishing this policy, the Organization considered the long-term expected return on its endowment. Accordingly, over the long term, the Organization expects the current spending policy to allow its endowment to grow at an average of 3% to 4% annually, above inflation. This is consistent with the Organization’s objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

Changes in endowment net assets for the nine months ended June 30, 2015, are as follows (in thousands):

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets as of September 30, 2014	$ 37,165	$ 78,834	$ 115,999
Investment return:			
Investment income	1,651	-	1,651
Net depreciation (realized and unrealized)	2,018	-	2,018
Total investment return	3,669	-	3,669
Contributions	-	445	445
Appropriation of endowment assets for expenditure	(5,139)	-	(5,139)
Other changes	-	90	90
Endowment net assets as of June 30, 2015	$ 35,695	$ 79,369	$ 115,064

Changes in endowment net assets for the nine months ended June 30, 2014, are as follows (in thousands):

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets as of September 30, 2013	$ 34,129	$ 78,161	$ 112,290
Investment return:			
Investment income	1,468	–	1,468
Net depreciation (realized and unrealized)	8,186	–	8,186
Total investment return	9,654	-	9,654
Contributions	-	522	522
Appropriation of endowment assets for expenditure	(3,999)	–	(3,999)
Other changes	–	694	694
Endowment net assets as of June 30, 2014	$ 39,784	$ 79,377	$ 119,161

Temporarily restricted endowment net assets is as follows at June 30 (in thousands):

	2015	2014
Temporarily restricted net assets:		
The portion of perpetual endowment funds subject to a time restriction under UPMIFA:		
Without purpose restrictions	$ 1,826	$ 2,241
With purpose restrictions	33,869	37,543
Total endowment funds classified as temporarily restricted net assets	$ 35,695	$ 39,784

NOTE (4) GOODWILL

Goodwill

The Organization adopted ASC 350 effective October 1, 2010, and accordingly, ceased the amortization of goodwill. ASC 350 also requires that the Organization test the carrying value of goodwill for impairment. The test is to be performed at the reporting unit level for goodwill at least once a year. In the year of adoption, a transitional test is required. As of October 1, 2010, the Organization completed its transitional impairment test, which did not result in any goodwill impairment.

Annual assessments are completed for Scripps Medical Foundation, which includes Scripps Clinic and Scripps Coastal Medical Centers, and is the Organization's only reporting unit with goodwill recorded. No goodwill impairment was recorded during its latest annual assessment in 2014.

Scripps Clinic

In 2000, Scripps Health acquired all the outstanding shares of SCPO and its wholly owned subsidiaries and substantially all the assets and liabilities of Scripps Clinic Medical Group (SCMG). As a result of the acquisition, the excess of the purchase price over the fair value of the net assets acquired was recorded as goodwill in the accompanying consolidated statements of financial position in the amount of $50,216,000. Accumulated amortization of goodwill totaled $20,421,000 at June 30, 2015 and 2014.

Scripps Coastal Medical Centers

In 2008, Scripps Health purchased substantially all of the net assets of Sharp Mission Park Medical Clinic (the Clinic). As a result of the acquisition, the excess of the purchase price over the fair value of the net assets acquired was recorded as goodwill in the accompanying consolidated statements of financial position in the amount of $6,884,000. Accumulated amortization of goodwill totaled $2,983,000 at June 30, 2015 and 2014.

NOTE (5) SUBSEQUENT EVENTS

Scripps Health has evaluated subsequent events occurring between the quarter ended June 30, 2015 and July 21, 2015, the date the financial statements were issued.

SCRIPPS HEALTH

OBLIGATED GROUP FINANCIAL STATEMENTS

MANAGEMENT DISCUSSION AND ANALYSIS

FOR THE QUARTER AND NINE MONTHS ENDED JUNE 30, 2015

For the Quarter Ended		
	($000s)	
	June 30, 2015	June 30, 2014
	Actual	Actual
Operating Revenue	$674,589	$596,745
Operating Revenue (Excluding Provider Fee)	$649,465	$596,745
Operating Income	$34,978	$31,335
Operating Margin	5.2%	5.3%
Operating EBITDA	$73,364	$59,975
Operating EBITDA (Excluding Net Proceeds from Provider Fee)	$70,668	$59,975
Operating EBITDA Margin	10.9%	10.1%
Operating EBITDA Margin (Excluding Net Proceeds from Provider Fee)	10.9%	10.1%
Excess Margin	$51,111	$78,834
Excess Margin %	7.4%	12.2%

The operating revenue for the quarter ended June 30, 2015 was $77,844,000 higher than the quarter ended June 30, 2014 primarily attributable to net patient service revenue, including capitation premium revenue, increased by $54,716,000 due to positive impact of higher volumes, including higher Hospital emergency room visits, trauma cases, and outpatient visits. In addition, $25,124,000 of Provider Fee revenue was recognized for The California Hospital Fee Program in the current quarter.

The operating expenses for the quarter ended June 30, 2015 were $75,153,000 higher than the quarter ended June 30, 2014 attributable to $22,429,000 Provider Fee expense recognized for The California Hospital Fee Program in the current quarter, $18,399,000 increased wages and benefits due to equity increases, $13,333,000 increased supplies expense due to higher prosthetics expenses at the hospitals and drug costs at the clinics, $9,248,00 higher other services expense due to higher biomedical equipment maintenance costs, and $8,185,000 increased depreciation expense related to the Scripps Prebys Cardiovascular Institute (SPCI) at La Jolla Hospital and the Critical Care building at Encinitas Hospital.

The excess margin for the quarter ended June 30, 2015 compared to the quarter ended June 30, 2014 was $27,723,000 lower than prior year primarily attributable to $43,933,000 lower realized and unrealized investment income, partially offset by $6,090,000 positive adjustment on interest rate swaps, $3,470,000 increased contributions, and $2,691,000 higher operating income in the third quarter of the current year.

For the Nine Months Ended		
	($000s)	
	June 30, 2015	June 30, 2014
	Actual	Actual
Operating Revenue	$2,031,213	$1,824,896
Operating Revenue (Excluding Provider Fee)	$1,900,050	$1,803,848
Operating Income	$121,143	$109,825
Operating Margin	6.0%	6.0%
Operating EBITDA	$229,761	$195,349
Operating EBITDA (Excluding Net Proceeds from Provider Fee)	$205,042	$189,079
Operating EBITDA Margin	11.3%	10.7%
Operating EBITDA Margin (Excluding Net Proceeds from Provider Fee)	10.8%	10.5%
Excess Margin	$186,710	$259,985
Excess Margin %	8.9%	13.2%

The operating revenue for the nine months ended June 30, 2015 was $206,317,000 higher than the nine months ended June 30, 2014 primarily attributable to $110,115,000 additional Provider Fee revenue recognized for The California Hospital Fee Program. Net patient service revenue, including capitation premium revenue, increased by $96,714,000 due to positive impact of higher volumes, including higher Hospital emergency room visits, trauma cases, and outpatient visits.

The operating expenses for the nine months ended June 30, 2015 were $197,549,000 higher than the nine months ended ended June 30, 2014 attributable to $91,666,000 additional Provider Fee expense recognized for The California Hospital Fee Program in the current quarter, $35,627,000 increased wages and benefits due to opening of Prebys Cardiovascular Institute in March, a number of medical practice acquisitions and annual merit and equity salary increases, $22,629,000 increased supplies expense due to patient volume increase and inflation, $19,243,000 increased depreciation expense related to the Scripps Prebys Cardiovascular Institute (SPCI) at La Jolla Hospital which was placed in service during December 2014 and the Critical Care building at Encinitas Hospital which was placed in service during June 2014, $16,338,000 higher physician services, and $11,452,00 increased other services expense primarily due to higher biomedical maintenance expenses.

The excess margin for the nine months ended June 30, 2015 compared to the nine months ended June 30, 2014 was $73,275,000 lower than prior year primarily attributable to $94,893,000 less realized and unrealized investment income, partially offset by by $11,318,000 additional operating income in the current year, $4,263,000 higher interest and dividend income, and $3,682,000 increased contributions.

	June 30, 2015	June 30, 2014	September 30, 2014
Unrestricted Cash & Investments ($000s)	$ 2,191,626	$ 2,111,904	$2,110,951
Days Unrestricted Cash on Hand *	352.8	355.0	352.9
Days in AR, Net *	49.3	52.6	45.0
Accounts Payable & Accrued Liabilities ($000s)*	$ 366,526	$ 337,018	$333,653
Days in AP & Accrued Liabilities *	54.9	56.4	55.6
Unrestricted Cash & Investments to Total Debt	247.0%	242.9%	243.0%
Long Term Debt ($000s)	$ 867,508	$ 849,623	$ 847,745
Current Portion of Long-Term Debt ($000s)	$ 19,918	$ 19,833	$20,967
Total Debt ($000s)	$ 887,425	$ 869,456	$ 868,712
Debt to Capitalization	23.1%	24.3%	24.0%

* Ratios exclude the impact of provider tax revenues and expenses.

Tax Exempt Bonds

In April 2015, Fitch upgraded Scripps Health bond ratings from AA- to AA, with an outlook of Stable. Standard & Poor's (S&P) affirmed Scripps Health's AA rating, with an outlook of Stable. Moody's affirmed Scripps Health's Aa3 rating, with an outlook of Stable.

Provider Tax

The California Hospital Fee Program (the Program) was signed into law effective January 1, 2010. In September 2011, the State of California enacted legislation that continues the Hospital Fee Program covering the period July 1, 2011 through December 31, 2013. For the entire thirty-month period, Scripps Health expected to pay quality assurance fees of $171,952,000 and receive Medi-Cal fee-for-service payments of $191,474,000 and managed care payments of $27,404,000. Net of contributions to California Health Foundation & Trust (CHFT) of $2,735,000, the expected net benefit to Scripps Health is $44,190,000.

The thirty-month program design allows recognition of the fee-for-service portion of the Program in advance of CMS' final approval of managed care payments. CMS approved a portion of the managed care program in May 2013 for the eighteen-month period ended June 30, 2012. In June 2013, CMS approved the managed care program portion of the Hospital Fee Program from July 1, 2012 through June 30, 2013. CMS approved geographic managed care plan contracts from July 1, 2013 through December 31, 2013 in March 2014. Full program approval was received in November 2014. The expected program loss is $3,289,000 for the managed care portion and was recognized in November 2014.

During the years ended September 30, 2012, 2013, 2014, and fiscal year-to-date 2015 supplemental amounts recognized totaled $91,400,000, $100,945,000, $21,047,000, and $5,485,000 respectively. This amount was recognized as net patient revenue in the consolidated statement of operations. Quality assurance fees assessed and accrued by the Organization related to the thirty-month program during the years ended September 30, 2012, 2013, 2014, and fiscal year-to-date 2015 were $56,914,000, $91,673,000, $14,391,000, and $8,977,000 respectively and were recorded as provider fee expenses in the consolidated statement of operations.

During the years ended September 30, 2012, 2013, 2014, and fiscal year-to-date 2015 Scripps Health was assessed and recorded charitable expenditures related to the thirty-month program to CHFT of $2,010,000, $540,000, $387,000, and ($204,000) respectively.

In FY2015, a net loss of ($3,289,000) has been recognized for the Managed Care portion of the Program.

In September 2013, SB 239 was approved and created a three-year hospital fee program effective January 1, 2014 through December 31, 2016. It is estimated to result in nearly $10 billion in new federal Medi-Cal funding for California hospitals by making supplemental payments for inpatient and outpatient traditional and managed care services, as well as specialty care including trauma, high acuity, inpatient psychiatric, sub-acute care and transplant services.

On December 10, 2014, CHA announced that the Centers for Medicare & Medicaid Services (CMS) approved the fee-for-service payments for CY2014-CY2016. On June 30, 2015 the Centers for Medicare & Medicaid Services approved the non-expansion managed care rates for the first six months of the CY2014-16 hospital fee program. In FY2015, Scripps Health recognized $29,679,000 net income for the fee-for-service component for the program period from January 2014 to June 2015 and a net loss of $1,670,000 from the non-expansion managed care rates for the period from January 1, 2014 to June 30, 2014.