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March 08, 2016

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

- Audited financial statements of the Sutter Health System and Obligated Group
- Continuing Disclosure Annual Report
- 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.

2015

**Audited Financial
Statements**

December 31, 2015



Sutter Health and Affiliates
Consolidated Financial Statements
and
Supplementary Information
Years ended December 31, 2015 and 2014

Contents

Audited Consolidated Financial Statements

Report of Independent Auditors	1
Consolidated Balance Sheets	2
Consolidated Statements of Operations and Changes in Net Assets	3
Consolidated Statements of Cash Flows.....	5
Notes to Consolidated Financial Statements	7

Supplementary Information

Report of Independent Auditors on Supplementary Information	49
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Consolidating Balance Sheet:

Areas, Other and Sutter Health Support Services	50
Sutter Health Bay Area	53
Sutter Health Valley Area	56
Other	59

Consolidating Statement of Operations and Changes in Net Assets:

Areas, Other and Sutter Health Support Services	51
Sutter Health Bay Area	54
Sutter Health Valley Area	57
Other	60

Consolidated Balance Sheets - Sutter Health Obligated Group	62
---	----

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

Obligated Group	63
Consolidated Statements of Cash Flows - Sutter Health Obligated Group	65
Consolidating Balance Sheet - Sutter Health Obligated Group	67
Consolidating Statement of Operations and Changes in Net Assets - Sutter Health Obligated Group	69



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Report of Independent Auditors

The Board of Directors
Sutter Health and Affiliates

We have audited the accompanying consolidated financial statements of Sutter Health and Affiliates, which comprise the consolidated balance sheets as of December 31, 2015 and 2014, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Sutter Health and Affiliates at December 31, 2015 and 2014, and the consolidated results of their operations and changes in net assets, and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Adoption of Accounting Standards Update No. 2015-03, "Interest—Imputation of Interest (Subtopic 835-30) - Simplifying the Presentation of Debt Issuance Costs"

As discussed in Note 2 to the consolidated financial statements, Sutter Health and Affiliates changed its method for presenting debt issuance costs in the consolidated balance sheets as a result of the early adoption of the amendments to the Financial Accounting Standards Board Accounting Standards Codification resulting from Accounting Standards Update No. 2015-03, "Interest—Imputation of Interest (Subtopic 835-30) - Simplifying the Presentation of Debt Issuance Costs," effective December 31, 2015. Our opinion is not modified with respect to this matter.

Ernst & Young LLP

March 8, 2016

Sutter Health and Affiliates

Consolidated Balance Sheets

(Dollars in millions)

	December 31,	
	2015	2014
Assets		
Current assets:		
Cash and cash equivalents	\$ 477	\$ 257
Short-term investments	3,621	4,030
Patient accounts receivable (net of allowance for doubtful accounts of \$144 in 2015 and \$197 in 2014)	1,252	1,105
Other receivables	301	533
Inventories	106	95
Other	135	119
Total current assets	5,892	6,139
Non-current investments	609	655
Property, plant and equipment, net	7,402	7,113
Other	441	365
	<u>\$ 14,344</u>	<u>\$ 14,272</u>
Liabilities and net assets		
Current liabilities:		
Accounts payable	\$ 443	\$ 609
Accrued salaries and related benefits	561	555
Other accrued expenses	549	494
Current portion of long-term obligations	49	22
Total current liabilities	1,602	1,680
Non-current liabilities:		
Long-term obligations, less current portion	3,659	3,733
Other	1,007	867
Net assets:		
Unrestricted controlling	7,581	7,509
Unrestricted noncontrolling	108	79
Temporarily restricted	251	262
Permanently restricted	136	142
	<u>8,076</u>	<u>7,992</u>
	<u>\$ 14,344</u>	<u>\$ 14,272</u>

See accompanying notes.

Sutter Health and Affiliates

Consolidated Statements of Operations and Changes in Net Assets

(Dollars in millions)

	Year ended December 31,	
	2015	2014
Unrestricted net assets:		
Operating revenues:		
Patient service revenues	\$ 9,733	\$ 9,025
Provision for bad debts	(175)	(189)
Patient service revenues less provision for bad debts	9,558	8,836
Capitation revenues	986	922
Contributions	8	9
Other	446	394
Total operating revenues	10,998	10,161
Operating expenses:		
Salaries and employee benefits	4,987	4,585
Purchased services	2,589	2,329
Supplies	1,257	1,125
Depreciation and amortization	619	564
Capitated purchased services	253	246
Rentals and leases	160	151
Interest	121	93
Insurance	12	14
Other	713	635
Total operating expenses	10,711	9,742
Income from operations	287	419
Investment income	78	280
Change in net unrealized gains and losses on investments classified as trading	(220)	(241)
Income	145	458
Less income attributable to noncontrolling interests	(64)	(56)
Income attributable to Sutter Health	81	402

Sutter Health and Affiliates

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

(Dollars in millions)

	Year ended December 31,	
	2015	2014
Unrestricted net assets (continued):		
Unrestricted controlling net assets:		
Income attributable to Sutter Health	\$ 81	\$ 402
Change in net unrealized gains and losses on investments classified as other-than-trading	7	14
Net assets released from restriction for equipment acquisition	14	13
Pension-related changes other than net periodic pension cost	(32)	(764)
Other	2	(2)
Increase (decrease) in unrestricted controlling net assets	72	(337)
Unrestricted noncontrolling net assets:		
Income attributable to noncontrolling interests	64	56
Distributions	(71)	(59)
Other	36	(8)
Increase (decrease) in unrestricted noncontrolling net assets	29	(11)
Temporarily restricted net assets:		
Contributions	33	39
Investment income	6	24
Change in net unrealized gains and losses on investments	(24)	(20)
Net assets released from restriction	(33)	(38)
Other	7	—
(Decrease) increase in temporarily restricted net assets	(11)	5
Permanently restricted net assets:		
Contributions	2	12
Investment income	—	2
Change in net unrealized gains and losses on investments	(1)	(1)
Other	(7)	(1)
(Decrease) increase in permanently restricted net assets	(6)	12
Increase (decrease) in net assets	84	(331)
Net assets, beginning of year	7,992	8,323
Net assets, end of year	\$ 8,076	\$ 7,992

See accompanying notes.

Sutter Health and Affiliates

Consolidated Statements of Cash Flows

(Dollars in millions)

	Year ended December 31,	
	2015	2014
Operating activities		
Increase (decrease) in net assets	\$ 84	\$ (331)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation and amortization	612	542
Amortization of bond issuance (premium) discount, net	(11)	(11)
Change in net unrealized gains and losses on investments	238	248
Provision for doubtful accounts	175	189
Restricted contributions and investment income	(41)	(77)
Loss on impairment of property, plant and equipment	6	15
Loss on impairment of goodwill	—	3
Net gain on disposal of property, plant and equipment	(33)	(22)
Change in net postretirement benefits	121	620
Net changes in operating assets and liabilities:		
Patient accounts receivable and other receivables	(90)	(413)
Inventories and other assets	(86)	(12)
Accounts payable and accrued expenses	(94)	220
Other non-current liabilities	17	59
Net cash provided by operating activities	898	1,030
Investing activities		
Purchases of property, plant and equipment	(898)	(983)
Proceeds from disposal of property, plant and equipment	39	37
Sales and (purchases) or maturities of investments, net	217	(180)
Other	(37)	(72)
Net cash used in investing activities	(679)	(1,198)

Sutter Health and Affiliates

Consolidated Statements of Cash Flows (continued)

(Dollars in millions)

	Year ended December 31,	
	2015	2014
Financing activities		
Payments of long-term obligations	\$ (22)	\$ (18)
Payments for bond refund	(224)	—
Proceeds from issuance of long-term obligations	194	22
Bond issuance costs	(3)	—
Bond issuance premium	15	—
Restricted contributions and investment income	41	77
Net cash provided by financing activities	1	81
Net increase (decrease) in cash and cash equivalents	220	(87)
Cash and cash equivalents at beginning of year	257	344
Cash and cash equivalents at end of year	<u>\$ 477</u>	<u>\$ 257</u>
Supplementary disclosures of cash flow information:		
Cash paid during the year for interest (net of capitalized interest costs of \$49 in 2015 and \$79 in 2014)	<u>\$ 122</u>	<u>\$ 93</u>

See accompanying notes.

Sutter Health and Affiliates

Notes to Consolidated Financial Statements

December 31, 2015 and 2014

(Dollars in millions)

1. ORGANIZATION

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

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

2. ACCOUNTING POLICIES

Basis of Consolidation: The consolidated financial statements include the accounts of Sutter Health and its controlled affiliates and subsidiaries (Sutter). All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates: The preparation of financial statements in conformity with United States (U.S.) Generally Accepted Accounting Principles (GAAP) requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Cash Equivalents: Cash equivalents include all highly liquid investments with original maturities of 90 days or less, including money market accounts with limited market risk, and investment-grade debt instruments, many of which are backed by the U.S. Government or other government agencies. Financial instruments that potentially subject Sutter to concentrations of credit risk include cash equivalents and investments. Cash equivalents are stated at fair market value.

Sutter Health and Affiliates

Notes to Consolidated Financial Statements (continued)

(Dollars in millions)

2. ACCOUNTING POLICIES (continued)

Investments: Investments consist principally of U.S. and foreign equity, corporate and government securities, a multi-strategy hedge fund portfolio and private equity funds, all of which are designated as either trading or other-than-trading and carried at fair market value. Certain investments are held in trust. These include assets held by trustees in accordance with the indentures relating to long-term obligations. In addition, certain investments are designated by the appropriate Sutter governing boards for future capital improvements.

Derivative Instruments: Sutter offsets fair value amounts recognized for certain derivative transactions from contracts executed with the same counterparty under a master netting arrangement. As a result, the net exposure to counterparties is reported as an asset or liability in the consolidated balance sheets.

Cost Method Investments: The aggregate carrying amount of all Sutter cost method investments is \$32 and \$31 as of December 31, 2015 and 2014, respectively. There were no identified events or changes in circumstances which may have had a significant adverse effect on the fair value of these investments and no evaluations for impairment were performed.

Patient Accounts Receivable: Sutter's primary concentration of credit risk is patient accounts receivable, which consist of amounts owed from patients and third-party payers. Sutter manages the receivables by regularly reviewing its patient accounts and contracts and by providing appropriate allowances for uncollectible amounts. These allowances are estimated based upon an evaluation of historical payments, negotiated contracts and governmental reimbursements. Sutter's allowance for doubtful accounts for self-pay patients was 83% and 90% of self-pay accounts receivable at December 31, 2015 and 2014, respectively. Adjustments and changes in estimates are recorded in the period in which they are determined. Significant concentrations of gross patient accounts receivable are as follows:

	December 31,	
	2015	2014
Medicare	30%	29%
Medi-Cal	26%	27%

During 2015 and 2014, certain affiliates collected on accounts that were previously deemed uncollectible and reserved. Such recoveries are recognized in the period that cash

Sutter Health and Affiliates

Notes to Consolidated Financial Statements (continued)

(Dollars in millions)

2. ACCOUNTING POLICIES (continued)

is received and are not material. Due to the inherent variability in the estimation of future patient receivable collections, there is at least a reasonable possibility that the estimation may change by a material amount in the near term.

Inventories: Inventories, which consist principally of medical and other supplies, are stated on the basis of cost determined by the first-in, first-out method, which is not in excess of market.

Property, Plant and Equipment: Property, plant and equipment are stated on the basis of cost, or in the case of donated items, on the basis of fair market value at the date of donation, less depreciation and any impairment write-downs. Equipment includes medical equipment, furniture and fixtures, software, and internally-developed software. Routine maintenance and repairs are charged to expense as incurred. Expenditures that increase values, change capacities or extend useful lives are capitalized, as is interest on amounts borrowed to finance constructed assets during the construction phase. Sutter had accrued obligations for property, plant and equipment of \$78 and \$89 as of December 31, 2015 and 2014, respectively.

Depreciation is computed by the straight-line method over the estimated useful lives of the assets, which range from 3 to 40 years for buildings and improvements and leasehold improvements and from 3 to 20 years for equipment. Amortization of equipment under capital leases is included in depreciation and amortization expense.

Asset Impairment: Sutter routinely evaluates the carrying value of its long-lived assets for impairment. The evaluations address the estimated recoverability of the assets' carrying value, which is principally determined based on a qualitative test using the projected net cash flows generated by the underlying tangible assets. When the carrying value of an asset exceeds estimated recoverability, asset impairment is recognized.

Other Assets: Goodwill represents the excess of purchase price over the fair market value of net assets acquired. Goodwill and other intangible assets acquired in business combinations that have indefinite useful lives are subject to impairment tests. Sutter performs impairment tests at the reporting unit level annually or when events occur that require an evaluation to be performed. If the carrying value of goodwill is determined to be impaired, or if the carrying value of a business that is to be sold or otherwise disposed of exceeds its fair value, then the carrying value is reduced, including any allocated goodwill, to fair value. Estimates of fair value are based on appraisals, established market prices for comparative assets or internal estimates of future net cash flows based on projected performance, depending on circumstances.

Sutter Health and Affiliates

Notes to Consolidated Financial Statements (continued)

(Dollars in millions)

2. ACCOUNTING POLICIES (continued)

Certain affiliates acquired assets of \$48 from six separate purchases, which resulted in an increase to goodwill of \$36 and other assets of \$13 for the year ended December 31, 2015. Sutter recognized \$31 and \$4 in revenue and income, respectively, from these operations for the year ended December 31, 2015. In 2014, an affiliate of Sutter acquired assets for \$52, which resulted in an increase to property, plant, and equipment of \$25, goodwill of \$19, and a covenant not to compete of \$8 during the year ended December 31, 2014. Sutter recognized \$141 and \$22 in revenue and net income, respectively, from these operations for the year ended December 31, 2014.

The changes in the carrying amount of goodwill are as follows:

	Year ended December 31,	
	2015	2014
Goodwill at beginning of year	\$ 108	\$ 92
Additions	36	19
Impairment	—	(3)
Goodwill at end of year	<u>\$ 144</u>	<u>\$ 108</u>

Other Liabilities: Other non-current liabilities consist of (i) insurance liabilities, including estimated liabilities for professional liability and comprehensive general liability losses, and workers' compensation, (ii) the portion of estimated third-party settlements not expected to be settled within a year, (iii) other postretirement benefits liabilities, and (iv) certain other liabilities.

Risk Management: Sutter Health and most affiliates are insured by a wholly owned self-insured captive insurance company for professional liability claims and comprehensive general liability. Sutter is also self-insured for workers' compensation and employee health for most affiliates.

The provisions for estimated professional liability and comprehensive general liability claims, workers' compensation, and employee health include estimates of the ultimate costs for both uninsured reported claims and claims incurred-but-not-reported (IBNR), in accordance with actuarial projections or paid claims lag models based on historical experience. Professional liabilities and comprehensive general liabilities were \$103 and \$110 discounted at a rate of 1.7% and 1.4% as of December 31, 2015 and 2014, respectively. Workers' compensation liabilities were \$248 and \$239 discounted using

Sutter Health and Affiliates

Notes to Consolidated Financial Statements (continued)

(Dollars in millions)

2. ACCOUNTING POLICIES (continued)

rates with ranges of 1.7% to 2.4% and 1.4% to 2.0% as of December 31, 2015 and 2014, respectively. Employee health liabilities were \$45 and \$38 as of December 31, 2015 and 2014, respectively, and were recorded on an undiscounted basis. Such claim reserves are based on the best data available to Sutter; however, these estimates are subject to a significant degree of inherent variability. There is at least a reasonable possibility that a material change to the estimated reserves will occur in the near term. Such estimates are continually monitored and reviewed, and as reserves are adjusted, the differences are reflected in current operations. Management is of the opinion that the associated liabilities recognized in the accompanying consolidated financial statements are adequate to cover such claims.

Sutter has entered into reinsurance, excess, and stop loss policy agreements with independent insurance companies to limit its losses on professional liability, comprehensive general liability, workers' compensation, and employee health claims.

In lieu of a workers' compensation security deposit requirement, Sutter paid assessment charges to participate in the California Self Insurers' Alternative Security Program, which provided coverage of \$259 and \$239 as of December 31, 2015 and 2014, respectively.

Asset Retirement and Environmental Obligations: Sutter has recorded an estimated other non-current liability of \$46 and \$41 at December 31, 2015 and 2014, respectively, related to the fair value of costs for asbestos abatement that will result from Sutter's current plans to renovate and/or demolish certain acute care facilities.

Contingencies: Estimated losses from contingencies are recorded when they are probable and reasonably estimable.

Net Assets: Net resources that are not restricted by donors are included in unrestricted net assets. Gifts of long-lived operating assets, such as property, plant or equipment, are reported as unrestricted net assets and excluded from income. Resources restricted by donors for a specified time or purpose are reported as temporarily restricted net assets.

When the specific purposes are met, either through passage of a stipulated time period or when the purpose for restriction is accomplished, they are released to other operating revenues in the statement of operations and changes in net assets. Resources temporarily restricted by donors for additions to property, plant and equipment are initially reported

Sutter Health and Affiliates

Notes to Consolidated Financial Statements (continued)

(Dollars in millions)

2. ACCOUNTING POLICIES (continued)

as temporarily restricted net assets and are transferred to unrestricted net assets when expended. Donor-imposed restrictions, which stipulate that the resources be maintained permanently, are reported as permanently restricted net assets.

Investment income related to temporarily or permanently restricted net assets is classified as either unrestricted, temporarily restricted, or permanently restricted, based on the intent of the donor.

Patient Service Revenues and Patient Service Revenues less Provision for Bad Debts: Patient service revenues are reported at the estimated net realizable amounts from patients and third-party payers for services rendered, including estimated retroactive adjustments under reimbursement programs with third-party payers. Estimated settlements under third-party reimbursement programs are accrued in the period the related services are rendered and adjusted in future periods, primarily as a result of final cost report settlements with government agencies.

Patient service revenues less provision for bad debts are reported net of the provision for bad debts on the consolidated statement of operations and changes in net assets. Sutter's self-pay write-offs were \$192 and \$287 for 2015 and 2014, respectively.

Patient services revenues, net of contractual allowances and discounts, are as follows:

	Year ended December 31,	
	2015	2014
Government	\$ 3,604	\$ 3,196
Contracted	5,879	5,557
Self-pay and others	250	272
	<u>\$ 9,733</u>	<u>\$ 9,025</u>

Other Revenue: The American Recovery and Reinvestment Act of 2009 included provisions for implementing health information technology under the Health Information Technology for Economic and Clinical Health Act. The provisions were designed to increase the use of electronic health record (EHR) technology and establish the requirements for a Medi-Cal and Medicare incentive payment program beginning in 2011 for eligible providers that adopt and demonstrate meaningful use of certified EHR technology.

Sutter Health and Affiliates

Notes to Consolidated Financial Statements (continued)

(Dollars in millions)

2. ACCOUNTING POLICIES (continued)

Sutter accounts for Medi-Cal and Medicare EHR incentive payments as a gain contingency. For the years ended December 31, 2015 and 2014, Medi-Cal incentives of \$5 and \$3, and Medicare incentives of \$21 and \$32, respectively, were recognized in other revenues upon demonstration of compliance with the meaningful use criteria. A portion of the income from incentive payments is subject to retrospective adjustment, as the incentive payments are calculated using Medicare cost report data that is subject to audit. Additionally, Sutter's compliance with meaningful use criteria is subject to audit by the federal government, which could result in changes to amounts previously recorded.

Purchased Services: Purchased services expense is made up of a wide variety of contracted and other purchased services, including medical group compensation, other professional fees, and repairs and maintenance. Medical group compensation is accrued by Sutter according to professional services agreements between affiliated medical foundations and contracted medical groups.

Capitated Purchased Services: Sutter has agreements with various Health Maintenance Organizations (HMOs) to provide medical services to subscribing participants. Under these agreements, Sutter receives monthly capitation payments based on the number of each HMO's participants that are covered by the contract, regardless of services provided by Sutter. Certain of these agreements also contain provisions whereby additional amounts may be due or paid. Sutter accrues costs for out-of-area services for which Sutter is responsible, when services are rendered under these contracts, including estimates of IBNR claims and amounts receivable/payable under risk-sharing arrangements.

Advertising: Sutter expenses advertising costs as incurred. Advertising expense (included in other operating expenses) was \$21 for the years ended December 31, 2015 and 2014.

Research and Development: Sutter expenses research and development costs as incurred. Research and development expense (included in other operating expenses) was \$45 and \$42 for the years ended December 31, 2015 and 2014, respectively.

Income Taxes: Sutter Health, the legal entity, and many affiliates have been determined to be exempt organizations by the Internal Revenue Service (pursuant to Internal Revenue Code Section 501(c) (3)) and the California Franchise Tax Board (pursuant to California Revenue and Taxation Code 23701(d)) and, generally, are not subject to taxes on income. Certain activities of Sutter are subject to income taxes; however, such

Sutter Health and Affiliates

Notes to Consolidated Financial Statements (continued)

(Dollars in millions)

2. ACCOUNTING POLICIES (continued)

activities are not significant to the consolidated financial statements. With respect to its taxable activities, Sutter records income taxes using the liability method, under which deferred tax assets and liabilities are determined based on the differences between the financial accounting and tax bases of assets and liabilities. Deferred tax assets or liabilities at the end of each period are determined using the currently enacted tax rate expected to apply to taxable income in the periods that the deferred tax asset or liability is expected to be realized or settled.

Sutter recognizes the tax benefit from uncertain tax positions only if it is more likely than not that the tax positions will be sustained on examination by the tax authorities, based on the technical merits of the position. The tax benefit is measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. Sutter recognizes interest and penalties related to income tax matters in operating expenses. At December 31, 2015 and 2014, there were no such uncertain tax positions.

Performance Indicator: “Income” and “Income attributable to Sutter Health” as reflected in the accompanying consolidated statements of operations and changes in net assets are performance indicators. Performance indicators include changes in unrestricted net assets other than net assets released from restriction for equipment acquisition, changes in net unrealized gains and losses on investments classified as other-than-trading, and pension-related changes other than net periodic pension cost.

Adoption of New Accounting Pronouncements: In February 2016 Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-02, *Leases*. The amendments in this update require lessees to put most leases on their balance sheets but recognize expenses on their income statements in a manner similar to today’s accounting. The guidance also eliminates today’s real estate-specific provisions for all entities. Sutter is evaluating the potential impact of this guidance, which will be effective for fiscal year 2019.

In January 2016, FASB issued ASU No. 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*. The amendments in this update will change how entities measure equity investments that do not result in consolidation and are not accounted for under the equity method and how they present changes in the fair value of financial liabilities measured under the fair value option that are attributable to their own credit. The new guidance also changes certain disclosure requirements and other aspects of current US GAAP. It does not change the guidance for classifying and measuring investments in debt securities. Sutter is evaluating the impact of this guidance, which will be effective in 2018.

Sutter Health and Affiliates

Notes to Consolidated Financial Statements (continued)

(Dollars in millions)

2. ACCOUNTING POLICIES (continued)

In September 2015, FASB issued ASU No. 2015-16, *Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments*. The amendments in this update require that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. It also requires that the acquirer record, in the same period's financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. Sutter is evaluating the potential impact of this guidance, which will be effective for fiscal year 2016.

In August 2015, FASB issued ASU No. 2015-14, *Revenue from Contracts with Customers*. The amendments in this update defer the effective date of ASU No. 2014-09 *Revenue from Contracts with Customers*, issued in May 2014. ASU No. 2014-09, clarifies the principles for recognizing revenue and improves financial reporting by creating common revenue recognition guidance for GAAP. The core principle of this guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those good or services. Sutter is evaluating the potential impact of this guidance, which will be effective in 2018.

In July 2015, FASB issued ASU No. 2015-11, *Inventory (Topic 330): Simplifying the Measurement of Inventory*. The amendments in this update apply to all inventory that is measured using first-in, first-out or average cost. The core principle of the guidance requires that an entity measure inventory at the lower of cost and net realizable value. Sutter is evaluating the potential impact of this guidance, which will be effective in 2017.

In May 2015, FASB issued ASU No. 2015-09, *Financial Services-Insurance (Topic 944): Disclosures about Short-Duration Contracts* which applies to all insurance entities that issue short-duration contracts as defined in Topic 944, *Financial Services-Insurance*. The amendments do not apply to the policyholder of short-duration contracts. The core principle of this guidance requires insurance entities to disclose for annual reporting periods additional information about the liability for unpaid claims and claim adjustment expenses. Sutter is evaluating the potential impact of this guidance, which will be effective for fiscal year 2016.

Sutter Health and Affiliates

Notes to Consolidated Financial Statements (continued)

(Dollars in millions)

2. ACCOUNTING POLICIES (continued)

In May 2015, FASB issued ASU No. 2015-07, *Fair Value Measurement (Topic 820) Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)* which removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. The amendments also remove the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value per share practical expedient. Rather, those disclosures are limited to investments for which the entity has elected to measure the fair value using that practical expedient. Sutter early adopted ASU 2015-07 effective June 30, 2015, which has been applied retrospectively.

In April 2015, the FASB issued ASU No. 2015-03, *Interest-Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs* which requires debt issuance costs related to a recognized debt liability to be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. As permitted, Sutter early adopted this standard effective September 30, 2015. The adoption of ASU 2015-03 is a change in accounting principle, which has been applied retrospectively. The nature and reason for this change is a direct result of guidance issued by the FASB that simplifies the presentation of debt issuance costs, including these costs with debt discounts in the balance sheet. Sutter used the transition method, which required reclassification of \$18 in debt issuance costs from other non-current assets to long-term obligations in the December 31, 2014 consolidated balance sheets.

3. INVESTMENTS

Investments are held for the following uses:

	December 31,	
	2015	2014
Assets held in trust:		
Principal, interest and other reserves held in trust		
under bond indentures	\$ 40	\$ 139
Internally designated	293	298
Investments	3,897	4,248
	4,230	4,685
Less short-term investments	(3,621)	(4,030)
Non-current investments	\$ 609	\$ 655

Sutter Health and Affiliates

Notes to Consolidated Financial Statements (continued)

(Dollars in millions)

3. INVESTMENTS (continued)

Investment income includes the following:

	Year ended December 31,	
	2015	2014
Interest and dividends	\$ 84	\$ 94
Investment fees	(18)	(18)
Net realized gain on sales of securities	26	234
	92	310
Amounts included in changes in restricted net assets	(6)	(26)
Interest earned on unspent bond project funds	(8)	(4)
Investment income	\$ 78	\$ 280

Sutter uses the specific identification method to compute realized gains and losses on all investments, except mutual funds, which are computed using the average cost method.

4. 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)

4. FAIR VALUE MEASUREMENTS (continued)

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

	December 31, 2015		
	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Total
Liquid investments			
Cash equivalents	\$ 194	\$ —	\$ 194
Equity securities			
U.S. equity	1,182	—	1,182
Foreign equity	596	—	596
Fixed income securities			
U.S. government	256	—	256
U.S. government agencies	—	43	43
U.S. state and local government	—	29	29
U.S. federal agency mortgage-backed	—	313	313
Foreign government	11	169	180
U.S. corporate	48	537	585
Foreign corporate	2	300	302
	<u>\$ 2,289</u>	<u>\$ 1,391</u>	<u>\$ 3,680</u>
Other investments measured at net asset value			<u>550</u>
			<u><u>\$ 4,230</u></u>

Sutter Health and Affiliates

Notes to Consolidated Financial Statements (continued)

(Dollars in millions)

4. FAIR VALUE MEASUREMENTS (continued)

	December 31, 2014		
	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Total
Liquid investments			
Cash equivalents	\$ 148	\$ —	\$ 148
Equity securities			
U.S. equity	1,326	—	1,326
Foreign equity	610	—	610
Fixed income securities			
U.S. government	177	—	177
U.S. government agencies	—	77	77
U.S. state and local government	—	21	21
U.S. federal agency mortgage-backed	—	388	388
Foreign government	—	294	294
U.S. corporate	46	710	756
Foreign corporate	3	381	384
	\$ 2,310	\$ 1,871	\$ 4,181
Other investments measured at net asset value			504
			<u>\$ 4,685</u>

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

Sutter Health and Affiliates

Notes to Consolidated Financial Statements (continued)

(Dollars in millions)

4. FAIR VALUE MEASUREMENTS (continued)

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

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.

Other Investments Measured at Net Asset Value (NAV): Certain investments that are measured using the NAV per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The NAV amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated balance sheets.

Sutter Health and Affiliates

Notes to Consolidated Financial Statements (continued)

(Dollars in millions)

4. FAIR VALUE MEASUREMENTS (continued)

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

December 31, 2015					
	Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period (if currently eligible)	
Commingled funds – U.S. equity securities	\$ 34	\$ –	Daily	1 day	
Commingled funds – foreign equity securities	40	–	Monthly	30 days	
Commingled funds – debt securities	72	–	Weekly, Monthly	5–15 days	
Commodity-linked funds	34	–	Monthly	5 days	
Multi-strategy hedge fund	202	–	Monthly, Quarterly	15–197 days	
Private equity funds	58	107	None	None	
Private equity real estate funds	110	178	None	None	
Total	<u>\$ 550</u>	<u>\$ 285</u>			

Sutter Health and Affiliates

Notes to Consolidated Financial Statements (continued)

(Dollars in millions)

4. FAIR VALUE MEASUREMENTS (continued)

	December 31, 2014			
	Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period (if currently eligible)
Commingled funds – U.S. equity securities	\$ 32	\$ –	Daily	1 day
Commingled funds – foreign equity securities	45	–	Monthly	30 days
Commingled funds – debt securities	67	–	Weekly, Monthly	0–15 days
Commodity-linked funds	47	–	Monthly	5 days
Multi-strategy hedge fund	223	–	Monthly, Quarterly, Annually	15–197 days
Private equity funds	33	70	None	None
Private equity real estate funds	57	116	None	None
Total	<u>\$ 504</u>	<u>\$ 186</u>		

Commingled Funds – Equity Securities: This class includes investments in commingled funds that invest primarily in U.S. or foreign equity securities and attempt to match the returns of specific equity indices. As of December 31, 2015, approximately 46% of this class is redeemable daily with a 1-day notice period. The remaining 54% of this class is redeemable monthly with a 30-day notice period.

Commingled Funds – Debt Securities: This class includes investments in commingled funds that invest primarily in foreign debt, of which the majority are traded in over-the-counter markets. As of December 31, 2015, approximately 66% of the value of this class is redeemable weekly, with a notice period of 5 days. The remaining 34% of this class is redeemable monthly with a 15-day notice period.

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

Sutter Health and Affiliates

Notes to Consolidated Financial Statements (continued)

(Dollars in millions)

4. FAIR VALUE MEASUREMENTS (continued)

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

% of Multi-Strategy Hedge Fund Portfolio	Redemption Criteria	Notice Period
11%	Redeemable monthly	15–60 days
46%	Redeemable quarterly	45–90 days
38%	Limited to a 25% gate, redeemable quarterly	45–197 days
5%	Three year lock-up expiring in November 2017	65 days

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

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

Sutter Health and Affiliates

Notes to Consolidated Financial Statements (continued)

(Dollars in millions)

5. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

	December 31,	
	2015	2014
Land improvements	\$ 171	\$ 150
Leasehold improvements	355	316
Buildings and improvements	6,502	5,939
Equipment	3,759	3,345
	10,787	9,750
Less amortization and accumulated depreciation	(5,429)	(4,861)
	5,358	4,889
Land	613	612
Construction-in-progress	1,431	1,612
	\$ 7,402	\$ 7,113

6. OTHER ASSETS

Other assets consist of the following:

	December 31,	
	2015	2014
Goodwill, net	\$ 144	\$ 108
Trust receivable	98	97
Reinsurance recoveries receivable	70	66
Non-current portion of pledges receivable	31	32
Other	98	62
	\$ 441	\$ 365

Sutter Health and Affiliates

Notes to Consolidated Financial Statements (continued)

(Dollars in millions)

7. LONG-TERM OBLIGATIONS

Long-term obligations consist of the following:

	December 31,	
	2015	2014
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 premiums and discounts of \$67 and \$64 and debt issuance costs of (\$17) and (\$18) at December 31, 2015 and 2014, respectively)	\$ 3,374	\$ 3,421
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	300
Various collateralized and unsecured obligations	26	26
Obligations under capital leases	8	8
	3,708	3,755
Less current portion	(49)	(22)
	\$ 3,659	\$ 3,733

The aggregate estimated fair market values of Sutter's revenue bonds and certificates of participation at December 31, 2015 and 2014, of \$3,876 and \$3,941, 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),

Sutter Health and Affiliates

Notes to Consolidated Financial Statements (continued)

(Dollars in millions)

7. LONG-TERM OBLIGATIONS (continued)

California Statewide Communities Development Authority (CSCDA) and taxable obligations issued by Sutter. The related financing documents and various other debt agreements contain certain restrictive covenants requiring compliance by all members, including a pledge of gross revenue.

In November 2015, \$189 of Series 2015A CHFFA tax-exempt revenue bonds were issued on behalf of Sutter. The proceeds of the bonds, together with the release of the Series 2005A CSCDA Reserve Account, were used to refund \$224 of Series 2005A CSCDA revenue bonds. The refund did not result in a gain or loss.

In February 2016, \$475 of Series 2016A CHFFA tax-exempt revenue bonds were issued on behalf of Sutter. The proceeds of the bonds will be used to reimburse prior capital expenditures.

Aggregate principal payments of long-term obligations, excluding capital leases, various collateralized and unsecured obligations, net unamortized premiums, and issuance costs are as follows as of December 31, 2015:

2016	\$ 43
2017	45
2018	43
2019	46
2020	48
Thereafter	3,399
	<u>\$ 3,624</u>

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

Sutter Health and Affiliates

Notes to Consolidated Financial Statements (continued)

(Dollars in millions)

8. LEASES

Sutter leases various buildings, office space and equipment. The leases expire at various times and contain certain contingent rental provisions, guarantees and various renewal options. These leases are classified as either capital leases, which were not material as of December 31, 2015 and 2014, or operating leases, based on the terms of the respective agreements.

Future minimum payments, by year and in the aggregate, under noncancellable operating leases with terms of one year or more at inception consist of the following as of December 31, 2015:

	Lease Payments	Sublease Receipts	Net Lease Payments
2016	\$ 135	\$ 8	\$ 127
2017	114	7	107
2018	89	3	86
2019	67	—	67
2020	48	—	48
Thereafter	227	—	227
	<u>\$ 680</u>	<u>\$ 18</u>	<u>\$ 662</u>

9. NET ASSETS AND CONTRIBUTIONS

Sutter receives donations through its philanthropic affiliates from the generosity of donors supporting certain programs and services. Donations with a restriction included in temporarily and permanently restricted net assets were maintained for the following purposes:

	December 31, 2015	2014
Temporarily restricted:		
Capital projects and medical equipment	\$ 48	\$ 49
Time restricted under trust agreements	23	20
Research and education	63	62
Operations	29	37
Operations or capital projects	88	94
	<u>\$ 251</u>	<u>\$ 262</u>
Permanently restricted – endowment	<u>\$ 136</u>	<u>\$ 142</u>

Sutter Health and Affiliates

Notes to Consolidated Financial Statements (continued)

(Dollars in millions)

9. NET ASSETS AND CONTRIBUTIONS (continued)

Unconditional promises to give cash or other assets are reported at fair market value at the date the promises are received. Conditional promises to give and indications of intentions to give are reported at fair market value when the conditions are met. Therefore, no revenue or receivable is recognized at the time a conditional promise is received. Conditional promises were not material as of December 31, 2015 and 2014.

As of December 31, 2015, pledges receivable (included in other receivables and other assets) consisted of the following unconditional promises to give:

Pledges due in 2016	\$	9
Pledges due 2017–2020		27
Pledges due after 2020		12
Less allowance for uncollectible pledges		(2)
Less discount on pledges receivable		(8)
	\$	<u>38</u>

Endowments: Sutter follows the Uniform Prudent Management of Institutional Funds Act (UPMIFA). UPMIFA eliminates the concept of “historic dollar value” and allows an institution to spend or accumulate as the board determines is prudent for the uses, benefits, purposes, and duration of the endowment fund unless the gift instrument states a particular spending rate or formula. California’s version of UPMIFA also includes a rebuttable provision that spending greater than 7% of the average fair market value (calculated at least quarterly over a minimal period of three years) is presumed to be imprudent.

In accordance with UPMIFA, Sutter considers the following factors when appropriating or accumulating an endowment fund: (i) general economic conditions, (ii) effects of inflation and deflation, (iii) the purposes of the institution and the endowment fund, (iv) expected total return from income and appreciation of investments, (v) Sutter’s other resources, (vi) the duration and preservation of the endowment fund, and (vii) Sutter’s investment policies.

Sutter Health and Affiliates

Notes to Consolidated Financial Statements (continued)

(Dollars in millions)

9. NET ASSETS AND CONTRIBUTIONS (continued)

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 Sutter to retain as a fund of perpetual duration. Deficiencies of this nature that are reported in unrestricted net assets were not material as of December 31, 2015 and 2014. These deficiencies resulted from unfavorable investment market fluctuations.

Sutter 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 these policies, as approved by the Boards of Trustees of the philanthropic foundations, 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.

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

The endowment net asset composition by type of fund consists of the following:

December 31, 2015				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ —	\$ 29	\$ 136	\$ 165
Board-designated funds	73	—	—	73
Total funds	\$ 73	\$ 29	\$ 136	\$ 238
December 31, 2014				
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds	\$ —	\$ 44	\$ 142	\$ 186
Board-designated funds	72	—	—	72
Total funds	\$ 72	\$ 44	\$ 142	\$ 258

Sutter Health and Affiliates

Notes to Consolidated Financial Statements (continued)

(Dollars in millions)

9. NET ASSETS AND CONTRIBUTIONS (continued)

The changes in endowment net assets are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance at December 31, 2013	\$ 53	\$ 41	\$ 130	\$ 224
Investment return:				
Investment income	1	3	–	4
Net gain – realized and unrealized	1	3	1	5
Total investment return	2	6	1	9
Contributions	5	–	12	17
Appropriation of endowment assets for expenditure	(1)	(3)	–	(4)
Other changes:				
Other	13	–	(1)	12
Balance at December 31, 2014	72	44	142	258
Investment return:				
Investment income	1	3	–	4
Net loss – realized and unrealized	(4)	(17)	(1)	(22)
Total investment loss	(3)	(14)	(1)	(18)
Contributions	3	–	2	5
Appropriation of endowment assets for expenditure	(1)	(3)	–	(4)
Other changes:				
Other	2	2	(7)	(3)
Balance at December 31, 2015	<u>\$ 73</u>	<u>\$ 29</u>	<u>\$ 136</u>	<u>\$ 238</u>

Sutter Health and Affiliates

Notes to Consolidated Financial Statements (continued)

(Dollars in millions)

10. PATIENT SERVICE AND CAPITATION REVENUES

Sutter has agreements with third-party payers that provide for payments to Sutter at amounts different from its established rates. A summary of the payment arrangements with major third-party payers follows:

- *Medicare* – Inpatient acute care services and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per diagnosis. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Certain inpatient nonacute services and medical education costs related to Medicare beneficiaries are paid based on a cost reimbursement methodology. Sutter is reimbursed for cost-reimbursable items at a tentative rate, with final settlement determined after submission of annual cost reports by Sutter and audits thereof by the Medicare fiscal intermediary. Sutter's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review. Sutter's Medicare cost reports have been audited by the Medicare fiscal intermediary generally through December 31, 2012. The estimated net settlement payables are \$15 and \$38 at December 31, 2015 and 2014, respectively.
- *Medi-Cal* – Inpatient and outpatient services rendered to Medi-Cal program beneficiaries are reimbursed either under contracted rates or reimbursed for cost-reimbursable items at a tentative rate, with final settlement determined after submission of annual cost reports by Sutter and audits thereof by Medi-Cal. Sutter's Medi-Cal cost reports have been audited generally through December 31, 2012. The estimated net settlement payables are \$16 and \$52 at December 31, 2015 and 2014, respectively.

Adjustments from the finalization of prior-year cost reports from both Medicare and Medi-Cal resulted in a decrease to patient service revenues of \$19 and \$8 for the years ended 2015 and 2014, respectively.

Gross patient charges, including charges related to capitated patients, from the Medicare and Medi-Cal programs accounted for the following percentages of Sutter's gross patient service revenues:

	Year ended December 31,	
	2015	2014
Medicare	40%	40%
Medi-Cal	20%	19%

Sutter Health and Affiliates

Notes to Consolidated Financial Statements (continued)

(Dollars in millions)

10. PATIENT SERVICE AND CAPITATION REVENUES (continued)

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 operates an Ethics and Compliance Program, which reviews compliance with government health care program requirements and investigates allegations of non-compliance received from internal and external sources. From time to time, findings may result in repayment of monies previously received from government payers and/or disclosure of such overpayments, including, but not limited to, disclosure to Centers for Medicare and Medicaid Services (CMS) and its contracted agents, or the Office of Inspector General, Department of Health and Human Services. As a result, there is at least a reasonable possibility that the recorded estimates may change by a material amount in the near term.

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

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

Sutter Health and Affiliates

Notes to Consolidated Financial Statements (continued)

(Dollars in millions)

10. PATIENT SERVICE AND CAPITATION REVENUES (continued)

In September 2011, a 30-month hospital fee 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 components of the 30-month Program, and the fee-for-service component received final approval in June 2012. In May and June 2013, 24 months of the managed care component was approved. In December 2014, the final six months of the managed care component was approved. For the year ended December 31, 2014, supplemental payments for the 30-month Program of \$43 are included in patient service revenues, and fees and pledges of \$27 are included in other expenses.

In October 2013, a 36-month hospital fee program was established for the period from January 1, 2014 through December 31, 2016 (the “36-month Program”). The 36-month fee-for-service component was approved in December 2014 and six months of the managed care non-expansion component was approved in June 2015. For the year ended December 31, 2015, supplemental payments of \$382 are included in patient service revenues, and fees and pledges of \$269 are included in other expenses. As of December 31, 2015, supplemental payments of \$127 are included in other receivables, \$63 of fees are included in accounts payable and \$5 of pledges are included in prepaid expenses. For the year ended December 31, 2014, supplemental payments for the 36-month Program of \$335 are included in patient service revenues and other receivables, and fees and pledges of \$242 are included in other expenses and accounts payable.

11. COMMUNITY BENEFIT EXPENSE

Services for the poor and underserved include traditional charity care, which covers health care services provided to persons who meet certain criteria and cannot afford to pay, as well as the unpaid costs of public programs treating Medi-Cal and indigent beneficiaries. Costs are computed based on a relationship of costs to charges. Services for the poor and underserved also include the cost of other services provided to persons who cannot afford health care because of inadequate resources and are uninsured or underinsured, and cash donations on behalf of the poor and needy. Sutter provided charity care services to patients at an estimated cost of \$52 and \$91 for 2015 and 2014, respectively.

Sutter Health and Affiliates

Notes to Consolidated Financial Statements (continued)

(Dollars in millions)

11. COMMUNITY BENEFIT EXPENSE (continued)

Benefits for the broader community include costs of providing the following services: health screenings and other health-related services, training health professionals, educating the community with various seminars and classes, the cost of performing medical research, and the costs associated with providing free clinics and community services. Benefits for the broader community also include contributions Sutter makes to community agencies to fund charitable activities.

The following is a summary of Sutter's estimated costs of providing services to the poor and broader community for the year ended December 31, 2015:

Services for the poor and underserved

Traditional charity care	\$	52
Unpaid costs of public programs:		
Medi-Cal		712
Other public programs		34
Other benefits for the poor and underserved		45
Total services for the poor and underserved		<u>843</u>

Benefits for the broader community

Nonbilled services		32
Education and research		67
Cash and in-kind donations		13
Other community benefits		2
Total benefits for the broader community		<u>114</u>
	\$	<u>957</u>

12. 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 \$297 and \$186 in 2015 and 2014, respectively.

Sutter Health and Affiliates

Notes to Consolidated Financial Statements (continued)

(Dollars in millions)

12. POSTRETIREMENT BENEFITS (continued)

Sutter's measurement date for plan assets, pension obligations and net periodic pension cost associated with the Retirement Plan is December 31. The changes in benefit obligations and plan assets for the Retirement Plan are as follows:

	Year ended December 31,	
	2015	2014
Projected benefit obligation at beginning of year	\$ 3,334	\$ 2,569
Service cost	237	188
Interest cost	146	137
Actuarial (gain) loss	(258)	554
Benefits paid	(113)	(114)
Projected benefit obligation at measurement date	\$ 3,346	\$ 3,334
Fair value of plan assets at beginning of year	\$ 3,206	\$ 3,040
Actual (loss) gain on plan assets	(94)	40
Employer contributions	100	240
Benefits paid	(113)	(114)
Fair value of plan assets at measurement date	\$ 3,099	\$ 3,206
Net accrued benefit cost at end of year	\$ (247)	\$ (128)

The accumulated benefit obligation for the Retirement Plan was \$2,957 and \$2,914 at December 31, 2015 and 2014, respectively.

Included in net assets at December 31, 2015 and 2014, are the following amounts that have not yet been recognized in net periodic benefit cost: unrecognized prior service costs of \$0 and \$2, respectively, and unrecognized actuarial losses of \$831 and \$802, respectively. The amounts included in net assets that are expected to be recognized in net periodic benefit cost during the year ended December 31, 2016, are \$0 for prior service cost and \$52 for actuarial loss.

Sutter Health and Affiliates

Notes to Consolidated Financial Statements (continued)

(Dollars in millions)

12. POSTRETIREMENT BENEFITS (continued)

The benefits expected to be paid from the Retirement Plan in each of the next five years, and in the aggregate for the next five years are as follows:

2016	\$	116
2017		131
2018		146
2019		165
2020		179
2021–2025		1,153
	\$	<u>1,890</u>

The actuarial assumptions used by the Retirement Plan are as follows:

	December 31,	
	2015	2014
Weighted-average discount rates for calculating pension expense	4.2%	5.1%
Weighted-average discount rates for calculating projected benefit obligation	4.6%	4.2%
Weighted-average rates of compensation increase for calculating pension expense	4.0%	4.0%
Weighted-average rates of compensation increase for calculating projected benefit obligation	4.0%	4.0%
Expected long-term rates of return on plan assets for calculating pension expense	7.7%	7.9%

As of December 31, 2014, the healthy mortality assumption reflected Table RP2014, without collar or amount adjustments, with generational projection using Scale MP2014. As of December 31, 2015, the healthy base mortality table continued to reflect RP2014 (adjusted back to 2006) while the mortality projection scale was updated to MP2015 with adjustments to the long-term rate of improvement at 0.75% grading down to 0.00% from age 85-115 and a 10-year convergence period from 2010 to 2020.

Sutter Health and Affiliates

Notes to Consolidated Financial Statements (continued)

(Dollars in millions)

12. POSTRETIREMENT BENEFITS (continued)

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

	Year ended December 31,	
	2015	2014
Service cost	\$ 237	\$ 188
Interest cost	146	137
Expected return on plan assets	(243)	(235)
Amortization of prior service cost	2	6
Amortization of actuarial loss	50	—
	<u>\$ 192</u>	<u>\$ 96</u>

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

	Year ended December 31,	
	2015	2014
Projected benefit obligation at beginning of year	\$ 237	\$ 213
Service cost	12	10
Interest cost	9	10
Actuarial (gain) loss	(16)	15
Other change in benefit obligation	9	(2)
Benefits paid	(10)	(9)
Projected benefit obligation at measurement date	<u>\$ 241</u>	<u>\$ 237</u>
Fair value of plan assets at beginning of year	\$ 152	\$ 149
Actual (loss) gain on plan assets	(4)	3
Employer contributions	16	9
Benefits paid	(10)	(9)
Fair value of plan assets at measurement date	<u>\$ 154</u>	<u>\$ 152</u>
Net accrued benefit cost at end of year	<u>\$ (87)</u>	<u>\$ (85)</u>

An additional contribution to the Health Plans was made in February 2016 for the 2015 plan year of \$10.

Sutter Health and Affiliates

Notes to Consolidated Financial Statements (continued)

(Dollars in millions)

12. POSTRETIREMENT BENEFITS (continued)

Included in net assets at December 31, 2015 and 2014, are the following amounts that have not yet been recognized in net periodic benefit cost: unrecognized prior service costs of \$10 and \$6, respectively, and unrecognized actuarial loss of \$14 and \$14, respectively. The amounts included in net assets that are expected to be recognized in net periodic benefit cost during the year ended December 31, 2016, are \$2 for prior service cost and \$0 for actuarial gain.

The benefits expected to be paid from the Health Plans in each of the next five years, and in the aggregate for the next five years are as follows:

2016	\$	14
2017		16
2018		18
2019		20
2020		22
2021–2025		113
	\$	<u>203</u>

The actuarial assumptions used by the Health Plans are as follows:

	December 31,	
	2015	2014
Weighted-average discount rates for calculating retiree medical expense	3.8%–4.1%	4.5%–4.9%
Weighted-average discount rates for calculating projected benefit obligation	4.2%–4.5%	3.8%–4.1%
Expected long-term rates of return on plan assets for calculating retiree medical expense	7.7%	7.9%

Sutter Health and Affiliates

Notes to Consolidated Financial Statements (continued)

(Dollars in millions)

12. POSTRETIREMENT BENEFITS (continued)

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

	Year ended December 31,	
	2015	2014
Service cost	\$ 12	\$ 10
Interest cost	9	10
Expected return on plan assets	(12)	(12)
Amortization of prior service cost	3	3
Amortization of actuarial gain	–	(1)
Other	1	–
	\$ 13	\$ 10

Sutter's projected medical cost trend rate related to the Health Plans for 2016 is 6.0%. The assumed medical cost trend rate is expected to gradually decrease in subsequent years to 4.8% in 2023 and thereafter. A one-percentage-point change in assumed health care cost trend rates would not have a material effect on Sutter's consolidated financial statements.

The Pension and Investment Committee of the Board of Directors oversees the assets of the Retirement Plan and the Health Plans. Management of the assets is governed by the application of modern portfolio theory, resulting in asset class diversification and mean-variance optimization. Sutter's investment strategy is to balance the liquidity needs of the plans with the long-term return goals necessary to satisfy future obligations.

Sutter Health and Affiliates

Notes to Consolidated Financial Statements (continued)

(Dollars in millions)

12. POSTRETIREMENT BENEFITS (continued)

The target asset allocation seeks to reduce volatility while capturing the equity premium from the capital markets over the long-term and maintaining security of principal to meet near-term expenses and obligations. The target asset allocation at December 31, 2015, by major asset category is as follows:

Major Asset Category	Target Allocation 2015
Cash and cash equivalents	1%
Equity securities	59%
Fixed income securities	18%
Other investments – alternative	12%
Real estate investments	10%
Total	100%

Equity securities are comprised of U.S. and foreign equity securities, common and collective trusts, and commingled funds. The equity securities' target asset allocation of 59% is further comprised of 26% domestic large capitalization, 6% domestic small capitalization and 27% international/global.

The portfolio return assumption of 7.7% and 7.9% for 2015 and 2014, respectively, was based on the weighted-average return of comparative market indices for the major asset classes represented in the portfolio, net of administrative expenses.

Sutter Health and Affiliates

Notes to Consolidated Financial Statements (continued)

(Dollars in millions)

12. POSTRETIREMENT BENEFITS (continued)

A fair value hierarchy has been established, with three levels that prioritize the valuation inputs into each level (see Note 4). The fair value and NAV of the Retirement Plan and the Health Plans' assets measured on a recurring basis consists of the following:

	December 31, 2015			
	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Net Asset Value (NAV)	Total Balance at December 31, 2015
Liquid investments:				
Cash equivalents	\$ 51	\$ —	\$ 63	\$ 114
Equity securities:				
U.S. equity	932	—	—	932
Foreign equity	828	—	14	842
Common collective trusts and commingled funds	—	—	302	302
Fixed income securities:				
U.S. government and agencies	80	9	—	89
U.S. federal agency mortgage-backed	—	76	—	76
Foreign government	5	132	—	137
U.S. corporate	—	142	—	142
Foreign corporate	—	79	—	79
Other investments:				
Private equity funds	—	—	237	237
Private equity real estate funds	—	—	244	244
Commodity-linked funds	—	—	53	53
Accrued Income	6	—	—	6
Total Retirement Plan and Health Plan assets	\$ 1,902	\$ 438	\$ 913	\$ 3,253

Sutter Health and Affiliates

Notes to Consolidated Financial Statements (continued)

(Dollars in millions)

12. POSTRETIREMENT BENEFITS (continued)

	December 31, 2014			
	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Net Asset Value (NAV)	Total Balance at December 31, 2014
Liquid investments:				
Cash equivalents	\$ 14	\$ —	\$ 104	\$ 118
Equity securities:				
U.S. equity	991	—	—	991
Foreign equity	870	—	—	870
Common collective trusts and commingled funds	—	—	261	261
Fixed income securities:				
U.S. government and agencies	82	17	—	99
U.S. federal agency mortgage-backed	—	77	—	77
Foreign government	—	129	—	129
U.S. corporate	—	165	—	165
Foreign corporate	—	118	24	142
Other investments:				
Private equity funds	—	—	216	216
Private equity real estate funds	—	—	231	231
Commodity-linked funds	—	—	52	52
Accrued Income	7	—	—	7
	<u>\$ 1,964</u>	<u>\$ 506</u>	<u>\$ 888</u>	<u>\$ 3,358</u>

There were no transfers to or from Levels 1 or 2 during the years presented.

Sutter Health and Affiliates

Notes to Consolidated Financial Statements (continued)

(Dollars in millions)

12. POSTRETIREMENT BENEFITS (continued)

Certain affiliates participate in multiemployer defined benefit retirement plans as described below:

Plan	Pension Plan Employer Identification Number/Plan Number	Pension Protection Act Zone Status		Funding Improvement/ Rehabilitation Plan
		As of January 1, 2015	2014	
Retirement Plan for Hospital Employees	94-2995676/001	Green	Green	N/A
I.U.O.E Stationary Engineers Local 39 Pension Plan	94-6118939/001	Green	Green	Implemented

Pension Protection Act Zone Status (from worst to best):

Critical Status	Red
Seriously Endangered	Orange
Endangered	Yellow
None of the above	Green

Plan	Contributions			Surcharge Imposed (during 2015)	Collective Bargaining Agreement Expiration Date	Contributions to Plan Exceeded More than 5% of Total Contributions
	2016 (expected)	2015	2014			
Retirement Plan for Hospital Employees	\$ 19	\$ 24	\$ 11	No	April 30, 2020, or prior	2015 and 2014
I.U.O.E Stationary Engineers Local 39 Pension Plan	Not Available	3	3	No	October 31, 2017, or prior	No
Total contributions	\$	27	\$ 14			

Sutter Health and Affiliates

Notes to Consolidated Financial Statements (continued)

(Dollars in millions)

12. POSTRETIREMENT BENEFITS (continued)

For the two participating affiliates in the Retirement Plan for Hospital Employees, participant benefits were frozen for the non-contractual employees on January 1, 2011, and for the contractual employees on January 1, 2014. Both affiliates will continue to make periodic contributions as needed for eligible participants.

There are no minimum contributions required for future periods by the collective-bargaining agreements, statutory obligations, or other contractual obligations for both plans.

The risks of participating in multiemployer plans are different from single-employer plans in the following aspects: (i) assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers; (ii) if a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers; and (iii) if the affiliates choose to stop participating in the multiemployer plan, the affiliates may be required to pay the plan an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

Sutter also maintains various defined contribution plans for eligible employees. Sutter's contributions to such plans were \$65 and \$66 in 2015 and 2014, respectively.

13. FUNCTIONAL CLASSIFICATION OF EXPENSES

The following is a functional classification of Sutter's expenses:

	Year ended December 31,	
	2015	2014
Health services	\$ 9,645	\$ 8,834
General and administrative	1,066	908
	<u>\$ 10,711</u>	<u>\$ 9,742</u>

Sutter Health and Affiliates

Notes to Consolidated Financial Statements (continued)

(Dollars in millions)

14. 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 for amounts that did not have a material adverse effect on Sutter's consolidated financial position or results of operations. On June 3, 2014, the appellate court affirmed the trial court's denial of class certification and the appeal period has expired. All additional individual lawsuits related to these complaints were dismissed on February 26, 2016 for failure to prosecute within the applicable statute of limitations.

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 estimate the cost of these proposed modifications. There can be no assurance that the resolution of these matters will not have a material adverse effect on Sutter's consolidated financial position or results of operations.

As a part of its compliance activities, Sutter performed an internal compliance audit related to certain physician arrangements of certain affiliates. 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. The resolution of this matter is currently on hold as there is potential overlap with the regulatory investigation noted below. Any settlements are not expected to have a material adverse effect on Sutter's consolidated financial position or results of operations.

In February 2015, Sutter received notification of a regulatory investigation regarding certain physician financial arrangements. The investigation spans a timeframe beginning

Sutter Health and Affiliates

Notes to Consolidated Financial Statements (continued)

(Dollars in millions)

14. CONTINGENCIES AND COMMITMENTS (continued)

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

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

Sutter management is aware of two potentially material privacy and security incidents within Sutter. The affiliates in each of these matters have taken action to notify affected patients and continue to coordinate with relevant state and federal agencies. The first involves a stolen computer with limited data on approximately 4.25 million patients. Sutter received notice that it and certain affiliates were named in multiple state and federal class action lawsuits related to the stolen computer, claiming private class-wide damages for data breaches. In July 2014, the appellate court dismissed the lawsuits, determining that the claims could not continue as no actual breach of confidentiality had occurred. Plaintiffs filed a petition for review with the California Supreme Court, which was denied and the class action lawsuits have now been dismissed. The second involves an incident caused when a former employee took paper and electronic patient information involving approximately 2,701 Sutter patients without authorization. No penalties have been assessed and no class action lawsuit has been filed. While each of the privacy and security incidents referenced above are in a different stage, future penalties may be assessed by regulatory agencies and additional patients may file private legal causes of action. There can be no assurance that any future penalties or private legal causes of action related to these privacy and security incidents, 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

Sutter Health and Affiliates

Notes to Consolidated Financial Statements (continued)

(Dollars in millions)

14. CONTINGENCIES AND COMMITMENTS (continued)

and anti-referral statutes, and regulations by health care providers. Certain Sutter affiliates have received, and are in the process of responding to, requests from governmental agencies, including the Department of Justice, the California Attorney General, the California Department of Public Health and the Office of Civil Rights. Sutter is also involved in other litigation, as both plaintiff and defendant, and other routine labor matters, class-action complaints, tax examinations, security events resulting in potential privacy incidents and regulatory investigations and examinations arising in the ordinary course of business. There can be no assurance that the resolution of these matters will not have a material adverse effect on Sutter's consolidated financial position or results of operations.

As of December 31, 2015, Sutter had approximately 52,000 employees, of whom approximately 32,000 are full-time employees. Approximately 25% of these 52,000 employees are employed by 26 Sutter facilities and are represented by collective bargaining units. Of these employees, 9% are represented by collective bargaining agreements that expired from September 30, 2014 to December 31, 2015 and are in the process of being negotiated. Employee strikes or other adverse labor actions may have a material adverse impact on Sutter's consolidated financial position or results of operations.

Commitments: Sutter is required to remediate certain of its health care facilities to comply with earthquake retrofit requirements under a State of California law. Most of Sutter's facilities are compliant or have received extensions, making the facilities compliant until 2030, and Sutter is evaluating its facilities and is considering all options. On July 9, 2013, the City and County of San Francisco (CCSF) approved two projects proposed by Sutter West Bay Hospitals (SWBH), doing business as California Pacific Medical Center (CPMC). Pursuant to these approvals, SWBH is building a new hospital at Van Ness and Geary and a new hospital at 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 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 \$21 as of December 31, 2015. The remaining estimated cost of development and construction is approximately \$1,830 (unaudited) for these two facilities, a parking lot, and tenant improvements associated with a new medical office building adjacent to the new hospital at Van Ness and Geary.

Sutter Health and Affiliates

Notes to Consolidated Financial Statements (continued)

(Dollars in millions)

14. CONTINGENCIES AND COMMITMENTS (continued)

Sutter's capital allocation plan, which includes amounts for seismic retrofits, replacements, and relocations, is approximately \$4,579 (unaudited) from January 1, 2016 to December 31, 2020. Management and the Board of Directors evaluate Sutter's capital needs on an ongoing basis.

15. SUBSEQUENT EVENTS

Sutter has evaluated subsequent events and disclosed all material events through March 8, 2016, which is the date these consolidated financial statements were issued.

Report of Independent Auditors on Supplementary Information

The Board of Directors
Sutter Health and Affiliates

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidating financial statement schedules for Sutter Health and the Sutter Health – Obligated Group consolidated financial statements with consolidating details are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Ernst & Young LLP

March 8, 2016

Sutter Health and Affiliates
Consolidating Balance Sheet - Areas, Other and Sutter Health Support Services
December 31, 2015
(Dollars in millions)

	Sutter Health Bay Area	Sutter Health Valley Area	Other	Sutter Health Support Services	Adjustments and Eliminations	Consolidated
Assets						
Current assets:						
Cash and cash equivalents	\$ 312	\$ 175	\$ 30	\$ 138	\$ (178)	\$ 477
Short-term investments	312	41	16	3,074	178	3,621
Patient accounts receivable, net	703	476	68	21	(16)	1,252
Other receivables	173	97	20	229	(218)	301
Inventories	54	46	3	3	-	106
Other	31	22	3	80	(1)	135
Total current assets	1,585	857	140	3,545	(235)	5,892
Non-current investments	395	52	12	150	-	609
Property, plant and equipment, net	4,639	1,988	28	747	-	7,402
Other	115	71	3	336	(84)	441
	<u>\$ 6,734</u>	<u>\$ 2,968</u>	<u>\$ 183</u>	<u>\$ 4,778</u>	<u>\$ (319)</u>	<u>\$ 14,344</u>
Liabilities and net assets						
Current liabilities:						
Accounts payable	\$ 145	\$ 85	\$ 21	\$ 192	\$ -	\$ 443
Accrued salaries and related benefits	250	157	24	129	1	561
Other accrued expenses	307	193	34	299	(284)	549
Current portion of long-term obligations	25	18	-	5	1	49
Total current liabilities	727	453	79	625	(282)	1,602
Non-current liabilities:						
Long-term obligations, less current portion	2,234	1,259	13	154	(1)	3,659
Other	56	16	2	929	4	1,007
Net assets:						
Unrestricted controlling	3,356	1,195	87	2,995	(52)	7,581
Unrestricted noncontrolling	15	6	-	75	12	108
Temporarily restricted	217	33	2	-	(1)	251
Permanently restricted	129	6	-	-	1	136
	<u>3,717</u>	<u>1,240</u>	<u>89</u>	<u>3,070</u>	<u>(40)</u>	<u>8,076</u>
	<u>\$ 6,734</u>	<u>\$ 2,968</u>	<u>\$ 183</u>	<u>\$ 4,778</u>	<u>\$ (319)</u>	<u>\$ 14,344</u>

Sutter Health and Affiliates
Consolidating Statement of Operations and Changes in Net Assets - Areas, Other and Sutter Health Support Services
Year ended December 31, 2015
(Dollars in millions)

	Sutter Health Bay Area	Sutter Health Valley Area	Other	Sutter Health Support Services	Adjustments and Eliminations	Consolidated
Unrestricted net assets:						
Operating revenues:						
Patient service revenues	\$ 5,762	\$ 3,535	\$ 347	\$ 154	\$ (65)	\$ 9,733
Provision for bad debts	(78)	(88)	(11)	3	(1)	(175)
Patient service revenues less provision for bad debts	5,684	3,447	336	157	(66)	9,558
Capitation revenues	441	544	11	-	(10)	986
Contributions	7	1	-	-	-	8
Other	305	78	100	1,160	(1,197)	446
Total operating revenues	6,437	4,070	447	1,317	(1,273)	10,998
Operating expenses:						
Salaries and employee benefits	2,505	1,590	257	721	(86)	4,987
Purchased services	1,926	1,188	85	380	(990)	2,589
Supplies	664	505	34	54	-	1,257
Depreciation and amortization	371	183	7	136	(78)	619
Capitated purchased services	107	162	-	-	(16)	253
Rentals and leases	78	50	9	25	(2)	160
Interest	89	49	2	(18)	(1)	121
Insurance	33	22	1	7	(51)	12
Other	357	226	89	75	(34)	713
Total operating expenses	6,130	3,975	484	1,380	(1,258)	10,711
Income (loss) from operations	307	95	(37)	(63)	(15)	287
Investment income	21	3	-	53	1	78
Change in net unrealized gains and losses on investments classified as trading	(3)	-	-	(217)	-	(220)
Income (loss)	325	98	(37)	(227)	(14)	145
Less income attributable to noncontrolling interests	(20)	(3)	-	(27)	(14)	(64)
Income (loss) attributable to Sutter Health	305	95	(37)	(254)	(28)	81

Sutter Health and Affiliates
Consolidating Statement of Operations and Changes in Net Assets - Areas, Other and Sutter Health Support Services (continued)
Year ended December 31, 2015
(Dollars in millions)

	Sutter Health Bay Area	Sutter Health Valley Area	Other	Sutter Health Support Services	Adjustments and Eliminations	Consolidated
Unrestricted net assets (continued):						
Unrestricted controlling net assets:						
Income (loss) attributable to Sutter Health	\$ 305	\$ 95	\$ (37)	\$ (254)	\$ (28)	\$ 81
Change in net unrealized gains and losses on investments classified as other-than-trading	(28)	(5)	(1)	40	1	7
Net assets released from restriction for equipment acquisition	10	5	-	-	(1)	14
Pension-related changes other than net periodic pension cost	-	-	-	(32)	-	(32)
Transfers with related entities, net	(72)	(72)	9	135	-	-
Other	(3)	-	2	(19)	22	2
Increase (decrease) in unrestricted controlling net assets	212	23	(27)	(130)	(6)	72
Unrestricted noncontrolling net assets:						
Income attributable to noncontrolling interests	20	3	-	27	14	64
Distributions	(19)	(3)	-	(50)	1	(71)
Other	2	-	-	49	(15)	36
Increase (decrease) in unrestricted noncontrolling net assets	3	-	-	26	-	29
Temporarily restricted net assets:						
Contributions	25	7	1	-	-	33
Investment income	6	-	-	-	-	6
Change in net unrealized gains and losses on investments	(23)	-	-	-	(1)	(24)
Net assets released from restriction	(24)	(9)	-	-	-	(33)
Other	7	-	-	-	-	7
Increase (decrease) in temporarily restricted net assets	(9)	(2)	1	-	(1)	(11)
Permanently restricted net assets:						
Contributions	1	-	-	-	1	2
Investment income	1	-	-	-	(1)	-
Change in net unrealized gains and losses on investments	(1)	-	-	-	-	(1)
Other	(7)	-	-	-	-	(7)
Increase (decrease) in permanently restricted net assets	(6)	-	-	-	-	(6)
Increase (decrease) in net assets	200	21	(26)	(104)	(7)	84
Net assets, beginning of year	3,517	1,219	115	3,174	(33)	7,992
Net assets, end of year	\$ 3,717	\$ 1,240	\$ 89	\$ 3,070	\$ (40)	\$ 8,076

Sutter Health and Affiliates
Consolidating Balance Sheet - Sutter Health Bay Area
December 31, 2015
(Dollars in millions)

	Mills-Peninsula Health Services and Affiliates	Sutter East Bay Hospitals and Affiliates	Sutter Medical Center Castro Valley	Sutter West Bay Hospitals and Affiliates	Palo Alto Medical Foundation for Health Care, Research and Education	Sutter East Bay Medical Foundation	Sutter Pacific Medical Foundation	Adjustments and Eliminations	Consolidated
Assets									
Current assets:									
Cash and cash equivalents	\$ 32	\$ 92	\$ 3	\$ 35	\$ 129	\$ 15	\$ 5	\$ 1	\$ 312
Short-term investments	14	132	-	142	24	-	-	-	312
Patient accounts receivable, net	73	181	57	237	129	9	17	-	703
Other receivables	16	94	25	78	31	5	38	(114)	173
Inventories	11	16	4	19	4	-	-	-	54
Other	9	9	1	7	4	-	1	-	31
Total current assets	155	524	90	518	321	29	61	(113)	1,585
Non-current investments	12	94	-	255	35	-	-	(1)	395
Property, plant and equipment, net	637	657	333	1,817	1,113	44	38	-	4,639
Other	12	11	2	48	24	3	15	-	115
	<u>\$ 816</u>	<u>\$ 1,286</u>	<u>\$ 425</u>	<u>\$ 2,638</u>	<u>\$ 1,493</u>	<u>\$ 76</u>	<u>\$ 114</u>	<u>\$ (114)</u>	<u>\$ 6,734</u>
Liabilities and net assets									
Current liabilities:									
Accounts payable	\$ 14	\$ 32	\$ 6	\$ 58	\$ 22	\$ 2	\$ 10	\$ 1	\$ 145
Accrued salaries and related benefits	27	49	11	83	75	2	4	(1)	250
Other accrued expenses	37	114	35	97	92	16	28	(112)	307
Current portion of long-term obligations	-	10	12	3	-	-	-	-	25
Total current liabilities	78	205	64	241	189	20	42	(112)	727
Non-current liabilities:									
Long-term obligations, less current portion	506	420	275	402	632	-	-	(1)	2,234
Other	4	27	1	12	8	1	3	-	56
Net assets:									
Unrestricted controlling	195	528	85	1,815	610	55	69	(1)	3,356
Unrestricted noncontrolling	-	10	-	6	-	-	-	(1)	15
Temporarily restricted	26	49	-	97	44	-	-	1	217
Permanently restricted	7	47	-	65	10	-	-	-	129
	<u>228</u>	<u>634</u>	<u>85</u>	<u>1,983</u>	<u>664</u>	<u>55</u>	<u>69</u>	<u>(1)</u>	<u>3,717</u>
	<u>\$ 816</u>	<u>\$ 1,286</u>	<u>\$ 425</u>	<u>\$ 2,638</u>	<u>\$ 1,493</u>	<u>\$ 76</u>	<u>\$ 114</u>	<u>\$ (114)</u>	<u>\$ 6,734</u>

Sutter Health and Affiliates
Consolidating Statement of Operations and Changes in Net Assets - Sutter Health Bay Area
Year ended December 31, 2015
(Dollars in millions)

	Mills-Peninsula Health Services and Affiliates	Sutter East Bay Hospitals and Affiliates	Sutter Medical Center Castro Valley	Sutter West Bay Hospitals and Affiliates	Palo Alto Medical Foundation for Health Care, Research and Education	Sutter East Bay Medical Foundation	Sutter Pacific Medical Foundation	Adjustments and Eliminations	Consolidated
Unrestricted net assets:									
Operating revenues:									
Patient service revenues	\$ 581	\$ 1,328	\$ 344	\$ 1,646	\$ 1,609	\$ 114	\$ 210	\$ (70)	\$ 5,762
Provision for bad debts	(7)	(24)	(13)	(3)	(22)	(4)	(4)	(1)	(78)
Patient service revenues less provision for bad debts	574	1,304	331	1,643	1,587	110	206	(71)	5,684
Capitation revenues	46	10	-	55	279	30	20	1	441
Contributions	2	1	-	1	3	-	-	-	7
Other	38	85	11	107	60	25	38	(59)	305
Total operating revenues	660	1,400	342	1,806	1,929	165	264	(129)	6,437
Operating expenses:									
Salaries and employee benefits	274	669	150	873	512	29	70	(72)	2,505
Purchased services	123	296	66	373	859	110	147	(48)	1,926
Supplies	65	173	31	187	169	11	29	(1)	664
Depreciation and amortization	60	74	28	110	79	6	14	-	371
Capitated purchased services	15	2	-	11	62	12	5	-	107
Rentals and leases	5	7	3	20	31	6	14	(8)	78
Interest	17	19	10	14	24	1	2	2	89
Insurance	4	12	2	11	3	-	1	-	33
Other	47	123	28	116	39	2	4	(2)	357
Total operating expenses	610	1,375	318	1,715	1,778	177	286	(129)	6,130
Income (loss) from operations	50	25	24	91	151	(12)	(22)	-	307
Investment income	1	4	-	14	2	-	-	-	21
Change in net unrealized gains and losses on investments classified as trading	-	(3)	-	-	-	-	-	-	(3)
Income (loss)	51	26	24	105	153	(12)	(22)	-	325
Less income attributable to noncontrolling interests	-	(7)	-	(13)	-	-	-	-	(20)
Income (loss) attributable to Sutter Health	51	19	24	92	153	(12)	(22)	-	305

Sutter Health and Affiliates
Consolidating Statement of Operations and Changes in Net Assets - Sutter Health Bay Area (continued)
Year ended December 31, 2015
(Dollars in millions)

	Mills-Peninsula Health Services and Affiliates	Sutter East Bay Hospitals and Affiliates	Sutter Medical Center Castro Valley	Sutter West Bay Hospitals and Affiliates	Palo Alto Medical Foundation for Health Care, Research and Education	Sutter East Bay Medical Foundation	Sutter Pacific Medical Foundation	Adjustments and Eliminations	Consolidated
Unrestricted net assets (continued):									
Unrestricted controlling net assets:									
Income (loss) attributable to Sutter Health	\$ 51	\$ 19	\$ 24	\$ 92	\$ 153	\$ (12)	\$ (22)	\$ -	\$ 305
Change in net unrealized gains and losses on investments classified as other-than-trading	(1)	2	-	(28)	-	-	-	(1)	(28)
Net assets released from restriction for equipment acquisition	2	3	-	4	-	-	-	1	10
Pension-related changes other than net periodic pension cost	-	-	-	-	-	-	-	-	-
Transfers with related entities, net	(74)	5	(29)	168	(183)	18	22	1	(72)
Other	-	-	-	-	-	-	(1)	(2)	(3)
Increase (decrease) in unrestricted controlling net assets	(22)	29	(5)	236	(30)	6	(1)	(1)	212
Unrestricted noncontrolling net assets:									
Income attributable to noncontrolling interests	-	7	-	13	-	-	-	-	20
Distributions	-	(6)	-	(12)	-	-	-	(1)	(19)
Other	-	2	-	-	-	-	-	-	2
Increase (decrease) in unrestricted noncontrolling net assets	-	3	-	1	-	-	-	(1)	3
Temporarily restricted net assets:									
Contributions	3	1	-	12	9	-	-	-	25
Investment income	1	1	-	3	1	-	-	-	6
Change in net unrealized gains and losses on investments	(1)	(11)	-	(10)	(1)	-	-	-	(23)
Net assets released from restriction	(4)	(6)	-	(12)	(2)	-	-	-	(24)
Other	-	6	-	-	-	-	-	1	7
Increase (decrease) in temporarily restricted net assets	(1)	(9)	-	(7)	7	-	-	1	(9)
Permanently restricted net assets:									
Contributions	-	1	-	-	-	-	-	-	1
Investment income	-	1	-	-	-	-	-	-	1
Change in net unrealized gains and losses on investments	-	(1)	-	-	-	-	-	-	(1)
Other	-	(7)	-	-	-	-	-	-	(7)
Increase (decrease) in permanently restricted net assets	-	(6)	-	-	-	-	-	-	(6)
Increase (decrease) in net assets	(23)	17	(5)	230	(23)	6	(1)	(1)	200
Net assets, beginning of year	251	617	90	1,753	687	49	70	-	3,517
Net assets, end of year	\$ 228	\$ 634	\$ 85	\$ 1,983	\$ 664	\$ 55	\$ 69	\$ (1)	\$ 3,717

Sutter Health and Affiliates
Consolidating Balance Sheet - Sutter Health Valley Area
December 31, 2015
(Dollars in millions)

	Sutter Central Valley Hospitals and Affiliates	Sutter Health Sacramento Sierra Region and Affiliates	Sutter Gould Medical Foundation	Sutter Valley Medical Foundation and Subsidiaries	Roseville Endoscopy Center LLC	Sutter Amador Surgery Center LLC	Adjustments and Eliminations	Consolidated
Assets								
Current assets:								
Cash and cash equivalents	\$ 9	\$ 51	\$ 68	\$ 46	\$ 1	\$ -	\$ -	\$ 175
Short-term investments	7	34	-	-	-	-	-	41
Patient accounts receivable, net	85	296	21	73	1	-	-	476
Other receivables	38	70	2	13	-	-	(26)	97
Inventories	10	27	2	7	-	-	-	46
Other	4	17	-	1	-	-	-	22
Total current assets	153	495	93	140	2	-	(26)	857
Non-current investments	28	18	3	3	-	-	-	52
Property, plant and equipment, net	278	1,371	136	203	-	-	-	1,988
Other	1	29	1	40	-	2	(2)	71
	<u>\$ 460</u>	<u>\$ 1,913</u>	<u>\$ 233</u>	<u>\$ 386</u>	<u>\$ 2</u>	<u>\$ 2</u>	<u>\$ (28)</u>	<u>\$ 2,968</u>
Liabilities and net assets								
Current liabilities:								
Accounts payable	\$ 21	\$ 54	\$ 3	\$ 7	\$ -	\$ -	\$ -	\$ 85
Accrued salaries and related benefits	40	89	6	22	-	-	-	157
Other accrued expenses	27	72	55	64	1	-	(26)	193
Current portion of long-term obligations	3	14	-	1	-	-	-	18
Total current liabilities	91	229	64	94	1	-	(26)	453
Non-current liabilities:								
Long-term obligations, less current portion	149	904	169	37	-	-	-	1,259
Other	3	7	-	6	-	-	-	16
Net assets:								
Unrestricted controlling	215	738	-	242	2	2	(4)	1,195
Unrestricted noncontrolling	-	-	-	5	(1)	-	2	6
Temporarily restricted	2	29	-	2	-	-	-	33
Permanently restricted	-	6	-	-	-	-	-	6
	<u>217</u>	<u>773</u>	<u>-</u>	<u>249</u>	<u>1</u>	<u>2</u>	<u>(2)</u>	<u>1,240</u>
	<u>\$ 460</u>	<u>\$ 1,913</u>	<u>\$ 233</u>	<u>\$ 386</u>	<u>\$ 2</u>	<u>\$ 2</u>	<u>\$ (28)</u>	<u>\$ 2,968</u>

Sutter Health and Affiliates
Consolidating Statement of Operations and Changes in Net Assets - Sutter Health Valley Area
Year ended December 31, 2015
(Dollars in millions)

	Sutter Central Valley Hospitals and Affiliates	Sutter Health Sacramento Sierra Region and Affiliates	Sutter Gould Medical Foundation	Sutter Valley Medical Foundation and Subsidiaries	Roseville Endoscopy Center LLC	Sutter Amador Surgery Center LLC	Adjustments and Eliminations	Consolidated
Unrestricted net assets:								
Operating revenues:								
Patient service revenues	\$ 668	\$ 1,877	\$ 273	\$ 782	\$ 7	\$ 2	\$ (74)	\$ 3,535
Provision for bad debts	(25)	(27)	(13)	(23)	-	-	-	(88)
Patient service revenues less provision for bad debts	643	1,850	260	759	7	2	(74)	3,447
Capitation revenues	69	201	79	200	-	-	(5)	544
Contributions	-	1	-	-	-	-	-	1
Other	23	46	16	55	-	-	(62)	78
Total operating revenues	735	2,098	355	1,014	7	2	(141)	4,070
Operating expenses:								
Salaries and employee benefits	330	977	78	277	-	1	(73)	1,590
Purchased services	128	396	197	511	3	1	(48)	1,188
Supplies	94	320	30	60	1	-	-	505
Depreciation and amortization	38	96	10	39	-	-	-	183
Capitated purchased services	24	57	23	67	-	-	(9)	162
Rentals and leases	2	24	3	30	-	-	(9)	50
Interest	7	30	5	7	-	-	-	49
Insurance	5	15	1	1	-	-	-	22
Other	65	139	6	16	-	-	-	226
Total operating expenses	693	2,054	353	1,008	4	2	(139)	3,975
Income (loss) from operations	42	44	2	6	3	-	(2)	95
Investment income	1	1	1	-	-	-	-	3
Change in net unrealized gains and losses on investments classified as trading	-	-	-	-	-	-	-	-
Income (loss)	43	45	3	6	3	-	(2)	98
Less income attributable to noncontrolling interests	-	-	-	(1)	-	-	(2)	(3)
Income (loss) attributable to Sutter Health	43	45	3	5	3	-	(4)	95

Sutter Health and Affiliates
Consolidating Statement of Operations and Changes in Net Assets - Sutter Health Valley Area (continued)
Year ended December 31, 2015
(Dollars in millions)

	Sutter Central Valley Hospitals and Affiliates	Sutter Health Sacramento Sierra Region and Affiliates	Sutter Gould Medical Foundation	Sutter Valley Medical Foundation and Subsidiaries	Roseville Endoscopy Center LLC	Sutter Amador Surgery Center LLC	Adjustments and Eliminations	Consolidated
Unrestricted net assets (continued):								
Unrestricted controlling net assets:								
Income (loss) attributable to Sutter Health	\$ 43	\$ 45	\$ 3	\$ 5	\$ 3	\$ -	\$ (4)	\$ 95
Change in net unrealized gains and losses on investments classified as other-than-trading	(2)	(2)	-	-	-	-	(1)	(5)
Net assets released from restriction for equipment acquisition	1	4	-	-	-	-	-	5
Pension-related changes other than net periodic pension cost	-	-	-	-	-	-	-	-
Transfers with related entities, net	(52)	-	(10)	(10)	-	-	-	(72)
Other	(2)	1	-	(1)	(4)	-	6	-
Increase (decrease) in unrestricted controlling net assets	(12)	48	(7)	(6)	(1)	-	1	23
Unrestricted noncontrolling net assets:								
Income attributable to noncontrolling interests	-	-	-	1	-	-	2	3
Distributions	-	-	-	(1)	(2)	-	-	(3)
Other	-	-	-	-	3	-	(3)	-
Increase (decrease) in unrestricted noncontrolling net assets	-	-	-	-	1	-	(1)	-
Temporarily restricted net assets:								
Contributions	1	5	-	1	-	-	-	7
Investment income	-	-	-	-	-	-	-	-
Change in net unrealized gains and losses on investments	-	-	-	-	-	-	-	-
Net assets released from restriction	(1)	(7)	-	(1)	-	-	-	(9)
Other	-	-	-	-	-	-	-	-
Increase (decrease) in temporarily restricted net assets	-	(2)	-	-	-	-	-	(2)
Permanently restricted net assets:								
Contributions	-	-	-	-	-	-	-	-
Investment income	-	-	-	-	-	-	-	-
Change in net unrealized gains and losses on investments	-	-	-	-	-	-	-	-
Increase (decrease) in permanently restricted net assets	-	-	-	-	-	-	-	-
Increase (decrease) in net assets	(12)	46	(7)	(6)	-	-	-	21
Net assets, beginning of year	229	727	7	255	1	2	(2)	1,219
Net assets, end of year	\$ 217	\$ 773	\$ -	\$ 249	\$ 1	\$ 2	\$ (2)	\$ 1,240

Sutter Health and Affiliates
Consolidating Balance Sheet - Other
December 31, 2015
(Dollars in millions)

	Sutter Coast Hospital	Sutter Health Pacific	Sutter Care at Home	Sutter Health Plus	Adjustments and Eliminations	Consolidated
Assets						
Current assets:						
Cash and cash equivalents	\$ 3	\$ 1	\$ 14	\$ 12	\$ -	\$ 30
Short-term investments	-	-	3	13	-	16
Patient accounts receivable, net	9	8	51	-	-	68
Other receivables	4	-	3	13	-	20
Inventories	1	-	2	-	-	3
Other	-	-	1	2	-	3
Total current assets	17	9	74	40	-	140
Non-current investments	-	-	12	-	-	12
Property, plant and equipment, net	14	5	8	1	-	28
Other	-	-	3	-	-	3
	<u>\$ 31</u>	<u>\$ 14</u>	<u>\$ 97</u>	<u>\$ 41</u>	<u>\$ -</u>	<u>\$ 183</u>
Liabilities and net assets						
Current liabilities:						
Accounts payable	\$ 2	\$ -	\$ 8	\$ 11	\$ -	\$ 21
Accrued salaries and related benefits	3	1	19	1	-	24
Other accrued expenses	3	1	11	19	-	34
Current portion of long-term obligations	-	-	-	-	-	-
Total current liabilities	8	2	38	31	-	79
Non-current liabilities:						
Long-term obligations, less current portion	13	-	-	-	-	13
Other	-	-	2	-	-	2
Net assets:						
Unrestricted controlling	10	12	55	10	-	87
Unrestricted noncontrolling	-	-	-	-	-	-
Temporarily restricted	-	-	2	-	-	2
Permanently restricted	-	-	-	-	-	-
	<u>10</u>	<u>12</u>	<u>57</u>	<u>10</u>	<u>-</u>	<u>89</u>
	<u>\$ 31</u>	<u>\$ 14</u>	<u>\$ 97</u>	<u>\$ 41</u>	<u>\$ -</u>	<u>\$ 183</u>

Sutter Health and Affiliates
Consolidating Statement of Operations and Changes in Net Assets - Other
Year ended December 31, 2015
(Dollars in millions)

	Sutter Coast Hospital	Sutter Health Pacific	Sutter Care at Home	Sutter Health Plus	Adjustments and Eliminations	Consolidated
Unrestricted net assets:						
Operating revenues:						
Patient service revenues	\$ 69	\$ 23	\$ 255	\$ -	\$ -	\$ 347
Provision for bad debts	(2)	-	(9)	-	-	(11)
Patient service revenues less provision for bad debts	67	23	246	-	-	336
Capitation revenues	-	-	11	-	-	11
Contributions	-	-	-	-	-	-
Other	1	-	22	77	-	100
Total operating revenues	68	23	279	77	-	447
Operating expenses:						
Salaries and employee benefits	32	15	199	12	(1)	257
Purchased services	18	3	43	21	-	85
Supplies	6	1	26	-	1	34
Depreciation and amortization	3	1	3	-	-	7
Capitated purchased services	-	-	-	-	-	-
Rentals and leases	1	-	7	-	1	9
Interest	-	-	1	-	1	2
Insurance	1	-	1	-	(1)	1
Other	4	1	13	72	(1)	89
Total operating expenses	65	21	293	105	-	484
Income (loss) from operations	3	2	(14)	(28)	-	(37)
Investment income	-	-	-	-	-	-
Change in net unrealized gains and losses on investments classified as trading	-	-	-	-	-	-
Income (loss)	3	2	(14)	(28)	-	(37)
Less income attributable to noncontrolling interests	-	-	-	-	-	-
Income (loss) attributable to Sutter Health	3	2	(14)	(28)	-	(37)

Sutter Health and Affiliates
Consolidating Statement of Operations and Changes in Net Assets - Other (continued)
Year ended December 31, 2015
(Dollars in millions)

	Sutter Coast Hospital	Sutter Health Pacific	Sutter Care at Home	Sutter Health Plus	Adjustments and Eliminations	Consolidated
Unrestricted net assets (continued):						
Unrestricted controlling net assets:						
Income (loss) attributable to Sutter Health	\$ 3	\$ 2	\$ (14)	\$ (28)	\$ -	\$ (37)
Change in net unrealized gains and losses on investments classified as other-than-trading	-	-	(1)	-	-	(1)
Net assets released from restriction for equipment acquisition	-	-	-	-	-	-
Pension-related changes other than net periodic pension cost	-	-	-	-	-	-
Transfers with related entities, net	(10)	-	5	14	-	9
Other	-	-	2	-	-	2
Increase (decrease) in unrestricted controlling net assets	(7)	2	(8)	(14)	-	(27)
Unrestricted noncontrolling net assets:						
Income attributable to noncontrolling interests	-	-	-	-	-	-
Distributions	-	-	-	-	-	-
Other	-	-	-	-	-	-
Increase (decrease) in unrestricted noncontrolling net assets	-	-	-	-	-	-
Temporarily restricted net assets:						
Contributions	-	-	1	-	-	1
Investment income	-	-	-	-	-	-
Change in net unrealized gains and losses on investments	-	-	-	-	-	-
Net assets released from restriction	-	-	-	-	-	-
Other	-	-	-	-	-	-
Increase (decrease) in temporarily restricted net assets	-	-	1	-	-	1
Permanently restricted net assets:						
Contributions	-	-	-	-	-	-
Investment income	-	-	-	-	-	-
Change in net unrealized gains and losses on investments	-	-	-	-	-	-
Other	-	-	-	-	-	-
Increase (decrease) in permanently restricted net assets	-	-	-	-	-	-
Increase (decrease) in net assets	(7)	2	(7)	(14)	-	(26)
Net assets, beginning of year	17	10	64	24	-	115
Net assets, end of year	\$ 10	\$ 12	\$ 57	\$ 10	\$ -	\$ 89

Sutter Health and Affiliates

Consolidated Balance Sheets - Sutter Health Obligated Group

(Dollars in millions)

	December 31,	
	2015	2014
Assets		
Current assets:		
Cash and cash equivalents	\$ 399	\$ 179
Short-term investments	3,070	3,516
Patient accounts receivable (net of allowance for doubtful accounts of \$141 in 2015 and \$195 in 2014)	1,212	1,068
Other receivables	323	557
Inventories	106	95
Other	130	113
Total current assets	5,240	5,528
Non-current investments	368	331
Property, plant and equipment, net	7,280	6,997
Other	414	334
	<u>\$ 13,302</u>	<u>\$ 13,190</u>
Liabilities and net assets		
Current liabilities:		
Accounts payable	\$ 416	\$ 585
Accrued salaries and related benefits	550	543
Other accrued expenses	508	456
Current portion of long-term obligations	47	21
Total current liabilities	1,521	1,605
Non-current liabilities:		
Long-term obligations, less current portion	3,648	3,724
Other	890	753
Net assets:		
Unrestricted controlling	7,072	6,970
Unrestricted noncontrolling	93	61
Temporarily restricted	65	64
Permanently restricted	13	13
	<u>7,243</u>	<u>7,108</u>
	<u>\$ 13,302</u>	<u>\$ 13,190</u>

Sutter Health and Affiliates

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

(Dollars in millions)

	Year ended December 31,	
	2015	2014
Unrestricted net assets:		
Operating revenues:		
Patient service revenues	\$ 9,345	\$ 8,671
Provision for bad debts	(166)	(182)
Patient service revenues less provision for bad debts	9,179	8,489
Capitation revenues	936	873
Contributions	4	5
Other	391	348
Total operating revenues	10,510	9,715
Operating expenses:		
Salaries and employee benefits	4,820	4,419
Purchased services	2,386	2,143
Supplies	1,206	1,086
Depreciation and amortization	597	546
Capitated purchased services	236	229
Rentals and leases	141	135
Interest	117	90
Insurance	61	61
Other	588	564
Total operating expenses	10,152	9,273
Income from operations	358	442
Investment income	64	224
Change in net unrealized gains and losses on investments classified as trading	(189)	(204)
Income	233	462
Less income attributable to noncontrolling interests	(49)	(42)
Income attributable to Sutter Health	184	420

Sutter Health and Affiliates

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

(Dollars in millions)

	Year ended December 31,	
	2015	2014
Unrestricted net assets (continued):		
Unrestricted controlling net assets:		
Income attributable to Sutter Health	\$ 184	\$ 420
Change in net unrealized gains and losses on investments classified as other-than-trading	5	13
Net assets released from restriction for equipment acquisition	13	12
Pension-related changes other than net periodic pension cost	(32)	(764)
Transfers with related entities, net	(71)	(66)
Other	3	(4)
Increase (decrease) in unrestricted controlling net assets	102	(389)
Unrestricted noncontrolling net assets:		
Income attributable to noncontrolling interests	49	42
Distributions	(54)	(50)
Other	37	(4)
Increase (decrease) in unrestricted noncontrolling net assets	32	(12)
Temporarily restricted net assets:		
Contributions	13	12
Investment income	1	2
Change in net unrealized gains and losses on investments	(3)	(6)
Net assets released from restriction	(9)	(8)
Other	(1)	(4)
Increase (decrease) in temporarily restricted net assets	1	(4)
Increase (decrease) in net assets	135	(405)
Net assets, beginning of year	7,108	7,513
Net assets, end of year	\$ 7,243	\$ 7,108

Sutter Health and Affiliates

Consolidated Statements of Cash Flows - Sutter Health Obligated Group

(Dollars in millions)

	Year ended December 31,	
	2015	2014
Operating activities		
Increase (decrease) in net assets	\$ 135	\$ (405)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Depreciation and amortization	591	524
Amortization of bond issuance (premium) discount, net	(11)	(11)
Change in net unrealized gains and losses on investments	187	197
Provision for doubtful accounts	166	182
Restricted contributions and investment income	(14)	(14)
Loss on impairment of property, plant and equipment	6	15
Loss on impairment of goodwill	—	3
Net gain on disposal of property, plant and equipment	(34)	(22)
Change in net postretirement benefits	121	620
Net changes in operating assets and liabilities:		
Patient accounts receivable and other receivables	(76)	(431)
Inventories and other assets	(91)	(12)
Accounts payable and accrued expenses	(99)	233
Other non-current liabilities	14	57
Net cash provided by operating activities	895	936
Investing activities		
Purchases of property, plant and equipment	(869)	(953)
Proceeds from disposal of property, plant and equipment	38	37
Sales and (purchases) or maturities of investments, net	222	(34)
Other	(37)	(72)
Net cash used in investing activities	(646)	(1,022)

Sutter Health and Affiliates

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

(Dollars in millions)

	Year ended December 31,	
	2015	2014
Financing activities		
Payments of long-term obligations	\$ (22)	\$ (17)
Payments for bond refund	(224)	–
Proceeds from issuance of long-term obligations	191	13
Bond issuance costs	(3)	–
Bond issuance premium	15	–
Restricted contributions and investment income	14	14
Net cash (used) provided by financing activities	(29)	10
Net increase (decrease) in cash and cash equivalents	220	(76)
Cash and cash equivalents at beginning of year	179	255
Cash and cash equivalents at end of year	<u>\$ 399</u>	<u>\$ 179</u>
Supplementary disclosures of cash flow information:		
Cash paid during the year for interest (net of capitalized interest costs of \$49 in 2015 and \$79 in 2014)	<u>\$ 118</u>	<u>\$ 90</u>

Sutter Health and Affiliates
Consolidating Balance Sheet - Sutter Health Obligated Group
December 31, 2015
(Dollars in millions)

	Mills- Peninsula Health Services	Sutter East Bay Hospitals and Affiliates	Sutter Medical Center Castro Valley	Sutter West Bay Hospitals and Affiliates	Palo Alto Medical Foundation for Health Care, Research and Education	Sutter Central Valley Hospitals	Sutter Health Sacramento Sierra Region	Sutter Gould Medical Foundation
Assets								
Current assets:								
Cash and cash equivalents	\$ 20	\$ 64	\$ 3	\$ 28	\$ 129	\$ 8	\$ 44	\$ 68
Short-term investments	(1)	-	-	2	24	-	1	-
Patient accounts receivable, net	72	181	57	237	129	85	295	21
Other receivables	15	74	25	79	31	40	71	2
Inventories	11	15	4	19	4	10	27	2
Other	9	8	1	7	4	3	17	-
Total current assets	126	342	90	372	321	146	455	93
Non-current investments	-	4	-	140	35	12	10	3
Property, plant and equipment, net	638	649	333	1,810	1,113	273	1,371	136
Other	8	7	2	35	24	4	19	1
	<u>\$ 772</u>	<u>\$ 1,002</u>	<u>\$ 425</u>	<u>\$ 2,357</u>	<u>\$ 1,493</u>	<u>\$ 435</u>	<u>\$ 1,855</u>	<u>\$ 233</u>
Liabilities and net assets								
Current liabilities:								
Accounts payable	\$ 14	\$ 31	\$ 6	\$ 58	\$ 22	\$ 21	\$ 54	\$ 3
Accrued salaries and related benefits	27	45	11	83	75	40	89	6
Other accrued expenses	36	89	35	96	92	27	72	55
Current portion of long-term obligations	-	10	12	3	-	3	14	-
Total current liabilities	77	175	64	240	189	91	229	64
Non-current liabilities:								
Long-term obligations, less current portion	505	420	275	402	632	149	904	169
Other	3	6	1	8	8	2	7	-
Net assets:								
Unrestricted controlling	186	388	85	1,687	610	193	714	-
Unrestricted noncontrolling	-	10	-	5	-	-	-	-
Temporarily restricted	1	-	-	15	44	-	1	-
Permanently restricted	-	3	-	-	10	-	-	-
	<u>187</u>	<u>401</u>	<u>85</u>	<u>1,707</u>	<u>664</u>	<u>193</u>	<u>715</u>	<u>-</u>
	<u>\$ 772</u>	<u>\$ 1,002</u>	<u>\$ 425</u>	<u>\$ 2,357</u>	<u>\$ 1,493</u>	<u>\$ 435</u>	<u>\$ 1,855</u>	<u>\$ 233</u>

Sutter Health and Affiliates
Consolidating Balance Sheet - Sutter Health Obligated Group (continued)
December 31, 2015
(Dollars in millions)

	Sutter Valley Medical Foundation and Subsidiaries	Roseville Endoscopy Center LLC	Sutter Amador Surgery Center LLC	Sutter Coast Hospital	Sutter Care at Home	Sutter Health Support Services	Adjustments and Eliminations	Consolidated
Assets								
Current assets:								
Cash and cash equivalents	\$ 46	\$ 1	\$ -	\$ 3	\$ 14	\$ 127	\$ (156)	\$ 399
Short-term investments	-	-	-	-	3	2,885	156	3,070
Patient accounts receivable, net	73	1	-	9	51	15	(14)	1,212
Other receivables	13	-	-	4	3	237	(271)	323
Inventories	7	-	-	1	2	4	-	106
Other	1	-	-	-	1	79	-	130
Total current assets	140	2	-	17	74	3,347	(285)	5,240
Non-current investments	3	-	-	-	12	150	(1)	368
Property, plant and equipment, net	203	-	-	14	8	732	-	7,280
Other	40	-	2	-	3	327	(58)	414
	<u>\$ 386</u>	<u>\$ 2</u>	<u>\$ 2</u>	<u>\$ 31</u>	<u>\$ 97</u>	<u>\$ 4,556</u>	<u>\$ (344)</u>	<u>\$ 13,302</u>
Liabilities and net assets								
Current liabilities:								
Accounts payable	\$ 7	\$ -	\$ -	\$ 2	\$ 8	\$ 191	\$ (1)	\$ 416
Accrued salaries and related benefits	22	-	-	3	19	129	1	550
Other accrued expenses	64	1	-	3	11	260	(333)	508
Current portion of long-term obligations	1	-	-	-	-	4	-	47
Total current liabilities	94	1	-	8	38	584	(333)	1,521
Non-current liabilities:								
Long-term obligations, less current portion	37	-	-	13	-	143	(1)	3,648
Other	6	-	-	-	2	824	23	890
Net assets:								
Unrestricted controlling	242	2	2	10	55	2,939	(41)	7,072
Unrestricted noncontrolling	5	(1)	-	-	-	66	8	93
Temporarily restricted	2	-	-	-	2	-	-	65
Permanently restricted	-	-	-	-	-	-	-	13
	<u>249</u>	<u>1</u>	<u>2</u>	<u>10</u>	<u>57</u>	<u>3,005</u>	<u>(33)</u>	<u>7,243</u>
	<u>\$ 386</u>	<u>\$ 2</u>	<u>\$ 2</u>	<u>\$ 31</u>	<u>\$ 97</u>	<u>\$ 4,556</u>	<u>\$ (344)</u>	<u>\$ 13,302</u>

Sutter Health and Affiliates
Consolidating Statement of Operations and Changes in Net Assets - Sutter Health Obligated Group
Year ended December 31, 2015
(Dollars in millions)

	Mills- Peninsula Health Services	Sutter East Bay Hospitals and Affiliates	Sutter Medical Center Castro Valley	Sutter West Bay Hospitals and Affiliates	Palo Alto Medical Foundation for Health Care, Research and Education	Sutter Central Valley Hospitals	Sutter Health Sacramento Sierra Region	Sutter Gould Medical Foundation
Unrestricted net assets:								
Operating revenues:								
Patient service revenues	\$ 580	\$ 1,325	\$ 344	\$ 1,646	\$ 1,609	\$ 668	\$ 1,877	\$ 273
Provision for bad debts	(7)	(24)	(13)	(4)	(22)	(25)	(27)	(13)
Patient service revenues less provision for bad debts	573	1,301	331	1,642	1,587	643	1,850	260
Capitation revenues	47	10	-	55	279	70	202	79
Contributions	-	-	-	-	3	-	-	-
Other	38	29	11	111	60	22	45	16
Total operating revenues	658	1,340	342	1,808	1,929	735	2,097	355
Operating expenses:								
Salaries and employee benefits	272	619	150	867	512	329	976	78
Purchased services	122	287	66	371	859	127	394	197
Supplies	65	171	31	187	169	94	320	30
Depreciation and amortization	60	73	28	109	79	37	96	10
Capitated purchased services	15	2	-	11	62	24	57	23
Rentals and leases	5	6	3	20	31	3	24	3
Interest	17	19	10	14	24	7	30	5
Insurance	4	12	2	11	3	5	15	1
Other	49	116	28	113	39	65	142	6
Total operating expenses	609	1,305	318	1,703	1,778	691	2,054	353
Income (loss) from operations	49	35	24	105	151	44	43	2
Investment income	-	-	-	6	2	-	1	1
Change in net unrealized gains and losses on investments classified as trading	-	-	-	-	-	-	-	-
Income (loss)	49	35	24	111	153	44	44	3
Less income attributable to noncontrolling interests	-	(7)	-	(13)	-	-	-	-
Income (loss) attributable to Sutter Health	49	28	24	98	153	44	44	3

Sutter Health and Affiliates
Consolidating Statement of Operations and Changes in Net Assets - Sutter Health Obligated Group (continued)
Year ended December 31, 2015
(Dollars in millions)

	Sutter Valley Medical Foundation and Subsidiaries	Roseville Endoscopy Center LLC	Sutter Amador Surgery Center LLC	Sutter Coast Hospital	Sutter Care at Home	Sutter Health Support Services	Adjustments and Eliminations	Consolidated
Unrestricted net assets:								
Operating revenues:								
Patient service revenues	\$ 782	\$ 7	\$ 2	\$ 69	\$ 255	\$ 100	\$ (192)	\$ 9,345
Provision for bad debts	(23)	-	-	(2)	(9)	3	-	(166)
Patient service revenues less provision for bad debts	759	7	2	67	246	103	(192)	9,179
Capitation revenues	200	-	-	-	11	-	(17)	936
Contributions	-	-	-	-	-	-	1	4
Other	55	-	-	1	22	1,123	(1,142)	391
Total operating revenues	1,014	7	2	68	279	1,226	(1,350)	10,510
Operating expenses:								
Salaries and employee benefits	277	-	1	32	199	721	(213)	4,820
Purchased services	511	3	1	18	43	372	(985)	2,386
Supplies	60	1	-	6	26	46	-	1,206
Depreciation and amortization	39	-	-	3	3	133	(73)	597
Capitated purchased services	67	-	-	-	-	-	(25)	236
Rentals and leases	30	-	-	1	7	23	(15)	141
Interest	7	-	-	-	1	(19)	2	117
Insurance	1	-	-	1	1	6	(1)	61
Other	16	-	-	4	13	26	(29)	588
Total operating expenses	1,008	4	2	65	293	1,308	(1,339)	10,152
Income (loss) from operations	6	3	-	3	(14)	(82)	(11)	358
Investment income	-	-	-	-	-	54	-	64
Change in net unrealized gains and losses on investments classified as trading	-	-	-	-	-	(189)	-	(189)
Income (loss)	6	3	-	3	(14)	(217)	(11)	233
Less income attributable to noncontrolling interests	(1)	-	-	-	-	(19)	(9)	(49)
Income (loss) attributable to Sutter Health	5	3	-	3	(14)	(236)	(20)	184

Sutter Health and Affiliates
Consolidating Statement of Operations and Changes in Net Assets - Sutter Health Obligated Group (continued)
Year ended December 31, 2015
(Dollars in millions)

	Mills- Peninsula Health Services	Sutter East Bay Hospitals and Affiliates	Sutter Medical Center Castro Valley	Sutter West Bay Hospitals and Affiliates	Palo Alto Medical Foundation for Health Care, Research and Education	Sutter Central Valley Hospitals	Sutter Health Sacramento Sierra Region	Sutter Gould Medical Foundation
Unrestricted net assets (continued):								
Unrestricted controlling net assets:								
Income (loss) attributable to Sutter Health	\$ 49	\$ 28	\$ 24	\$ 98	\$ 153	\$ 44	\$ 44	\$ 3
Change in net unrealized gains and losses on investments classified as other-than-trading	-	-	-	(12)	-	(1)	-	-
Net assets released from restriction for equipment acquisition	2	3	-	4	-	1	4	-
Pension-related changes other than net periodic pension cost	-	-	-	-	-	-	-	-
Transfers with related entities, net	(74)	(4)	(29)	160	(183)	(52)	-	(10)
Other	-	-	-	-	-	-	-	-
Increase (decrease) in unrestricted controlling net assets	(23)	27	(5)	250	(30)	(8)	48	(7)
Unrestricted noncontrolling net assets:								
Income attributable to noncontrolling interests	-	7	-	13	-	-	-	-
Distributions	-	(6)	-	(13)	-	-	-	-
Other	-	2	-	-	-	-	-	-
Increase (decrease) in unrestricted noncontrolling net assets	-	3	-	-	-	-	-	-
Temporarily restricted net assets:								
Contributions	-	-	-	2	9	-	1	-
Investment income	-	-	-	-	1	-	-	-
Change in net unrealized gains and losses on investments	-	-	-	(3)	(1)	-	-	-
Net assets released from restriction	-	-	-	(4)	(2)	(1)	(2)	-
Other	-	(1)	-	-	-	-	-	-
Increase (decrease) in temporarily restricted net assets	-	(1)	-	(5)	7	(1)	(1)	-
Increase (decrease) in net assets	(23)	29	(5)	245	(23)	(9)	47	(7)
Net assets, beginning of year	210	372	90	1,462	687	202	668	7
Net assets, end of year	\$ 187	\$ 401	\$ 85	\$ 1,707	\$ 664	\$ 193	\$ 715	\$ -

Sutter Health and Affiliates
Consolidating Statement of Operations and Changes in Net Assets - Sutter Health Obligated Group (continued)
Year ended December 31, 2015
(Dollars in millions)

	Sutter Valley Medical Foundation and Subsidiaries	Roseville Endoscopy Center LLC	Sutter Amador Surgery Center LLC	Sutter Coast Hospital	Sutter Care at Home	Sutter Health Support Services	Adjustments and Eliminations	Consolidated
Unrestricted net assets (continued):								
Unrestricted controlling net assets:								
Income (loss) attributable to Sutter Health	\$ 5	\$ 3	\$ -	\$ 3	\$ (14)	\$ (236)	\$ (20)	\$ 184
Change in net unrealized gains and losses on investments classified as other-than-trading	-	-	-	-	(1)	19	-	5
Net assets released from restriction for equipment acquisition	-	-	-	-	-	-	(1)	13
Pension-related changes other than net periodic pension cost	-	-	-	-	-	(32)	-	(32)
Transfers with related entities, net	(10)	-	-	(10)	5	135	1	(71)
Other	(1)	(4)	-	-	2	(5)	11	3
Increase (decrease) in unrestricted controlling net assets	(6)	(1)	-	(7)	(8)	(119)	(9)	102
Unrestricted noncontrolling net assets:								
Income attributable to noncontrolling interests	1	-	-	-	-	19	9	49
Distributions	(1)	(2)	-	-	-	(33)	1	(54)
Other	-	3	-	-	-	43	(11)	37
Increase (decrease) in unrestricted noncontrolling net assets	-	1	-	-	-	29	(1)	32
Temporarily restricted net assets:								
Contributions	1	-	-	-	1	-	(1)	13
Investment income	-	-	-	-	-	-	-	1
Change in net unrealized gains and losses on investments	-	-	-	-	-	-	1	(3)
Net assets released from restriction	(1)	-	-	-	-	-	1	(9)
Other	-	-	-	-	-	-	-	(1)
Increase (decrease) in temporarily restricted net assets	-	-	-	-	1	-	1	1
Increase (decrease) in net assets	(6)	-	-	(7)	(7)	(90)	(9)	135
Net assets, beginning of year	255	1	2	17	64	3,095	(24)	7,108
Net assets, end of year	\$ 249	\$ 1	\$ 2	\$ 10	\$ 57	\$ 3,005	\$ (33)	\$ 7,243

**CONTINUING DISCLOSURE REPORT OF SUTTER HEALTH
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2015**

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

<u>Bonds</u>	<u>CUSIP*</u>
California Statewide Communities Development Authority Revenue Bonds (Sutter Health), Series 2003A	130795EE3
California Statewide Communities Development Authority Revenue Bonds (Sutter Health), Series 2003B	130795EF0
California Statewide Communities Development Authority Revenue Bonds (Sutter Health), Series 2004C	130795TE7
California Statewide Communities Development Authority Revenue Bonds (Sutter Health), Series 2004D	130795TN7
California Statewide Communities Development Authority Revenue Bonds (Sutter Health), Series 2005B	130795EG8
California Statewide Communities Development Authority Revenue Bonds (Sutter Health), Series 2005C	130795ED5
California Health Facilities Financing Authority Revenue Bonds (Sutter Health), Series 2007A	13033FQ37, 13033FQ45
California Health Facilities Financing Authority Revenue Bonds (Sutter Health), Series 2008A	13033F2Z2, 13033F2Y5, 13033F2U3, 13033F2V1, 13033F2W9, 13033F2X7
California Statewide Communities Development Authority Revenue Bonds (Sutter Health), Series 2008B	130795UD7
California Statewide Communities Development Authority Revenue Bonds (Sutter Health), Series 2008C	130795TD9

* 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>
California Statewide Communities Development Authority Revenue Bonds (Sutter Health), Series 2011A	1307952F3, 1307952G1, 1307952H9, 1307952J5, 1307952K2, 1307952L0, 1307952M8, 1307952N6, 1307952R7, 1307952P1, 1307952Q9
California Health Facilities Financing Authority (Sutter Health), Series 2011B	13033LKL0, 13033LKM8, 13033LKN6, 13033LKP1, 13033LKQ9, 13033LKR7, 13033LKS5, 13033LKT3, 13033LKV8, 13033LKW6
California Statewide Communities Development Authority Revenue Bonds (Sutter Health), Series 2011C	1307954L8, 1307954M6, 1307954N4, 1307954P9, 1307954V6, 1307954Q7, 1307954W4, 1307954R5, 1307954X2, 1307954S3, 1307954T1, 1307954Y0, 1307954U8
California Health Facilities Financing Authority Revenue Bonds (Sutter Health), Series 2011D	13033LVL8, 13033LVM6, 13033LVN4, 13033LVP9, 13033LVQ7, 13033LVR5, 13033LVS3, 13033LVT1, 13033LVU8, 13033LVX2, 13033LVV6, 13033LVW4
California Statewide Communities Development Authority Revenue Bonds (Sutter Health), Series 2012A	1307955Z6, 1307956L6, 1307956A0, 1307956R3, 1307956M4, 1307956B8, 1307956N2, 1307956C6, 1307956D4, 1307956P7, 1307956E2, 1307956F9, 1307956G7, 1307956H5, 1307956J1, 1307956Q5, 1307956S1, 1307956K8
California Health Facilities Financing Authority Revenue Bonds (Sutter Health), Series 2013A	13033LW52
Sutter Health Taxable Bonds, Series 2013A	86944B AA1
Sutter Health Taxable Bonds, Series 2013B	86944B AB9
Sutter Health Taxable Bonds, Series 2013C	86944B AC7
California Health Facilities Financing Authority Revenue Bonds (Sutter Health), Series 2015A	13032UAQ1, 13032UAR9
California Health Facilities Financing Authority Revenue Bonds (Sutter Health), Series 2016A	13032UBT4, 13032UBU1, 13032UBV9, 13032UBW7, 13032UBX5, 13032UBY3, 13032UBZ0, 13032UCA4, 13032UCB2, 13032UCC0, 13032UCD8, 13032UCE6, 13032UCF3, 13032UCG1, 13032UCH9, 13032UCJ5, 13032UCL0, 13032UCK2

Employees, Unions and Collective Bargaining Units

As of December 31, 2015, the Sutter Health system had approximately 52,000 employees, of which approximately 32,000 are full-time employees. Approximately 4,600 of these 52,000 employees are employed by Sutter Health and the remaining employees are employed by Affiliated Entities. Approximately 25% of these employees (employed at 26 Sutter Health facilities) are represented by collective bargaining units, with 53 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 December 31, 2015, the Obligated Group Members consisted of the following:

- Eden Medical Center
- Mills-Peninsula Health Services
- Palo Alto Medical Foundation for Health Care, Research and Education
- Sutter Central Valley Hospitals
- Sutter Coast Hospital
- Sutter East Bay Hospitals
- Sutter Gould Medical Foundation⁽¹⁾
- Sutter Health
- Sutter Health Sacramento Sierra Region
- Sutter Medical Center Castro Valley
- Sutter Valley Medical Foundation⁽²⁾
- Sutter Visiting Nurse Association and Hospice
- Sutter West Bay Hospitals⁽³⁾

⁽¹⁾ Effective as of March 1, 2016, Sutter Gould Medical Foundation merged into Sutter Valley Medical Foundation (formerly known as Sutter Medical Foundation) in accordance with the terms of the Master Indenture, dated as of August 1, 1985, among Sutter Health, a nonprofit public benefit corporation appointed as Obligated Group Representative thereunder, the other Members identified therein, and U.S. Bank National Association, as successor trustee, as supplemented through the date hereof.

⁽²⁾ Formerly Sutter Medical Foundation.

⁽³⁾ On February 1, 2016, Sutter West Bay Hospitals changed its name to Sutter Bay Hospitals.

Obligated Group Utilization Information

The following table summarizes the Obligated Group's acute care facility utilization data for the fiscal year ended December 31, 2015. This Continuing Disclosure Report no longer contains information related to long-term care facilities, as Mills-Peninsula Skilled Nursing, Sutter Health's last remaining freestanding skilled nursing facility operating under its own license and Medicare provider number, was sold outside of the Sutter Health system on June 30, 2015. Management of Sutter Health does not believe this sale will have a material adverse effect on the financial condition of the Obligated Group.

Obligated Group Acute Care Facility Utilization

	<u>Fiscal Year Ended December 31, 2015</u>
Licensed Beds	4,470 ⁽¹⁾
Beds in Service	4,062
Admissions ⁽²⁾	189,568
Patient Days ⁽²⁾	873,732
Average Length of Stay (Days)	4.6
Occupancy % ⁽³⁾	58.9%
Emergency Room Visits ⁽⁴⁾	867,113

⁽¹⁾ 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."

⁽²⁾ Excluding well newborns

⁽³⁾ Based on Beds in Service.

⁽⁴⁾ Does not include Emergency Room patients subsequently admitted as inpatients.

Obligated Group Medical Foundations Operating Data

The following table summarizes the operating data for medical foundations within the Obligated Group for the fiscal year ended December 31, 2015.

Obligated Group Medical Foundations Operating Data

	Fiscal Year Ended December 31, 2015
Physicians	1,899
Facilities	165
Capitated Members	262,563
Outpatient Visits	8,506,443

Sources of Revenues

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

Obligated Group Payer Mix December 31, 2015

	Medicare		Medi-Cal		Commercial Programs		Other Payers
	Non-Capitated	Capitated	Non-Capitated	Capitated	Non-Capitated	Capitated	
Total Obligated Group	36.6%	3.8%	20.7%	0.4%	33.0%	2.1%	3.4%
Acute Care Hospitals	38.4%	3.5%	24.2%	0.5%	29.0%	1.0%	3.4%
Medical Foundations	28.3%	5.1%	5.6%	0.4%	50.5%	7.2%	2.9%

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 December 31, 2015.

Sutter Health Capitated Members⁽¹⁾ December 31, 2015

	Central Valley Region	East Bay Region	Peninsula Coastal Region	Sacramento Sierra Region	West Bay Region	Total
Physician Organizations ⁽²⁾	34,724	14,333	111,399	87,272	14,835	262,563
Hospitals	15,636	2,281	12,180	56,074	8,353	96,907
Elimination ⁽³⁾	(15,636)	(2,281)	(12,180)	(56,074)	(8,353)	(96,907)
Totals	34,724	14,333	111,399	87,272	14,835	262,563

⁽¹⁾ Includes Capitated Members of Non-Obligated Group Members.

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

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

Summary Financial Information

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

Fixed Payment Coverage Ratio

The table below sets forth the Obligated Group's funds generated to cover fixed payments for the fiscal year ended December 31, 2015, 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)

	Fiscal Year Ended December 31, 2015
Income	184
Depreciation, amortization, loss on disposal of assets	597
Interest expense	<u>117</u>
Income available for debt service ⁽¹⁾	<u>\$898</u>
Interest and principal on long-term debt and payment requirements on capital leases	<u>\$228</u>
Fixed payment coverage ratio (times)	<u>4.0</u>

⁽¹⁾ Calculated in accordance with the Master Indenture.

Capitalization

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

Capitalization of the Obligated Group (dollars in millions)

	Fiscal Year Ended December 31, 2015
Long-Term Debt, including current portion	<u>\$3,623</u>
Total Long-Term Debt	<u>\$3,623</u>
Net Assets:	
Unrestricted	\$7,165
Temporarily restricted	65
Permanently restricted	<u>13</u>
Total Net Assets	<u>\$7,243</u>
Total Capitalization	<u>\$10,866</u>
Long-Term Debt to Capitalization Ratio	<u>33.34%</u>

Contractual Obligations and Other Contingent Commercial Commitments of the Obligated Group

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

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

	Total Outstanding	Current Portion	Non Current 2017 - 2018	Non Current 2019 & thereafter
Long-term debt – bond principal ⁽¹⁾	\$3,623,325	\$43,055	\$88,775	\$3,491,495
Capital Leases (2)	\$7,985	\$1,220	\$1,214	\$5,551

⁽¹⁾ Secured under the Master Indenture.

⁽²⁾ 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 December 31, 2015 (dollars in thousands)


	Total Outstanding Commitment	Total Outstanding Commitment During Fiscal Year 2016	Total Outstanding Commitment During Fiscal Years 2017 and thereafter
Letters of credit	\$95	\$95	\$0

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: March 8, 2016

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

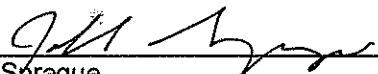
By: 
Senior Vice President and Chief Financial Officer

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

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

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

Certified by:



Jeff Sprague
Senior Vice President and Chief Financial Officer
Sutter Health

March 8, 2016

Supplemental Information

Acute Care Payer Mix

As of December 31, 2015

	Medicare		Medi-Cal		Commercial		Other	Total
	Non-Capitated	Risk	Non-Capitated	Risk	Non-Sutter Risk	Risk		
Sutter Medical Center-Sacramento	32.0%	5.4%	33.1%	0.0%	2.1%	23.9%	3.5%	100.0%
Sutter Solano Medical Center	40.4%	0.0%	38.1%	0.0%	17.9%	0.0%	3.6%	100.0%
Sutter Davis Hospital	32.9%	5.2%	22.8%	0.0%	33.5%	2.6%	3.0%	100.0%
Sutter Coast Hospital	44.1%	0.0%	27.7%	0.0%	22.7%	0.0%	5.5%	100.0%
Sutter Delta Medical Center	39.9%	0.0%	35.1%	0.0%	20.9%	0.0%	4.1%	100.0%
Sutter Auburn Faith Hospital	51.3%	6.3%	16.2%	0.0%	21.9%	1.5%	2.8%	100.0%
Sutter Tracy Community Hospital	34.0%	0.0%	32.1%	0.0%	30.9%	0.0%	3.0%	100.0%
Sutter Roseville Medical Center	42.4%	5.2%	17.7%	0.0%	30.0%	1.8%	2.9%	100.0%
California Pacific Medical Center	41.3%	0.0%	16.6%	2.5%	35.7%	0.2%	3.7%	100.0%
Sutter Maternity and Surgery Center	25.4%	0.0%	13.2%	0.0%	59.5%	0.0%	1.9%	100.0%
Mills Peninsula Health Services	38.2%	7.2%	11.6%	0.0%	37.2%	2.5%	3.3%	100.0%
Sutter Lakeside Hospital	49.7%	0.0%	30.7%	0.0%	16.7%	0.0%	2.9%	100.0%
Memorial Medical Center & Memorial Hospital Los Banos	35.0%	13.1%	26.4%	0.0%	21.6%	1.4%	2.5%	100.0%
Novato Community Hospital	52.9%	0.0%	14.1%	0.0%	28.5%	0.0%	4.5%	100.0%
Alta Bates Summit Medical Center	37.7%	0.0%	26.6%	0.0%	31.1%	0.5%	4.1%	100.0%
Sutter Medical Center-Santa Rosa	36.5%	3.9%	27.9%	0.0%	27.4%	0.4%	3.9%	100.0%
Sutter Amador Hospital	54.7%	0.0%	21.0%	0.0%	21.3%	0.0%	3.0%	100.0%
Sutter Medical Center Castro Valley	42.0%	0.0%	26.3%	0.0%	27.5%	0.1%	4.1%	100.0%
Menlo Park Surgical Hospital	25.1%	0.0%	1.9%	0.0%	66.0%	0.0%	7.0%	100.0%
Total Acute Care Payer Mix (%)	38.4%	3.5%	24.2%	0.5%	29.0%	1.0%	3.4%	100.0%