



Nadder Mirsepassi
Assistant Treasurer

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

May 29, 2019

Enclosed please find the following documents for the quarter ended March 31, 2019, required pursuant to certain documents relating to certain Sutter Health System obligations. Please note that these documents are also available on the Municipal Securities Rulemaking Board's Electronic Municipal Market Access system ("EMMA") at <http://emma.msrb.org>.

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

Should you have questions, please contact me at (916) 286-6679.

Sutter Health and Affiliates
Unaudited Interim Consolidated Financial Statements
and
Supplementary Information

Three months ended March 31, 2019 and 2018 and the year ended December 31, 2018

Consolidated Balance Sheets	2
Consolidated Statements of Operations and Changes in Net Assets	3
Consolidated Statements of Cash Flows.....	5
Notes to Unaudited Interim Consolidated Financial Statements	7

Supplementary Information

Consolidated Balance Sheets - Sutter Health Obligated Group	31
Consolidated Statements of Operations and Changes in Net Assets - Sutter Health Obligated Group	32
Consolidated Statements of Cash Flows - Sutter Health Obligated Group	34
Management's Discussion & Analysis	36

The Unaudited Interim Consolidated Financial Statements of Sutter Health and Affiliates are presented as of March 31, 2019, March 31, 2018, and for the year ended December 31, 2018. Information contained herein is being filed by Sutter Health and Affiliates for complying with its obligations under Continuing Disclosure Agreements entered in connection with the issuance of bonds.

Sutter Health and Affiliates

Consolidated Balance Sheets

(Unaudited)

(Dollars in millions)

	March 31,		December 31,
	2019	2018	2018
Assets	<i>(As Adjusted)</i>		
Current assets:			
Cash and cash equivalents	\$ 391	\$ 296	\$ 362
Short-term investments	5,114	4,933	5,000
Patient accounts receivable	1,288	1,415	1,223
Other receivables	982	860	835
Inventories	126	118	127
Other	247	294	179
Total current assets	8,148	7,916	7,726
Non-current investments	1,022	778	983
Property, plant and equipment, net	8,369	7,958	8,193
Other non-current assets	907	427	401
	\$ 18,446	\$ 17,079	\$ 17,303
Liabilities and net assets			
Current liabilities:			
Accounts payable	\$ 624	\$ 747	\$ 761
Accrued salaries and related benefits	682	609	647
Other accrued expenses	968	817	811
Current portion of long-term obligations	58	150	57
Total current liabilities	2,332	2,323	2,276
Non-current liabilities:			
Long-term obligations, less current portion	4,802	3,962	4,626
Other	1,774	1,129	1,290
Net assets:			
Without donor restrictions:			
Controlling	8,939	9,069	8,530
Noncontrolling	112	107	112
With donor restrictions	487	489	469
Total net assets	9,538	9,665	9,111
	\$ 18,446	\$ 17,079	\$ 17,303

Sutter Health and Affiliates

Consolidated Statements of Operations and Changes in Net Assets (Unaudited) (Dollars in millions)

	Three months ended March 31,		Year ended December 31,
	2019	2018	2018
Net assets without donor restrictions:			
Operating revenues:		<i>(As Adjusted)</i>	<i>(As Adjusted)</i>
Patient service revenues	\$ 2,845	\$ 2,699	\$ 10,957
Premium revenues	367	335	1,383
Contributions	3	2	6
Other	87	78	351
Total operating revenues	3,302	3,114	12,697
Operating expenses:			
Salaries and employee benefits	1,544	1,485	5,942
Purchased services	870	812	3,372
Supplies	387	363	1,492
Depreciation and amortization	169	160	681
Rentals and leases	45	44	176
Interest	38	22	115
Insurance	5	4	15
Other	206	189	793
Total operating expenses	3,264	3,079	12,586
Income from operations	38	35	111
Investment income	88	33	187
Change in net unrealized gains and losses on investments classified as trading	286	13	(454)
Loss on extinguishment of debt	–	–	(54)
Other components of net periodic postretirement cost	–	23	90
Income (loss)	412	104	(120)
Less income attributable to noncontrolling interests	(18)	(18)	(78)
Income (loss) attributable to Sutter Health	394	86	(198)

Sutter Health and Affiliates

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

	Three months ended March 31,		Year ended December 31,
	2019	2018	2018
Net assets without donor restrictions (continued):			
Controlling:			
Income (loss) attributable to Sutter Health	\$ 394	\$ 86	\$ (198)
Change in net unrealized gains and losses on investments classified as other-than-trading	(2)	6	25
Net assets released from restriction for equipment acquisition	1	–	17
Pension-related changes other than net periodic pension cost	18	11	(301)
Other	(2)	1	22
Increase (decrease) in controlling	409	104	(435)
Noncontrolling:			
Income attributable to noncontrolling interests	18	18	78
Distributions	(17)	(19)	(74)
Other	(1)	–	–
Increase (decrease) in noncontrolling	–	(1)	4
Net assets with donor restrictions:			
Contributions	9	4	39
Investment income	3	3	12
Change in net unrealized gains and losses on investments	12	(1)	(8)
Net assets released from restriction	(6)	(3)	(35)
Other	–	1	(24)
Increase (decrease) in net assets with donor restrictions	18	4	(16)
Increase (decrease) in net assets	427	107	(447)
Net assets, beginning of year	9,111	9,558	9,558
Net assets, end of period	\$ 9,538	\$ 9,665	\$ 9,111

Sutter Health and Affiliates

Consolidated Statements of Cash Flows

(Unaudited)

(Dollars in millions)

	Three months ended March 31,		Year ended December 31,
	2019	2018	2018
Operating activities		<i>(As Adjusted)</i>	
Increase (decrease) in net assets	\$ 427	\$ 107	\$ (447)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:			
Loss on extinguishment of debt	–	–	54
Depreciation and amortization	169	156	652
Amortization of bond issuance costs, (premium) and discount, net	(10)	(9)	(40)
Net realized gains and losses and change in net unrealized gains and losses on investments	(367)	(40)	315
Restricted contributions and investment income	(12)	(7)	(51)
Distributions to noncontrolling interest	17	19	74
Loss on impairment of property, plant and equipment	–	–	18
Loss on impairment of goodwill	–	–	4
Net (gain) loss on disposal of property, plant and equipment	(5)	4	4
Change in net postretirement benefits	51	31	241
Net changes in operating assets and liabilities:			
Patient accounts receivable and other receivables	(212)	(120)	97
Inventories and other assets	(80)	(87)	30
Accounts payable and accrued expenses	(85)	(165)	(149)
Other non-current liabilities	33	3	(44)
Net cash (used in) provided by operating activities	(74)	(108)	758
Investing activities			
Purchases of property, plant and equipment	(105)	(132)	(924)
Proceeds from disposal of property, plant and equipment	5	–	34
Purchases of investments	(710)	(705)	(3,529)
Proceeds from sales of investments	924	859	3,056
Other	(5)	–	(2)
Net cash provided by (used in) investing activities	109	22	(1,365)

Sutter Health and Affiliates

Consolidated Statements of Cash Flows (continued)

(Unaudited)

(Dollars in millions)

	Three months ended March 31,		Year ended December 31,
	2019	2018	2018
Financing activities	<i>(As Adjusted)</i>		
Payments of long-term obligations	\$ (1)	\$ (1)	\$ (152)
Refund of bonds	–	–	(633)
Proceeds from issuance of long-term obligations	–	–	1,314
Bond issuance costs	–	–	(9)
Bond issuance premium (discount), net	–	–	77
Restricted contributions and investment income	12	7	51
Distributions to noncontrolling interest	(17)	(19)	(74)
Net cash (used in) provided by financing activities	(6)	(13)	574
Net increase (decrease) in cash and cash equivalents	29	(99)	(33)
Cash and cash equivalents at beginning of year	362	395	395
Cash and cash equivalents at end of period	\$ 391	\$ 296	\$ 362

Sutter Health and Affiliates

Notes to Unaudited Interim Consolidated Financial Statements

(Dollars in millions)

ORGANIZATION

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

ACCOUNTING POLICIES

Basis of Consolidation: The Unaudited Interim Consolidated Financial Statements for Sutter Health and its controlled affiliates and subsidiaries (Sutter) have been prepared in accordance with generally accepted accounting principles in the United States and should be read in conjunction with Sutter's 2018 Audited Financial Statements. All significant intercompany accounts and transactions have been eliminated in consolidation.

Certain amounts in Sutter's March 31, 2018 Unaudited Interim Consolidated Financial Statements have been adjusted to conform with the presentation of its 2018 Audited Financial Statements and its March 31, 2019 Unaudited Interim Consolidated Financial Statements. Additionally, certain amounts in Sutter's 2018 Audited Financial Statements have been adjusted to conform with the presentation of its March 31, 2019 Unaudited Interim Consolidated Financial Statements. These adjustments had no impact on previously reported net assets or income.

Sutter Health Obligated Group (the "Obligated Group") is included in the Supplementary Information. On January 3, 2019, Better Health East Bay Foundation, which was a non-obligated group member, merged into Sutter Bay Hospitals, an obligated group member. Certain amounts in the Supplementary Information related to Sutter's presentation of the 2018 Obligated Group information have been adjusted to reflect this merger.

Sutter Health and Affiliates

Notes to Unaudited Interim Consolidated Financial Statements (continued)

(Dollars in millions)

ACCOUNTING POLICIES (continued)

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

Adoption of New Accounting Pronouncements: In July 2018, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2018-11, *Leases (Topic 842): Targeted Improvements*, which enhances ASU No. 2016-02, *Leases (Topic 842)*. The guidance of these ASUs requires the rights and obligations arising from the lease contracts, including existing and new arrangements, to be recognized as assets and liabilities on the balance sheet and allows for an option to apply the transition provisions of the new standard at its adoption date instead of at the earliest comparative period presented in its financial statements. Sutter adopted this guidance using the retrospective method as of the January 1, 2019 effective date. The Unaudited Interim Consolidated Financial Statements as of March 31, 2019 are presented under the new standard, while the comparative period is not adjusted and continues to be reported in accordance with our historical accounting policy. Adoption of the new standard resulted in the recording of an additional net right of use asset (ROU) of approximately \$685 and lease liabilities of \$763 as of January 1, 2019. The adoption of the lease standard did not result in a cumulative catch-up adjustment to opening equity.

In June 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This guidance clarifies and improves the scope and the accounting guidance for classification of exchange transactions and contributions received. Grants that are not exchange transactions are now reported in Contributions instead of Other revenues. Sutter adopted the ASU as of January 1, 2019.

In March 2017, the FASB issued ASU No. 2017-07, *Compensation Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. ASU 2017-07 requires employers that sponsor defined benefit pension and other postretirement benefit plans to report the service cost component of net benefit cost in the same line item as other compensation costs arising from services rendered by the pertinent employees during the period. Employers are required to present the other components of net benefit costs in the income statement separately from the service cost component and outside a subtotal of income from operations.

Sutter Health and Affiliates

Notes to Unaudited Interim Consolidated Financial Statements (continued)

(Dollars in millions)

ACCOUNTING POLICIES (continued)

Sutter early adopted this guidance as of January 1, 2019, using the full retrospective method of transition. The impact of the retrospective presentation on the Consolidated Statements of Operations and Changes in Net Assets for the three months ended March 31, 2018 and year ended December 31, 2018 is shown below:

	Three months ended March 31, 2018		
	Reported	Change	Adjusted
Salaries and employee benefits	\$ 1,462	\$ 23	\$ 1,485
Other components of net periodic postretirement cost	–	(23)	(23)
Total	\$ 1,462	\$ –	\$ 1,462

	Year ended December 31, 2018		
	Reported	Change	Adjusted
Salaries and employee benefits	\$ 5,852	\$ 90	\$ 5,942
Other components of net periodic postretirement cost	–	(90)	(90)
Total	\$ 5,852	\$ –	\$ 5,852

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.

Sutter Health and Affiliates

Notes to Unaudited Interim Consolidated Financial Statements (continued)

(Dollars in millions)

FAIR VALUE MEASUREMENTS (continued)

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 held no Level 3 financial instruments as of March 31, 2019 and 2018, and December 31, 2018.

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

	March 31, 2019		
	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Total
Liquid investments			
Cash equivalents	\$ 230	\$ —	\$ 230
Equity securities			
U.S. equity	1,101	—	1,101
Foreign equity	500	—	500
Fixed income securities			
U.S. government	365	—	365
U.S. government agencies	—	7	7
U.S. state and local government	—	67	67
U.S. federal agency mortgage-backed	—	270	270
Foreign government	—	237	237
U.S. corporate	58	555	613
Foreign corporate	2	187	189
	\$ 2,256	\$ 1,323	\$ 3,579
Investments measured at net asset value			2,557
			\$ 6,136

Sutter Health and Affiliates

Notes to Unaudited Interim Consolidated Financial Statements (continued)

(Dollars in millions)

FAIR VALUE MEASUREMENTS (continued)

	December 31, 2018		
	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Total
Liquid investments			
Cash equivalents	\$ 108	\$ —	\$ 108
Equity securities			
U.S. equity	1,088	—	1,088
Foreign equity	464	—	464
Fixed income securities			
U.S. government	388	—	388
U.S. government agencies	—	3	3
U.S. state and local government	—	78	78
U.S. federal agency mortgage-backed	—	274	274
Foreign government	—	223	223
U.S. corporate	56	671	727
Foreign corporate	2	176	178
	\$ 2,106	\$ 1,425	\$ 3,531
Investments measured at net asset value			2,452
			\$ 5,983

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

As of March 31, 2019 and December 31, 2018, 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.

Sutter Health and Affiliates

Notes to Unaudited Interim Consolidated Financial Statements (continued)

(Dollars in millions)

FAIR VALUE MEASUREMENTS (continued)

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.

Investments measured at net asset value: Certain investments that are measured using the Net Asset Value (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 Unaudited Interim Consolidated Financial Statements (continued)

(Dollars in millions)

FAIR VALUE MEASUREMENTS (continued)

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

March 31, 2019				
	Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period (if currently eligible)
Commingled funds – U.S. equity securities	\$ 117	\$ –	Daily	1 day
Commingled funds – foreign equity securities	430	–	Monthly	5–30 days
Commingled funds – debt securities	304	–	Daily, Monthly	3–15 days
Commodity-linked funds	137	–	Daily	None
Hedge funds	1,070	–	Monthly, Quarterly	10–120 days
Private equity funds	231	301	None	None
Private equity real estate funds	268	232	None	None
Total	\$ 2,557	\$ 533		
December 31, 2018				
	Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period (if currently eligible)
Commingled funds – U.S. equity securities	\$ 161	\$ –	Daily	1 day
Commingled funds – foreign equity securities	392	–	Monthly	5–30 days
Commingled funds – debt securities	290	–	Daily, Monthly	3–15 days
Commodity-linked funds	127	–	Daily	None
Hedge funds	999	–	Monthly, Quarterly	5–120 days
Private equity funds	217	307	None	None
Private equity real estate funds	266	237	None	None
Total	\$ 2,452	\$ 544		

Sutter Health and Affiliates

Notes to Unaudited Interim Consolidated Financial Statements (continued)

(Dollars in millions)

FAIR VALUE MEASUREMENTS (continued)

Commingled funds – U.S. and foreign 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 March 31, 2019, approximately 21% of this class is redeemable daily with a 1-day notice period. The remaining 79% of this class is redeemable monthly with a notice period of 5 to 30 days.

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 March 31, 2019, approximately 25% of the value of this class is redeemable daily with a notice period of 3 days. The remaining 75% of this class is redeemable monthly with a 15-day notice period.

Commodity-linked funds: This class includes commodity-linked funds that pursue long-only fully collateralized commodity futures strategies to provide diversification and inflation protection. As of March 31, 2019, these funds are redeemable daily with no notice period.

Hedge funds: 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 hedge fund portfolio as of March 31, 2019:

% of Hedge Funds	Redemption Criteria	Notice Period
66%	Redeemable monthly	10–90 days
6%	Redeemable quarterly	45–90 days
5%	Limited to a 25% gate, redeemable quarterly	60–65 days
3%	One-year lock-up expiring in December 2019	90 days
15%	Two-year rolling lock-ups periodically expiring through March 2021	120 days
5%	Redeemable annually over five rolling years with quarterly payments or limited to a 5% quarterly gate	90-120 days

Sutter Health and Affiliates

Notes to Unaudited Interim Consolidated Financial Statements (continued)

(Dollars in millions)

FAIR VALUE MEASUREMENTS (continued)

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 as of March 31, 2019, 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 as of March 31, 2019, to be over the next 2 to 13 years.

LEASES

Sutter leases property and equipment primarily under operating leases. The related asset and obligation are recorded at the present value of lease payments over the term of the agreements. Many of Sutter's leases include rental escalation clauses, renewal options and/or termination options that are factored into the determination of lease payments. Variable lease payments are nonlease services related to the lease and are excluded from the ROU asset and lease liabilities and are recognized in the period in which the obligation of those payments is incurred. Generally, Sutter does not include renewal options in the lease terms for calculating the lease liability as Sutter maintains operational flexibility and is not reasonably certain the renewal options will be exercised. Most of Sutter's leases do not provide a readily determinable implicit rate in the contract, therefore, the incremental borrowing rate is estimated to discount the lease payments based on information available at lease commencement. Upon adoption of the new lease standard, discount rates for existing leases were established at January 1, 2019.

Sutter elected the package of practical expedients permitted under the transition guidance within the new standard, which among other things, allowed the historical lease classification not to be reassessed. Sutter made an accounting policy election to not apply the recognition requirements of the guidance to short-term leases with a term of 12 months or less for equipment and vehicle classes of assets. Sutter also made an accounting policy election to not separate non-lease components from lease components for all classes of assets. Sutter did not elect the hindsight practical expedient, which permits entities to use hindsight in determining the lease term and assessing impairment.

Sutter Health and Affiliates

Notes to Unaudited Interim Consolidated Financial Statements (continued)

(Dollars in millions)

LEASES (continued)

The table below presents the lease-related assets and liabilities recorded on the balance sheet:

Leases	Consolidated Balance Sheets	March 31, 2019
Assets		
Operating lease right-of use assets	Other non-current assets	\$ 497
Financing lease right-of use assets	Property, plant and equipment, net	180
		\$ 677
Current Liabilities		
Operating lease liabilities	Other accrued expenses	\$ 101
Financing lease liabilities	Current portion of long-term obligations	1
Noncurrent Liabilities		
Operating lease liabilities	Other	455
Financing lease liabilities	Long-term obligations, less current portion	195
		\$ 752
Weighted-average operating leases remaining lease term		9.66 years
Weighted-average financing leases remaining lease term		29.75 years
Weighted-average operating lease discount rate		3.73%
Weighted-average financing lease discount rate		4.43%

Operating lease costs of \$32 and variable lease costs of \$6 were recorded as Rentals and leases in the Consolidated Statements of Operations and Changes in Net Assets for the three months ended March 31, 2019. Financing lease costs were not material for the same period.

Cash paid for amounts included in the measurement of lease liability as of March 31, 2019 were \$32 for operating leases and \$2 for financing leases. Operating cash paid was included within Operating activities and Financing cash paid was included within Investing activities.

ROU assets obtained in exchange for lease obligations during the three months ended March 31, 2019 were \$6 and \$2 for operating and financing leases, respectively.

Sutter Health and Affiliates

Notes to Unaudited Interim Consolidated Financial Statements (continued)

(Dollars in millions)

LEASES (continued)

The table below reconciles the undiscounted cash flows for the first five years and total of the remaining years to the lease liabilities recorded on the balance sheet as of March 31, 2019 for operating and financing leases:

	Operating Leases	Financing Leases
2019	\$ 94	\$ 7
2020	109	9
2021	99	10
2022	84	10
2023	60	10
Thereafter	243	328
	689	374
Less imputed interest	(133)	(178)
	\$ 556	\$ 196

LONG-TERM OBLIGATIONS

Long-term obligations consist of the following:

	March 31, 2019
Non-taxable revenue bonds under the Sutter Health Master Indenture of Trust, fixed interest at 1.0% to 5.5%, through 2052 (includes net unamortized premiums and discounts of \$325 and debt issuance costs of (\$20) as of March 31, 2019)	\$ 3,854
Taxable revenue bonds under the Sutter Health Master Indenture of Trust, fixed interest at 2.29% to 4.09%, through 2048 (includes unamortized discount of (\$4) and debt issuance costs of (\$4) as of March 31, 2019)	779
Various collateralized and unsecured obligations	31
Obligations under financing leases	196
	4,860
Less current portion	(58)
	\$ 4,802

Sutter Health and Affiliates

Notes to Unaudited Interim Consolidated Financial Statements (continued)

(Dollars in millions)

LONG-TERM OBLIGATIONS (continued)

The aggregate estimated fair market value of Sutter's revenue bonds as of March 31, 2019 of \$4,735, was 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 Obligated Group, with their assets being subject to the indebtedness of the Obligated Group. Although the Obligated Group is not a legal entity, members of the Obligated Group are jointly and severally liable for repayment of the tax-exempt obligations issued through the California Health Facilities Financing Authority (CHFFA), California Statewide Communities Development Authority (CSCDA) and taxable obligations issued by Sutter. The related financing documents and various other debt agreements contain certain restrictive covenants requiring compliance by all Obligated Group members, including a pledge of gross revenue.

In April 2018, \$619 of Series 2018A CHFFA tax-exempt revenue bonds were issued at a premium of \$81 on behalf of Sutter. The proceeds of the 2018A bonds were used to reimburse prior capital expenditures.

In April 2018, \$688 of Series 2018A Sutter Health taxable bonds were issued at a discount of \$4 by Sutter to advance refund \$237 of Series 2011A CSCDA tax-exempt revenue bonds and \$396 of Series 2011B CHFFA tax-exempt revenue bonds (collectively, the "2018 Refunded Bonds"). The proceeds of Series 2018A taxable bonds, together with the release of certain funds related to the 2018 Refunded Bonds, were placed in escrow funds pursuant to the related escrow agreements with the related bond trustee. The funds held in each escrow fund will be sufficient to pay the regularly scheduled interest payments when due, and 100% of the principal amount of the applicable 2018 Refunded Bonds at the applicable redemption date. The 2018 Refunded Bonds were legally defeased and derecognized at the date of refunding, with redemptions scheduled to occur in August 2020. These refunds resulted in a loss on extinguishment of debt of \$54.

Sutter has a \$400 revolving line of credit with a syndicate of banks, with \$400 available for borrowing as of March 31, 2019.

Sutter Health and Affiliates

Notes to Unaudited Interim Consolidated Financial Statements (continued)

(Dollars in millions)

OPERATING REVENUES

Sutter records revenue in four financial statement categories: Patient service revenues, Premium revenues, Contributions, and Other. Performance obligations are identified based on the nature of the services provided.

Sutter elected the practical expedient allowed under FASB ASC 606-10-32-18, and does not adjust the promised amount of consideration for the effects of a significant financing component, due to Sutter's expectation that the period between the time the service is provided and the receipt of payment will be one year or less. However, Sutter does, in certain instances, enter into payment agreements that allow payments in excess of one year. For those cases, the financing component is not deemed to be significant to the contract. Additionally, Sutter elected to apply the optional exemption provided in FASB ASC 606-10-50-14(a), because all of its performance obligations relate to contracts with a duration of less than one year. Therefore, Sutter is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially satisfied at the end of the reporting period.

Patient service revenues: Sutter's Patient service revenues are reported at the amount that reflects the consideration to which Sutter expects to be paid for providing patient care. These amounts are due from patients and third-party payers, including health insurers and government programs. Patients who meet Sutter's criteria for charity care are provided care without charge or at amounts less than established rates. Such amounts determined to qualify as charity care are not reported as revenue. Generally, Sutter bills the patients and third-party payers after the services are performed.

Patient service revenues are recognized as performance obligations are satisfied. Inpatient services are performance obligations satisfied over time and revenue is recognized based on actual charges incurred in relation to total expected or actual charges. Unsatisfied or partially unsatisfied performance obligations relate to inpatient acute care services at the end of the reporting period. The performance obligations for these contracts are generally completed when the patients are discharged, which generally occurs within days or weeks of the end of the reporting period. Outpatient services are performance obligations satisfied at a point in time and revenue is recognized when goods or services are provided, and Sutter does not believe it is required to provide additional goods or services.

Sutter uses a portfolio approach to account for categories of patient contracts as a collective group, rather than recognizing revenue on an individual contract basis. The portfolios consist of major payer classes for inpatient and outpatient revenue. Based on historical

Sutter Health and Affiliates

Notes to Unaudited Interim Consolidated Financial Statements (continued)

(Dollars in millions)

OPERATING REVENUES (continued)

collection trends, Sutter believes that revenue recognized by utilizing the portfolio approach approximates the revenue that would have been recognized if an individual contract approach was used.

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. 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 and other third-party payers and/or disclosure of such overpayments, including, but not limited to, disclosure to the Centers for Medicare and Medicaid Services (CMS) and its contracted agents, or the Office of Inspector General, Department of Health and Human Services. As a result, there is at least a reasonable possibility that the recorded estimates may change by a material amount in the near term.

The majority of Sutter's services are provided to patients with third-party coverage and Sutter has agreements with third-party payers that provide for payments to Sutter at contractually adjusted amounts. Patient service revenues are estimated based on the terms of the contractual agreement with the payer, Sutter's historical settlement activity and other information. Settlements with third-party payers for retroactive adjustments due to audits, reviews or investigations are considered variable consideration, and are included in the determination of Patient service revenues when information becomes available. Additional revenues arising from a change in the estimate of transaction price concessions for performance obligations satisfied in prior years were \$44 and \$68 for the three months ended March 31, 2019 and 2018, respectively.

Payment arrangements are as follows:

Medicare: Inpatient acute care services and outpatient services provided to Medicare program beneficiaries are paid at prospectively determined rates per diagnosis. Sutter

Sutter Health and Affiliates

Notes to Unaudited Interim Consolidated Financial Statements (continued)

(Dollars in millions)

OPERATING REVENUES (continued)

is paid for cost-reimbursable items at a tentative rate. Physician services are paid based upon established fee schedules. Outpatient services are paid using prospectively determined rates. Amounts received from the Medicare programs are subject to audit and final settlement by a Medicare Administrative Contractor after submission of annual cost reports. Sutter's Medicare cost reports have been audited generally through December 31, 2014. The estimated net settlement payables are \$26 and \$17 and adjustments from the finalization of prior-year cost reports were immaterial as of March 31, 2019 and 2018, respectively.

Medi-Cal: Inpatient and outpatient services provided to Medi-Cal program beneficiaries are paid either under contracted rates or cost-reimbursable items at a tentative rate. Services are generally paid at prospectively determined rates per discharge, per occasion of service, or per covered member. Amounts received from Medi-Cal programs are subject to audit and final settlement by the California Department of Health Care Services after submission of annual cost reports. Sutter's Medi-Cal cost reports have been audited generally through December 31, 2014. The estimated net settlement payables and adjustments from the finalization of prior-year cost reports were immaterial as of March 31, 2019 and 2018.

Commercial: Inpatient and outpatient services provided to patients covered under commercial insurance policies are paid using a variety of payment methodologies based on contractual agreements. The transaction price for commercial payers is reduced by explicit contractual adjustments, and implicit price concessions based on collection history with this portfolio of patients.

Other: Inpatient and outpatient services provided to patients, not covered by third-party payers, are paid based on Sutter's policies and the patient's ability to pay. Sutter reduces the transaction price by implicit price concessions to uninsured patients and patients with uninsured balances, such as copays and deductibles. The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amounts Sutter expects to collect based on its collection history with this portfolio of patients. Subsequent changes to the estimates are considered variable consideration and are included in Patient service revenues when information becomes available.

As part of its Patient service revenues analysis, Sutter examines the fluctuations in payer, geographical area, and entity type as each factor represents a varying degree of uncertainty regarding the nature, timing, and extent of payments.

Sutter Health and Affiliates

Notes to Unaudited Interim Consolidated Financial Statements (continued)

(Dollars in millions)

OPERATING REVENUES (continued)

The composition of Patient service revenues by payer is as follows:

	Three months ended March 31,	
	2019	2018
Medicare	\$ 754	\$ 718
Medi-Cal	397	363
Commercial	1,639	1,562
Other	55	56
	\$ 2,845	\$ 2,699

The composition of Patient service revenues based on Sutter's area of operations and entity type are as follows:

	Three months ended March 31, 2019			
	Sutter Health Bay Area	Sutter Health Valley Area	Other	Total
Acute care	\$ 1,030	\$ 789	\$ 30	\$ 1,849
Medical foundation	597	285	-	882
Other	29	8	139	176
Eliminations	(23)	(20)	(19)	(62)
	\$ 1,633	\$ 1,062	\$ 150	\$ 2,845

	Three months ended March 31, 2018			
	Sutter Health Bay Area	Sutter Health Valley Area	Other	Total
Acute care	\$ 998	\$ 749	\$ 28	\$ 1,775
Medical foundation	585	273	-	858
Other	30	7	134	171
Eliminations	(23)	(21)	(61)	(105)
	\$ 1,590	\$ 1,008	\$ 101	\$ 2,699

Sutter Health and Affiliates

Notes to Unaudited Interim Consolidated Financial Statements (continued)

(Dollars in millions)

OPERATING REVENUES (continued)

The State of California enacted legislation for a hospital fee program to fund certain Medi-Cal coverage expansions. The program charges certain hospitals a quality assurance fee that is used to obtain federal matching funds for Medi-Cal, with the proceeds redistributed as supplemental payments to California hospitals that treat Medi-Cal patients. There are two hospital fee programs that had activity in 2018 and 2017: a 36-month hospital fee program covering the period from January 1, 2014 through December 31, 2016, and a 30-month hospital fee program covering the period from January 1, 2017 through June 30, 2019. Supplemental payments met all criteria related to revenue recognition, and the quality assurance fees are both probable and estimable. Accordingly, all related supplemental payments have been recognized as revenue and related quality assurance fees recognized as expense as of March 31, 2019 and December 31, 2018.

Patient service revenues and Other expenses include amounts for the hospital fee program as follows:

	Three months ended March 31,		Year ended December 31,
	2019	2018	2018
Hospital fee program revenue	\$ 133	\$ 113	\$ 577
Hospital fee program expense	(77)	(75)	(305)
Income from operations from hospital fee program	\$ 56	\$ 38	\$ 272
	March 31,		December 31,
	2019	2018	2018
Other receivables	\$ 619	\$ 627	\$ 561
Other	\$ –	\$ 51	\$ –
Accounts payable	\$ 152	\$ 293	\$ 219

Premium revenues: Sutter has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, preferred provider organizations, and members of individual and family plans and subscribing employers for small and large cap coverage. The basis for payment to Sutter, under these agreements, includes capitated arrangements, prospectively determined rates per diagnosis, prospectively determined daily rates, rates by demographics and rates by a number of factors including experience. The transaction price may be reduced by discounts, reinsurance premiums, and implicit

Sutter Health and Affiliates

Notes to Unaudited Interim Consolidated Financial Statements (continued)

(Dollars in millions)

OPERATING REVENUES (continued)

price concessions based on collection history. Other adjustments may include prior year settlements, stop loss recoveries, ceded premiums and risk adjustment factors. Performance obligations are satisfied over the passage of time by standing ready to provide services.

Settlements with third-party payers for retroactive adjustments are considered variable consideration and are included in the determination of Premium revenues when information becomes available. Adjustments from the finalization of prior-year settlements and adjustments arising from a change in the transaction price were immaterial as of March 31, 2019 and 2018.

As part of its Premium revenues analysis, Sutter examines the fluctuations in geographical area and entity type, as each factor represents a varying degree of uncertainty regarding the nature, timing and extent of payments. Sutter's premium revenue is reported at an amount that reflects the consideration to which Sutter expects to be paid.

The composition of Premium revenues based on Sutter's area of operations and line of business are as follows:

	Three months ended March 31, 2019			
	Sutter Health Bay Area	Sutter Health Valley Area	Other	Total
Acute care	\$ 53	\$ 97	\$ –	\$ 150
Medical foundation	79	89	–	168
Insurance	–	–	124	124
Other	–	8	26	34
Eliminations	–	(1)	(108)	(109)
	<u>\$ 132</u>	<u>\$ 193</u>	<u>\$ 42</u>	<u>\$ 367</u>

Sutter Health and Affiliates

Notes to Unaudited Interim Consolidated Financial Statements (continued)

(Dollars in millions)

OPERATING REVENUES (continued)

	Three months ended March 31, 2018			
	Sutter Health Bay Area	Sutter Health Valley Area	Other	Total
Acute care	\$ 47	\$ 85	\$ –	\$ 132
Medical foundation	79	83	–	162
Insurance	–	–	104	104
Other	–	8	22	30
Eliminations	–	(1)	(92)	(93)
	<u>\$ 126</u>	<u>\$ 175</u>	<u>\$ 34</u>	<u>\$ 335</u>

Other revenues: Sutter has additional revenue streams from tuition, health professionals, rental properties and parking. Revenue is recognized when obligations under the terms of the contract are satisfied. Revenues from these services are measured as the amount of consideration Sutter expects to receive for those services.

POSTRETIREMENT BENEFITS

Sutter sponsors and participates in various employee benefit plans, including a noncontributory defined benefit plan (the “Retirement Plan”), a noncontributory defined contribution plan, and several contributory defined contribution plans. Sutter’s total retirement benefit expense was \$97 and \$73 for the three months ended March 31, 2019 and 2018, respectively.

Sutter’s measurement date for plan assets, pension obligations and net periodic pension cost associated with the Retirement Plan is December 31. The Retirement Plan had a net accrued benefit cost of \$599 as of December 31, 2018. Sutter contributed \$250 to the Retirement Plan in 2018.

Included in Controlling net assets without donor restrictions as of December 31, 2018 are the following amounts that have not yet been recognized in net periodic benefit cost: unrecognized prior service costs of \$0 and unrecognized actuarial loss of \$1,263. The amounts included in Controlling net assets without donor restrictions that are expected to be recognized in net periodic benefit cost during the year ended December 31, 2019, are \$0 for prior service costs and \$70 for actuarial loss.

Sutter Health and Affiliates

Notes to Unaudited Interim Consolidated Financial Statements (continued)

(Dollars in millions)

POSTRETIREMENT BENEFITS (continued)

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

	Three months ended March 31,		Year ended December 31,
	2019	2018	2018
Service cost	\$ 67	\$ 69	\$ 276
Interest cost	51	43	174
Expected return on plan assets	(68)	(75)	(303)
Amortization of actuarial loss	18	11	45
	\$ 68	\$ 48	\$ 192

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

The Health Plans had a net accrued benefit cost of \$53 as of December 31, 2018.

Included in Controlling net assets without donor restrictions as of December 31, 2018 are the following amounts that have not yet been recognized in net periodic benefit cost: unrecognized prior service costs of \$6 and unrecognized actuarial loss of \$9. The amounts included in Controlling net assets without donor restrictions that are expected to be recognized in net periodic benefit cost during the year ended December 31, 2019, are \$1 for prior service cost and \$0 for actuarial gain.

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

	Three months ended March 31,		Year ended December 31,
	2019	2018	2018
Service cost	\$ 3	\$ 3	\$ 13
Interest cost	3	3	10
Expected return on plan assets	(4)	(4)	(17)
Amortization of prior service cost	-	-	1
	\$ 2	\$ 2	\$ 7

Sutter Health and Affiliates

Notes to Unaudited Interim Consolidated Financial Statements (continued)

(Dollars in millions)

POSTRETIREMENT BENEFITS (continued)

Certain affiliates participate in multiemployer defined benefit retirement 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's contributions to such plans were \$4 as of March 31, 2019 and 2018. Sutter also maintains various defined contribution plans for eligible employees. Sutter's contributions to such plans were \$23 and \$19 as of March 31, 2019 and 2018, respectively.

CONTINGENCIES AND COMMITMENTS

Contingencies: From time to time, Sutter receives, and responds to, investigations and requests concerning possible violations of reimbursement, false claims, anti-kickback and anti-referral statutes and regulations by health care providers from federal and state regulatory agencies, including, but not limited to, the Centers for Medicare and Medicaid (CMS), the U.S. Department of Justice (DOJ), the California Attorney General, and the California Department of Public Health. Sutter is also involved in litigation such as medical malpractice and contractual disputes, as both plaintiff and defendant, and other routine labor matters, class-action complaints, tax examinations, security events resulting in potential privacy incidents, internal compliance activities (including those discussed in Operating Revenues) and regulatory investigations and examinations arising in the ordinary course of business. Based on Sutter's assessment of the matters, the uncertainty of litigation, and the preliminary stages of many of the matters, Sutter cannot estimate the reasonable possible loss or range of loss that may result from these matters, if any. However, there can be no assurance that the resolution of any of these matters will not have a material adverse effect on Sutter's consolidated financial position or results of operations and following is a discussion of matters of note.

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. A supplement to the

Sutter Health and Affiliates

Notes to Unaudited Interim Consolidated Financial Statements (continued)

(Dollars in millions)

CONTINGENCIES AND COMMITMENTS (continued)

disclosure was later submitted in October 2016. The resolution of the voluntary self-disclosures was placed on hold in February 2015 when Sutter received notification of a regulatory investigation regarding certain physician financial arrangements, spanning a timeframe beginning in January 2006 through 2018. Due to the overlapping nature of the voluntary self-disclosures and investigation, discussions of these matters were consolidated. These matters could result in payments to the government and/or the imposition of additional compliance requirements. At this time, management cannot estimate the total 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 these matters will not have a material adverse effect on Sutter's consolidated financial position or results of operations.

In December 2012, a plaintiff filed a civil class action lawsuit against Sutter Health and certain affiliates, alleging violations of Federal antitrust law arising out of, among other things, Sutter Health and those certain affiliates' arrangements with health plans. Following multiple amended complaints, the court dismissed the lawsuit with prejudice, entering judgment in favor of Sutter Health and the related affiliates in June 2014. Plaintiff appealed to the Ninth Circuit and the Ninth Circuit overturned the dismissal, returning the case back to the court. The court heard Sutter Health and the related affiliates' summary judgment motion on January 24, 2019, and the plaintiff's motion for class certification on January 29, 2019. The court denied the summary judgment motion in part, currently allowing the matter to proceed. If the court certifies the class, the lawsuit will be allowed to proceed as a class action lawsuit. The certification of the class would be a procedural decision and no decision will have been made on the substantive allegations of the lawsuit with trial anticipated in Spring 2020. There can be no assurance that the resolution of this matter will not have a material adverse effect on Sutter's consolidated financial position or results of operations.

In April 2014, UFCW & Employers Benefit Trust, a self-funded labor union trust fund which accesses the Sutter network through Sutter's contract with Blue Shield, filed a civil class action lawsuit against Sutter Health and certain affiliates. This lawsuit alleges that Sutter Health and those certain affiliates' contracting practices led to high prices and reduced competition for health care services in violation of state antitrust and unfair competition laws. In August 2017, the court certified the class, allowing the lawsuit to proceed as a class action lawsuit. The certification of the class is a procedural decision and no decision has been made on the substantive allegations of the lawsuit. In March 2018, the California Attorney General filed a complaint against Sutter Health and certain affiliates that mirrors UFCW & Employers Benefit Trust's class action lawsuit. The court ordered the California Attorney General's lawsuit consolidated with UFCW & Employers

Sutter Health and Affiliates

Notes to Unaudited Interim Consolidated Financial Statements (continued)

(Dollars in millions)

CONTINGENCIES AND COMMITMENTS (continued)

Benefit Trust's class action lawsuit. Trial is scheduled for August 12, 2019. The consolidated lawsuits presently seek monetary damages in addition to certain injunctive relief, which would proceed to trial in the event that the court awards any monetary damages. Sutter Health and the related affiliates believe their contracting practices are in compliance with industry standards and with all applicable laws and regulations and will continue to vigorously defend the consolidated lawsuits. However, 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.

Sutter Health and one of its affiliates are finalizing contractual dispute issues with certain third-party commercial payers related to a lab outreach program. Specifically, Sutter Health and this affiliate have addressed and settled a number of these payment inquiries and are close to settling all remaining payment inquiries from third-party commercial payers. Management estimated and accrued an amount reasonably anticipated to be paid due to these payment inquiries and it is management's opinion that payments due beyond the accrual, if any, will not have a material adverse effect on Sutter's future consolidated financial position or results of operations. Management is also in the process of responding to inquiries from the DOJ related to the lab outreach program.

Concurrently with the implementation of certain Medicare billing rules in October 2013, CMS has indicated that a written and authenticated inpatient admission order from an authorized physician was a condition of payment for Medicare billing. As a part of its compliance activities, Sutter undertook an internal compliance audit process related to these Medicare billing rules. Based on preliminary data analysis and an audit of samples of cases, management accrued an amount for potential liabilities and Sutter submitted an estimated overpayment refund. CMS accepted the overpayment refund and, to date, has not requested any additional information. The ultimate resolution of this matter will not have a material adverse effect on Sutter's future consolidated financial position or results of operations.

In June 2016, Sutter Health received notice from the DOJ that it was investigating Sutter Health and certain affiliates for potential False Claims Act violations in connection with the provision of diagnostic and other data submitted to Medicare Advantage (MA) organizations or MA plans related to MA enrollees who have received medical services from those affiliates. Management accrued an amount for potential liabilities related to this matter. Following rolling productions and extended negotiations, Sutter Health and the related affiliates agreed to settle the matter solely on an overpayment basis as to all related affiliates except one. The liability accrued was adequate for the settlement. As to the single

Sutter Health and Affiliates

Notes to Unaudited Interim Consolidated Financial Statements (continued)

(Dollars in millions)

CONTINGENCIES AND COMMITMENTS (continued)

remaining related affiliate involved in the investigation, in March 2019, the government intervened in the lawsuit that prompted the investigation. The lawsuit, a previously sealed False Claims Act qui tam complaint that is now public, was brought by a former employee. There can be no assurance that the resolution of the lawsuit will not have a material adverse effect on Sutter's consolidated financial position or results of operations.

Two affiliates (collectively, the "Sutter Participants") participate in a multi-employer plan that covers certain hospital employees in the San Francisco Bay Area. The main contributing employers in the plan are the Sutter Participants, Dignity Health and Verity Health System of California, Inc., formerly known as Daughters of Charity Health System ("Verity"). On August 31, 2018, Verity filed for bankruptcy. If any of the contributing employers defaults on its plan obligations or an employer's obligations are ultimately discharged in bankruptcy, then the funding liability of the related employer could become the responsibility of the remaining employers. As the parent of the Sutter Participants, Sutter Health could be jointly and severally liable for certain liabilities related to plan funding. The amount of any such additional liability, which remains subject to determination by the bankruptcy court and the value of the plan assets at the time of such determination, could be approximately \$50.

As of March 31, 2019, Sutter has approximately 54,000 employees, of which approximately 25% are represented by collective bargaining units.

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.

Sutter's capital allocation plan, which includes amounts for seismic retrofits, replacement facilities, relocations and expansion is approximately \$4,310 (unaudited) from January 1, 2019 to December 31, 2023. Management and the Board of Directors evaluate Sutter's capital needs on an ongoing basis.

SUBSEQUENT EVENTS

Sutter has evaluated subsequent events and disclosed all material events through May 29, 2019, which is the date these Unaudited Interim Consolidated Financial Statements were issued.

Sutter Health and Affiliates

Consolidated Balance Sheets - Sutter Health Obligated Group (Unaudited) (Dollars in millions)

	March 31,		December 31,
	2019	2018	2018
	<i>(As Adjusted)</i>		<i>(As Adjusted)</i>
Assets			
Current assets:			
Cash and cash equivalents	\$ 304	\$ 204	\$ 262
Short-term investments	4,458	4,282	4,426
Patient accounts receivable	1,285	1,412	1,220
Other receivables	876	774	786
Inventories	126	118	127
Other	242	286	173
Total current assets	7,291	7,076	6,994
Non-current investments	756	535	723
Property, plant and equipment, net	8,339	7,928	8,163
Other non-current assets	897	431	401
	\$ 17,283	\$ 15,970	\$ 16,281
Liabilities and net assets			
Current liabilities:			
Accounts payable	\$ 618	\$ 740	\$ 753
Accrued salaries and related benefits	675	603	641
Other accrued expenses	779	636	678
Current portion of long-term obligations	58	150	57
Total current liabilities	2,130	2,129	2,129
Non-current liabilities:			
Long-term obligations, less current portion	4,802	3,962	4,626
Other	1,628	998	1,168
Net assets:			
Without donor restrictions:			
Controlling	8,468	8,631	8,109
Noncontrolling	112	107	112
With donor restrictions	143	143	137
Total net assets	8,723	8,881	8,358
	\$ 17,283	\$ 15,970	\$ 16,281

Sutter Health and Affiliates

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

	Three months ended		Year ended
	March 31,		December 31,
	2019	2018	2018
	<i>(As Adjusted)</i>		<i>(As Adjusted)</i>
Net assets without donor restrictions:			
Operating revenues:			
Patient service revenues	\$ 2,839	\$ 2,694	\$ 10,935
Premium revenues	322	301	1,244
Contributions	3	-	1
Other	71	66	307
Total operating revenues	<u>3,235</u>	<u>3,061</u>	<u>12,487</u>
Operating expenses:			
Salaries and employee benefits	1,524	1,462	5,853
Purchased services	858	801	3,325
Supplies	386	363	1,490
Depreciation and amortization	168	159	676
Rentals and leases	44	43	172
Interest	38	22	115
Insurance	19	19	77
Other	158	150	652
Total operating expenses	<u>3,195</u>	<u>3,019</u>	<u>12,360</u>
Income from operations	40	42	127
Investment income	83	27	171
Change in net unrealized gains and losses on investments classified as trading	245	22	(383)
Loss on extinguishment of debt	-	-	(54)
Other components of net periodic postretirement cost	-	23	90
Income (loss)	<u>368</u>	<u>114</u>	<u>(49)</u>
Less income attributable to noncontrolling interests	<u>(18)</u>	<u>(18)</u>	<u>(78)</u>
Income (loss) attributable to Sutter Health Obligated	<u>350</u>	<u>96</u>	<u>(127)</u>

Sutter Health and Affiliates

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

	Three months ended March 31,		Year ended December 31,
	2019	2018	2018
	<i>(As Adjusted)</i>		<i>(As Adjusted)</i>
Net assets without donor restrictions (continued):			
Controlling:			
Income (loss) attributable to Sutter Health Obligated Group	\$ 350	\$ 96	\$ (127)
Change in net unrealized gains and losses on investments classified as other-than-trading	(1)	4	20
Net assets released from restriction for equipment acquisition	1	-	17
Pension-related changes other than net periodic pension cost	18	11	(301)
Transfers with related entities, net	(6)	(2)	(21)
Other	(3)	1	-
Increase (decrease) in controlling	359	110	(412)
Noncontrolling:			
Income attributable to noncontrolling interests	18	18	78
Distributions	(17)	(19)	(74)
Other	(1)	-	-
Increase (decrease) in noncontrolling	-	(1)	4
Net assets with donor restrictions:			
Contributions	3	1	14
Investment income	1	1	3
Change in net unrealized gains and losses on investments	4	(1)	(6)
Net assets released from restriction	(2)	-	(16)
Other	-	-	-
Increase (decrease) in net assets with donor restrictions	6	1	(5)
Increase (decrease) in net assets	365	110	(413)
Net assets, beginning of year	8,358	8,771	8,771
Net assets, end of period	\$ 8,723	\$ 8,881	\$ 8,358

Sutter Health and Affiliates

Consolidated Statements of Cash Flows - Sutter Health Obligated Group (Unaudited) (Dollars in millions)

	Three months ended March 31,		Year ended December 31,
	2019	2018	2018
Operating activities		<i>(As Adjusted)</i>	<i>(As Adjusted)</i>
Increase (decrease) in net assets	\$ 365	\$ 110	\$ (413)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:			
Loss on extinguishment of debt	—	—	54
Depreciation and amortization	168	155	647
Amortization of bond issuance costs, (premium) and discount, net	(10)	(9)	(40)
Net realized gains and losses and change in net unrealized gains and losses on investments	(313)	(42)	256
Restricted contributions and investment income	(4)	(2)	(17)
Distributions to noncontrolling interest	17	19	74
Loss on impairment of property, plant and equipment	—	—	18
Loss on impairment of goodwill	—	—	4
Net (gain) loss on disposal of property, plant and equipment	(5)	4	4
Change in net postretirement benefits	51	31	241
Net changes in operating assets and liabilities:			
Patient accounts receivable and other receivables	(155)	(80)	100
Inventories and other assets	(81)	(85)	34
Accounts payable and accrued expenses	(137)	(209)	(145)
Other non-current liabilities	16	(12)	(50)
Net cash (used in) provided by operating activities	(88)	(120)	767
Investing activities			
Purchases of property, plant and equipment	(104)	(128)	(916)
Proceeds from disposal of property, plant and equipment	5	—	33
Purchases of investments	(581)	(626)	(3,090)
Proceeds from sales of investments	829	788	2,622
Other	(5)	—	(2)
Net cash provided by (used in) investing activities	144	34	(1,353)

Sutter Health and Affiliates

Consolidated Statements of Cash Flows - Sutter Health Obligated Group (continued) (Unaudited) (Dollars in millions)

	Three months ended March 31,		Year ended December 31,
	2019	2018	2018
	<i>(As Adjusted)</i>		<i>(As Adjusted)</i>
Financing activities			
Payments of long-term obligations	\$ (1)	\$ (1)	\$ (152)
Refund of bonds	-	-	(633)
Proceeds from issuance of long-term obligations	-	-	1,314
Bond issuance costs	-	-	(9)
Bond issuance premium	-	-	77
Restricted contributions and investment income	4	2	17
Distributions to noncontrolling interest	(17)	(19)	(74)
Net cash (used in) provided by financing activities	(14)	(18)	540
Net increase (decrease) in cash and cash equivalents	42	(104)	(46)
Cash and cash equivalents at beginning of year	262	308	308
Cash and cash equivalents at end of period	\$ 304	\$ 204	\$ 262

Sutter Health and Affiliates

Management's Discussion & Analysis

(Dollars in millions)

CONSOLIDATED ANALYSIS

For the three months ended March 31, 2019 compared to the three months ended March 31, 2018

Total operating revenues increased \$188, or 6.0%, for the three months ended March 31, 2019, compared to the three months ended March 31, 2018. Patient service revenues increased \$146 or 5.4%. Premium revenues increased \$32, or 9.6%, due to increased covered members.

Total operating expenses increased by \$185, or 6.0%, for the three months ended March 31, 2019, compared to the three months ended March 31, 2018. Salaries and employee benefits increased \$59, or 4.0%, due to increased cost of labor and an increase in labor counts of 1.5%. Purchased services increased \$58 or 7.1% primarily in medical group compensation and professional fees. Interest expense increased \$16 or 72.7% primarily due to a decrease in capitalized interest during the three months ended March 31, 2019 compared the three months ended March 31, 2018, which was related to the two new San Francisco hospitals being completed in 2018. The Mission Bernal Campus opened in August of 2018 and Van Ness Campus opened in March 2019.

Income from operations was \$38 for the three months ended March 31, 2019, compared to \$35 for the same period in 2018, which was an increase of \$3. The operating margin increased from 1.1% to 1.2% for the same year-over-year period comparison. Earnings (excluding investment income) before interest expense, taxes, depreciation and amortization (EBITDA) for the three months ended March 31, 2019 increased \$28 from \$217 (7.0% of operating revenues) in 2018 to \$245 (7.4% of operating revenues) in 2019.

Investment income for the three months ended March 31, 2019 was \$88, compared to \$33 for the same period in 2018. The Change in net unrealized gains and losses on investments classified as trading increased \$273 due to favorable market conditions. Sutter Health's asset allocation targets as of March 31, 2019 were 30% equities, 43% fixed income and 27% alternative investments. Other components of net periodic postretirement cost, a new line item after the implementation of ASU No. 2017-07 discussed under Adoption of New Accounting Pronouncements of this document, was \$0 for the three months ended March 31, 2019 compared to \$23 for the same period in 2018.

Income attributable to Sutter Health was \$394 for the three months ended March 31, 2019, compared to \$86 for the same period in 2018, which was an increase of \$308. This increase is due primarily to the increase in Change in net unrealized gains and losses on investments classified as trading of \$273, and the increase Investment income of \$55, offset by the decrease in Other components of net periodic postretirement cost of \$23.

Sutter Health and Affiliates

Management's Discussion & Analysis (continued)

(Dollars in millions)

CONSOLIDATED ANALYSIS (continued)

In March 2018, S&P Global Ratings affirmed Sutter Health's rating of AA- (stable), Moody's Investors Service affirmed Sutter Health's rating of Aa3 (stable) and Fitch Ratings downgraded Sutter Health's rating to A+ (stable).

OBLIGATED GROUP ANALYSIS

For the three months ended March 31, 2019 compared to the three months ended March 31, 2018

Total operating revenues of the Obligated Group increased \$174, or 5.7%, for the three months ended March 31, 2019, compared to the three months ended March 31, 2018. Income from operations was \$40 for the three months ended March 31, 2019 compared to \$42 for the same period in 2018, which was a decrease of \$2.

Income attributable to Sutter Health Obligated Group was \$350 for the three months ended March 31, 2019, compared to \$96 for the same period in 2018, which was an increase of \$254. This increase is due primarily to the increase in Change in net unrealized gains and losses on investments classified as trading of \$223, and the increase Investment income of \$56, offset by the decrease in Other components of net periodic postretirement cost of \$23.

**CONTINUING DISCLOSURE REPORT OF SUTTER HEALTH
FOR THE QUARTER ENDED MARCH 31, 2019**

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").

Unless otherwise required by the context, all terms used herein that are defined in the bond indentures, by and between Sutter Health and Wells Fargo Bank, National Association related to the Bonds shall have the meanings assigned to them therein, except as set forth herein.

<u>Bonds</u>	<u>CUSIP*</u>
California Health Facilities Financing Authority Revenue Bonds (Sutter Health), Series 2008A	13033F2X7
California Statewide Communities Development Authority Revenue Bonds (Sutter Health), Series 2011A	1307952J5, 1307952K2
California Health Facilities Financing Authority Revenue Bonds(Sutter Health), Series 2011B	13033LKP1, 13033LKQ9
California Statewide Communities Development Authority Revenue Bonds (Sutter Health), Series 2011C	1307954M6, 1307954N4, 1307954P9, 1307954V6, 1307954Q7, 1307954W4, 1307954R5, 1307954X2, 1307954S3, 1307954T1, 1307954Y0, 1307954U8
California Health Facilities Financing Authority Revenue Bonds (Sutter Health), Series 2011D	13033LVM6, 13033LVN4, 13033LVP9, 13033LVQ7, 13033LVR5, 13033LVS3, 13033LVT1, 13033LVU8, 13033LVX2, 13033LVV6, 13033LVW4
California Statewide Communities Development Authority Revenue Bonds (Sutter Health), Series 2012A	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 2013C	86944BAC7
California Health Facilities Financing Authority Refunding Revenue Bonds (Sutter Health) Series 2015A	13032UAQ1, 13032UAR9

* 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.

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
California Health Facilities Financing Authority Refunding Revenue Bonds (Sutter Health), Series 2016B	13032UDD7, 13032UDE5, 13032UDF2, 13032UDG0, 13032UDH8, 13032UDJ4, 13032UDK1, 13032UDL9, 13032UDM7, 13032UDN5, 13032UDP0, 13032UDQ8, 13032UDR6, 13032UDS4, 13032UDV7, 13032UDT2, 13032UDU9
California Health Facilities Financing Authority Revenue Bonds (Sutter Health), Series 2016C	13032UDW5
California Health Facilities Financing Authority Refunding Revenue Bonds (Sutter Health), Series 2017A	13032UNK0, 13032UNL8, 13032UNM6, 13032UNN4, 13032UNP9, 13032UNQ7, 13032UNR5, 13032UNS3, 13032UNT1, 13032UNU8, 13032UNV6, 13032UNW4, 13032UNX2, 13032UNY0
California Health Facilities Financing Authority Revenue Bonds (Sutter Health), Series 2018A	13032UQS0, 13032UQT8, 13032UQU5, 13032UQV3, 13032UQW1, 13032UQX9, 13032UQY7, 13032UQZ4, 13032URA8, 13032URB6, 13032URC4, 13032URD2, 13032URE0, 13032URF7, 13032URG5, 13032URH3, 13032URJ9, 13032URK6, 13032URL4, 13032URM2, 13032URN0, 13032URP5
Sutter Health Taxable Bonds, Series 2018A	86944BAD5, 86944BAE3

Employees, Unions and Collective Bargaining Units

As of March 31, 2019, the Sutter Health system had approximately 54,000 employees, of whom approximately 35,000 were full-time employees. Approximately 7,100* of these 54,000 employees were employed by Sutter Health and the remaining employees were employed by Affiliated Entities. Approximately 25% of these employees (employed at 21 Sutter Health facilities) were represented by collective bargaining units, with 52 collective bargaining agreements in place that remain subject to renegotiation from time to time. In connection with renegotiation of the collective bargaining agreements there could be 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.

* Upon satisfaction of the requirements of the Master Indenture, Sutter Connect, LLC, doing business as Sutter Physician Services (SPS), a non-Obligated Group member, merged into Sutter Health, an Obligated Group Member, on March 31, 2019. This merger resulted in an addition of approximately 1,900 employees to Sutter Health. This merger did not have a material adverse effect on the financial condition of the Obligated Group.

List of Obligated Group Members

As of March 31, 2019, the Obligated Group Members consisted of the following:

- Sutter Bay Hospitals
- Sutter Bay Medical Foundation
- Sutter Coast Hospital
- Sutter Health
- Sutter Valley Hospitals
- Sutter Valley Medical Foundation
- Sutter Visiting Nurse Association and Hospice

Obligated Group Utilization Data

The following table summarizes the Obligated Group's acute care facility utilization data for the quarter ended March 31, 2019. No Obligated Group long-term care facility utilization data is provided 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. This sale did not have a material adverse effect on the financial condition of the Obligated Group.

Obligated Group Acute Care Facility Utilization Data

	<u>Quarter Ended March 31, 2019</u>
Licensed Beds ⁽¹⁾	4,077
Beds in Service	3,837
Admissions ⁽²⁾	47,736
Patient Days ⁽²⁾	221,226
Average Length of Stay (Days)	4.6
Occupancy % ⁽³⁾	63.2%
Emergency Room Visits ⁽⁴⁾	215,113

⁽¹⁾ Conforms 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 quarter ended March 31, 2019.

Obligated Group Medical Foundations Operating Data		Quarter Ended <u>March 31, 2019</u>
Physicians		2,590
Facilities		315
Outpatient Visits		2,332,844

Sources of Revenues

Following are summaries of gross patient revenue for the Obligated Group by payer source for the quarter ended March 31, 2019.

	<u>Medicare</u>		<u>Medi-Cal</u>		<u>Commercial Programs</u>		<u>Other Payers</u>
	Non- Capitated	Capitated	Non- Capitated	Capitated	Non- Capitated	Capitated	
Total Obligated Group	40.3%	4.9%	17.7%	0.5%	29.4%	4.1%	3.1%
Acute Care Hospitals	43.0%	4.9%	21.2%	0.4%	23.8%	2.7%	4.0%
Medical Foundations	30.7%	5.1%	5.6%	0.4%	48.1%	8.6%	1.5%

The following table summarizes the number of individuals in each operating unit for whom certain physician independent practice associations and Sutter Health system medical foundation corporations provide health care services on a capitated basis as of March 31, 2019. Capitated members' lives covered by both Sutter Health's hospital corporations and these physician associations and corporations are not included in the following table.

**Sutter Health
Capitated Members ⁽¹⁾
March 31, 2019**

	Sutter Health Valley Area	Sutter Health Bay Area	Total
Capitated Members	152,708	144,814	297,522

⁽¹⁾ Includes Aligned IPAs, which are Non-Obligated Group Members.

Summary Financial Information

A copy of Sutter Health's unaudited financial statements for the quarter ended March 31, 2019 (the "Financial Statements") has been provided within this package. Please note that this Continuing Disclosure Report should be read in conjunction with the Financial Statements. Included within the Financial Statements is a summary statement of operations of the Obligated Group and a summary balance sheet of the Obligated Group, each for the quarter ended March 31, 2019.

Fixed Payment Coverage Ratio

The table below sets forth the actual Obligated Group's funds generated to cover fixed payments for the fiscal year 2018, 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, 2018
	<i>(As Adjusted)</i>
Income (Loss) ⁽¹⁾	\$ (127)
Depreciation, amortization, loss on disposal of assets	676
Interest expense	115
Loss on extinguishment of debt ⁽²⁾	54
Income available for debt service ⁽³⁾	718
Interest and principal on long-term debt and payment requirements on capital leases ⁽⁴⁾	\$ 272
Fixed payment coverage ratio (times)	2.6

⁽¹⁾ In accordance with the Master Indenture, includes certain operating and non-operating income (or loss), including, but not limited to, a change in net unrealized gains and losses on investments. While the Sutter Health Obligated Group reported a change in net unrealized gains and losses on investments of \$267 million for the fiscal year ended December 31, 2017, it reported a change in net unrealized gains and losses on investments of (\$383) million for fiscal year ended December 31, 2018 due to volatility in equity markets in the fourth quarter. The shift in overall performance between fiscal years December 31, 2017 and December 31, 2018 is also due to the recognition of multiple years of revenue from the Hospital Fee Program in fiscal year ended December 31, 2017. For fiscal year ended December 31, 2017, the Sutter Health Obligated Group recognized \$432 million from the Hospital Fee Program compared to \$272 million for fiscal year ended December 31, 2018.

⁽²⁾ In accordance with the Master Indenture, expenses shall exclude any extraordinary loss on the retirement of debt as a result of refinancing such debt.

⁽³⁾ Calculated in accordance with the Master Indenture.

⁽⁴⁾ Assumes an annual interest rate of 5.00% on the Sutter Health Taxable Bonds Series 2013C and an annual interest rate of 4.00% on the California Health Facilities Financing Authority Revenue Bonds (Sutter Health), Series 2016C, from their respective mandatory tender dates until maturity.

Capitalization

The following table sets forth the actual capitalization of the Obligated Group as of March 31, 2019.

	Quarter Ended March 31, 2019
Long-Term Debt, including current portion	<u>\$ 4,336</u>
Total Long-Term Debt	4,336
Net Assets:	
Without donor restrictions:	
Controlling	8,468
Noncontrolling	112
With donor restrictions	<u>143</u>
Total Net Assets	8,723
Total Capitalization	<u>\$13,059</u>
Long-Term Debt to Capitalization Ratio	33.2%

Contractual Obligations and Other Contingent Commercial Commitments of the Obligated Group

The Obligated Group's contractual debt and financing lease obligations at March 31, 2019, are shown in the table below.

Contractual Debt and Financing Lease Obligations As of March 31, 2019 (dollars in thousands)

	Total Outstanding	Current Portion	Non Current 2020 - 2021	Non Current 2022 & thereafter
Long-term debt – bond principal ⁽¹⁾	\$ 4,336,575	50,070	98,725	4,187,780
Financing Leases ⁽²⁾	\$ 195,637	1,275	2,042	192,320

⁽¹⁾ Secured under the Master Indenture.

⁽²⁾ Not secured under the Master Indenture. Prior Appendix A and continuing disclosure reports referenced "capital leases", which has been revised to "financing leases" pursuant to Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2018-11, Leases (Topic 842): Targeted Improvements, which enhances ASU No. 2016-02, Leases (Topic 842). Effective January 1, 2019, Sutter Bay Hospitals and Sutter Bay Medical Foundation entered into a financing lease related to a medical office building in San Francisco, resulting in an increase in financing lease obligations from approximately \$8 million to approximately \$196 million.

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

**Contingent Commercial Obligations
As of March 31, 2019
(dollars in thousands)**

	Total Outstanding Commitment	Total Outstanding Commitment Due Fiscal Year 2019	Total Outstanding Commitment Due Fiscal Year 2020 and thereafter
Letters of credit	\$60	\$0	\$60

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: May 29, 2019

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

By: 
Senior Vice President and Chief Financial Officer

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


	Year Ended 12/31/2018	Quarter Ended 3/31/2019
Assets held in trust:		
Principal, reserve, and other funds held in trust under bond indentures and escrow	\$ 14	\$ 14
Charitable Contributions	137	139
Insurance Reserves/Professional Liability	284	310
Deferred Compensation and Other	14	14
Total Restricted	<u>\$ 449</u>	<u>\$ 477</u>
Temporarily Restricted		
Charitable Contributions	\$ 296	\$ 312
Unrestricted		
Other	289	296
Unrestricted Funds	4,893	4,987
Charitable Contributions	418	455
Total Unrestricted	<u>\$ 5,600</u>	<u>\$ 5,738</u>
Total Cash & Investments	\$ 6,345	\$ 6,527
Less cash and current portion	<u>(5,362)</u>	<u>(5,505)</u>
Non-current investments	<u>\$ 983</u>	<u>\$ 1,022</u>

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

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

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

Certified by:



Jeff Sprague
Senior Vice President and Chief Financial Officer
Sutter Health

May 29, 2019

Acute Care Utilization Statistics

	2016	2017	2018	Q1 2018	Q1 2019
Obligated Group Total					
Current Licensed Beds ¹	4,466	4,466	4,393	4,426	4,077
Beds in Service ²	4,055	4,082	4,215	4,096	3,837
Admissions	198,185	193,202	187,713	48,283	47,736
Patient Days	892,592	868,809	846,919	220,022	221,226
Average Length of Stay	4.5	4.5	4.5	4.6	4.6
% Occupancy Based on Beds in Service	60.3%	58.3%	55.0%	58.9%	63.2%
Emergency Room Visits	873,966	868,837	844,249	223,260	215,113
Outpatient Revenues	8,945,870,751	9,355,708,283	9,774,679,432	2,473,373,716	2,503,597,300
Total Gross Revenues	23,297,759,241	23,521,450,120	24,061,534,271	6,155,499,511	6,238,450,329
Outpatient Revenue as % of Total Revenues	38.4%	39.8%	40.6%	40.2%	40.1%
Sutter Medical Center Sacramento					
Current Licensed Beds	596	596	596	596	596
Beds in Service	596	596	596	596	596
Admissions	31,847	33,245	31,535	8,308	7,921
Patient Days	155,098	158,148	149,266	39,142	37,930
Average Length of Stay	4.9	4.8	4.7	4.7	4.8
% Occupancy Based on Beds in Service	98%	73%	69%	72%	70%
Emergency Room Visits	100,427	103,164	102,807	27,428	26,993
Outpatient Revenues	1,056,165,987	1,157,778,686	1,265,776,574	315,069,503	327,629,532
Total Gross Revenues	3,622,494,769	3,752,406,962	3,832,767,608	978,354,614	999,516,685
Outpatient Revenue as % of Total Revenues	29.2%	30.9%	33.0%	32.2%	32.8%
Novato Community Hospital					
Current Licensed Beds	47	47	47	47	47
Beds in Service	47	47	47	47	47
Admissions	1,790	1,828	1,944	501	606
Patient Days	6,111	6,367	6,131	1,685	1,948
Average Length of Stay	3.4	3.5	3.2	3.4	3.2
% Occupancy Based on Beds in Service	36%	37%	36%	39%	45%
Emergency Room Visits	15,087	15,299	15,478	4,143	3,963
Outpatient Revenues	133,630,040	141,866,011	133,036,039	34,350,422	36,707,112
Total Gross Revenues	236,086,089	243,095,349	238,712,981	62,151,728	71,502,982
Outpatient Revenue as % of Total Revenues	56.6%	58.4%	55.7%	55.3%	51.3%
Sutter Coast Hospital					
Current Licensed Beds	45	49	49	49	49
Beds in Service	42	46	49	46	49
Admissions	2,075	4,448	2,394	626	648
Patient Days	8,052	9,571	9,564	2,749	2,600
Average Length of Stay	3.9	2.2	4.0	4.4	4.0
% Occupancy Based on Beds in Service	53%	57%	53%	65%	58%
Emergency Room Visits	22,326	21,329	19,655	4,993	5,112
Outpatient Revenues	145,151,304	157,433,263	162,356,102	39,573,392	43,077,641
Total Gross Revenues	231,521,955	263,008,669	271,793,256	68,965,348	73,126,196
Outpatient Revenue as % of Total Revenues	62.7%	59.9%	59.7%	57.4%	58.9%
Sutter Solano Medical Center					
Current Licensed Beds	102	106	106	106	106
Beds in Service	102	106	106	106	106
Admissions	4,246	4,456	4,087	1,126	989
Patient Days	17,786	18,781	17,336	4,678	4,691
Average Length of Stay	4.2	4.2	4.2	4.2	4.7
% Occupancy Based on Beds in Service	48%	49%	45%	48%	48%
Emergency Room Visits	40,898	38,291	35,062	9,480	8,752
Outpatient Revenues	261,713,920	264,129,826	265,278,110	68,349,046	71,647,064
Total Gross Revenues	561,339,759	582,858,678	568,324,186	148,505,407	155,571,064
Outpatient Revenue as % of Total Revenues	46.6%	45.3%	46.7%	46.0%	46.1%

Acute Care Utilization Statistics

	2016	2017	2018	Q1 2018	Q1 2019
Sutter Davis Hospital					
Current Licensed Beds	48	48	48	48	48
Beds in Service	48	48	48	48	48
Admissions	3,710	3,918	3,810	981	937
Patient Days	9,896	11,030	10,877	3,008	2,862
Average Length of Stay	2.7	2.8	2.9	3.1	3.1
% Occupancy Based on Beds in Service	56%	63%	62%	69%	65%
Emergency Room Visits	29,164	29,242	29,078	7,854	7,278
Outpatient Revenues	237,349,125	255,391,580	263,065,734	69,880,489	68,228,722
Total Gross Revenues	405,969,707	439,011,463	450,202,076	120,345,991	119,943,254
Outpatient Revenue as % of Total Revenues	58.5%	58.2%	58.4%	58.1%	56.9%
Sutter Auburn Faith Hospital					
Current Licensed Beds	64	64	64	64	64
Beds in Service	64	64	64	64	64
Admissions	3,678	3,036	3,076	846	863
Patient Days	12,098	10,480	10,240	2,872	3,145
Average Length of Stay	3.3	3.5	3.3	3.4	3.6
% Occupancy Based on Beds in Service	52%	45%	44%	49%	54%
Emergency Room Visits	29,855	29,528	28,947	7,477	7,274
Outpatient Revenues	293,208,717	299,727,539	332,632,224	81,840,511	87,986,455
Total Gross Revenues	486,805,923	478,903,937	515,067,596	132,316,184	142,097,097
Outpatient Revenue as % of Total Revenues	60.2%	62.6%	64.6%	61.9%	61.9%
Sutter Delta Medical Center					
Current Licensed Beds	145	145	145	145	145
Beds in Service	145	145	145	145	145
Admissions	7,966	7,491	7,411	1,942	2,047
Patient Days	29,381	28,993	27,864	7,710	7,533
Average Length of Stay	3.7	3.9	3.8	4.0	3.7
% Occupancy Based on Beds in Service	56%	55%	53%	58%	57%
Emergency Room Visits	60,913	58,705	54,403	14,357	13,966
Outpatient Revenues	296,759,044	319,798,959	317,074,807	79,799,337	79,837,700
Total Gross Revenues	764,037,914	791,202,016	798,960,253	211,360,103	209,089,985
Outpatient Revenue as % of Total Revenues	38.8%	40.4%	39.7%	37.8%	38.2%
Sutter Lakeside Hospital					
Current Licensed Beds	30	30	30	30	30
Beds in Service	30	30	30	30	30
Admissions	1,718	1,844	1,917	485	542
Patient Days	5,575	5,930	6,110	1,769	1,838
Average Length of Stay	3.2	3.2	3.2	3.6	3.4
% Occupancy Based on Beds in Service	51%	54%	56%	65%	67%
Emergency Room Visits	20,545	20,553	19,783	5,331	5,214
Outpatient Revenues	145,558,463	170,838,123	168,313,799	45,242,496	45,619,259
Total Gross Revenues	202,408,991	237,088,270	234,816,323	63,551,383	65,274,049
Outpatient Revenue as % of Total Revenues	71.9%	72.1%	71.7%	71.2%	69.9%
Sutter Amador Hospital					
Current Licensed Beds	52	52	52	52	52
Beds in Service	52	52	52	52	52
Admissions	2,400	2,411	2,396	665	583
Patient Days	8,705	8,725	8,881	2,545	2,233
Average Length of Stay	3.6	3.6	3.7	3.8	3.8
% Occupancy Based on Beds in Service	46%	46%	47%	54%	47%
Emergency Room Visits	24,648	24,276	23,215	6,122	5,713
Outpatient Revenues	143,621,764	152,524,815	158,868,056	40,089,724	39,875,439
Total Gross Revenues	263,901,962	274,519,970	289,980,042	78,404,451	71,847,323
Outpatient Revenue as % of Total Revenues	54.4%	55.6%	54.8%	51.1%	55.5%

Acute Care Utilization Statistics

	2016	2017	2018	Q1 2018	Q1 2019
Sutter Tracy Community Hospital					
Current Licensed Beds	81	77	77	77	77
Beds in Service	81	77	77	77	77
Admissions	3,931	3,826	3,661	940	933
Patient Days	12,314	12,259	11,132	2,933	2,999
Average Length of Stay	3.1	3.2	3.0	3.1	3.2
% Occupancy Based on Beds in Service	42%	44%	40%	42%	43%
Emergency Room Visits	38,003	36,944	35,846	9,665	9,161
Outpatient Revenues	257,997,832	266,167,563	274,177,942	72,499,086	69,887,510
Total Gross Revenues	450,730,541	455,391,247	455,080,816	118,727,375	119,890,339
Outpatient Revenue as % of Total Revenues	57.2%	58.4%	60.2%	61.1%	58.3%
Sutter Roseville Medical Center					
Current Licensed Beds	328	328	328	328	328
Beds in Service	328	328	328	328	328
Admissions	20,195	19,799	19,837	4,937	5,206
Patient Days	91,669	87,783	86,163	21,474	22,495
Average Length of Stay	4.5	4.4	4.3	4.3	4.3
% Occupancy Based on Beds in Service	77%	73%	72%	72%	75%
Emergency Room Visits	80,555	80,823	81,554	21,076	20,634
Outpatient Revenues	652,145,291	748,886,023	845,520,330	212,433,045	223,788,245
Total Gross Revenues	2,042,326,471	2,198,779,605	2,268,781,541	565,949,533	606,046,766
Outpatient Revenue as % of Total Revenues	31.9%	34.1%	37.3%	37.5%	36.9%
Sutter Maternity and Surgery Center					
Current Licensed Beds	30	30	30	30	30
Beds in Service	30	30	30	30	30
Admissions	1,540	1,535	1,331	322	279
Patient Days	4,133	3,903	3,477	831	708
Average Length of Stay	2.7	2.5	2.6	2.6	2.5
% Occupancy Based on Beds in Service	38%	36%	32%	30%	26%
Emergency Room Visits	-	-	-	-	-
Outpatient Revenues	121,024,770	140,004,621	149,983,259	36,933,742	39,794,372
Total Gross Revenues	179,785,088	200,799,150	204,101,797	49,178,616	51,589,561
Outpatient Revenue as % of Total Revenues	67.3%	69.7%	73.5%	75.1%	77.1%
Sutter Santa Rosa Regional Hospital					
Current Licensed Beds	84	84	84	84	84
Beds in Service	84	84	84	84	84
Admissions	6,199	6,580	6,785	1,676	1,632
Patient Days	25,614	23,606	25,516	6,194	6,387
Average Length of Stay	4.1	3.6	3.8	3.7	3.9
% Occupancy Based on Beds in Service	84%	77%	83%	81%	83%
Emergency Room Visits	35,047	34,545	35,275	9,089	8,991
Outpatient Revenues	331,352,883	365,115,148	399,278,618	100,751,065	107,915,198
Total Gross Revenues	748,992,688	790,730,801	882,400,936	219,966,582	234,836,155
Outpatient Revenue as % of Total Revenues	44.2%	46.2%	45.2%	45.8%	46.0%
Memorial Medical Center & Memorial Hospital Los Banos					
Current Licensed Beds	467	463	459	463	459
Beds in Service	467	463	419	463	419
Admissions	18,781	18,972	18,718	4,751	4,744
Patient Days	81,569	79,039	79,308	20,622	21,084
Average Length of Stay	4.3	4.2	4.2	4.3	4.4
% Occupancy Based on Beds in Service	48%	47%	52%	49%	55%
Emergency Room Visits	109,833	114,186	110,821	29,298	28,232
Outpatient Revenues	938,506,158	1,033,162,656	1,147,110,817	286,611,046	292,414,261
Total Gross Revenues	2,390,429,201	2,456,921,461	2,582,267,792	653,996,428	668,819,961
Outpatient Revenue as % of Total Revenues	39.3%	42.1%	44.4%	43.8%	43.7%

Acute Care Utilization Statistics

	2016	2017	2018	Q1 2018	Q1 2019
Alta Bates Summit Medical Center					
Current Licensed Beds	918	918	918	918	918
Beds in Service	752	779	780	779	780
Admissions	35,545	29,875	29,225	7,582	7,376
Patient Days	164,653	155,393	151,871	38,657	39,615
Average Length of Stay	4.6	5.2	5.2	5.1	5.4
% Occupancy Based on Beds in Service	60%	55%	53%	54%	56%
Emergency Room Visits	92,259	91,201	86,942	22,867	21,176
Outpatient Revenues	1,403,019,029	1,278,475,234	1,316,271,174	334,316,790	322,632,191
Total Gross Revenues	3,756,539,195	3,520,663,986	3,646,856,642	937,814,808	916,845,567
Outpatient Revenue as % of Total Revenues	37.3%	36.3%	36.1%	35.6%	35.2%
Mills-Peninsula Medical Center					
Current Licensed Beds	301	301	301	301	301
Beds in Service	301	301	301	301	301
Admissions	13,060	13,391	13,447	3,490	3,431
Patient Days	58,508	58,741	59,393	15,518	15,969
Average Length of Stay	4.5	4.4	4.4	4.4	4.7
% Occupancy Based on Beds in Service	53%	53%	54%	56%	58%
Emergency Room Visits	48,376	48,737	48,189	12,854	12,857
Outpatient Revenues	748,533,452	791,752,546	803,421,548	204,952,094	205,958,042
Total Gross Revenues	1,598,683,989	1,676,105,179	1,744,900,968	447,576,785	456,798,729
Outpatient Revenue as % of Total Revenues	46.8%	47.2%	46.0%	45.8%	45.1%
Menlo Park Surgical Hospital					
Current Licensed Beds	16	16	16	16	16
Beds in Service	16	16	16	16	16
Admissions	214	230	225	57	41
Patient Days	279	366	365	80	57
Average Length of Stay	1.3	1.6	1.6	1.4	1.4
% Occupancy Based on Beds in Service	5%	6%	6%	5%	4%
Emergency Room Visits	-	-	-	-	-
Outpatient Revenues	38,556,378	36,647,595	36,801,597	9,029,994	8,488,628
Total Gross Revenues	49,948,795	52,410,044	54,086,272	12,994,395	11,434,758
Outpatient Revenue as % of Total Revenues	77.2%	69.9%	68.0%	69.5%	74.2%
California Pacific Medical Center					
Current Licensed Beds	982	982	913	942	597
Beds in Service	740	740	913	754	535
Admissions	30,042	27,417	26,842	6,765	6,746
Patient Days	162,432	152,251	145,361	37,741	36,630
Average Length of Stay	5.4	5.6	5.4	5.6	5.4
% Occupancy Based on Beds in Service	60%	56%	44%	55%	75%
Emergency Room Visits	78,155	74,971	70,240	18,952	17,961
Outpatient Revenues	1,303,673,669	1,349,064,589	1,311,541,064	336,909,858	322,174,230
Total Gross Revenues	4,121,257,394	3,895,545,111	3,807,830,714	980,447,296	945,588,730
Outpatient Revenue as % of Total Revenues	31.6%	34.6%	34.4%	34.4%	34.1%
Eden Medical Center					
Current Licensed Beds	130	130	130	130	130
Beds in Service	130	130	130	130	130
Admissions	9,248	8,900	9,072	2,283	2,212
Patient Days	38,719	37,443	38,064	9,814	10,502
Average Length of Stay	4.2	4.2	4.2	4.3	4.7
% Occupancy Based on Beds in Service	82%	79%	80%	83%	89%
Emergency Room Visits	47,875	47,043	46,954	12,274	11,836
Outpatient Revenues	437,902,925	426,943,506	424,171,638	104,742,076	109,935,699
Total Gross Revenues	1,184,498,810	1,212,008,222	1,214,602,472	304,892,484	318,631,128
Outpatient Revenue as % of Total Revenues	37.0%	35.2%	34.9%	34.4%	34.5%

Notes:

1. The calculation of current licensed beds conforms to the Office of Statewide Health Planning and Development's definition of "licensed bed."

Supplemental Information

Acute Care Payer Mix

As of March 31, 2019	Medicare		Medi-Cal		Commercial		Other	Total
	Non-Capitated	Risk	Non-Capitated	Risk	Non-Sutter Risk	Risk		
Sutter Medical Center-Sacramento	36.7%	10.1%	23.6%	0.0%	13.0%	7.5%	9.1%	100.0%
Sutter Solano Medical Center	49.5%	0.0%	33.1%	0.0%	15.1%	0.5%	1.8%	100.0%
Sutter Davis Hospital	35.0%	8.6%	22.2%	0.0%	26.8%	5.3%	2.1%	100.0%
Sutter Coast Hospital	52.4%	0.0%	26.5%	0.0%	19.1%	0.0%	2.0%	100.0%
Sutter Delta Medical Center	42.6%	0.8%	36.7%	0.0%	16.2%	0.5%	3.2%	100.0%
Sutter Auburn Faith Hospital	50.7%	10.9%	15.0%	0.0%	18.6%	3.4%	1.4%	100.0%
Sutter Tracy Community Hospital	37.9%	0.1%	29.3%	0.0%	28.2%	0.9%	3.6%	100.0%
Sutter Roseville Medical Center	42.8%	8.9%	15.3%	0.0%	25.8%	5.0%	2.2%	100.0%
California Pacific Medical Center	43.2%	0.3%	14.0%	3.0%	34.3%	1.4%	3.8%	100.0%
Sutter Maternity and Surgery Center	36.0%	1.4%	8.8%	0.0%	50.1%	1.3%	2.4%	100.0%
Mills Peninsula Medical Center	45.8%	6.9%	11.0%	0.0%	31.9%	2.5%	1.9%	100.0%
Sutter Lakeside Hospital	53.4%	0.0%	29.4%	0.0%	15.3%	0.0%	1.9%	100.0%
Memorial Medical Center & Memorial Hospital Los Banos	39.6%	12.6%	24.2%	0.0%	18.9%	3.0%	1.7%	100.0%
Novato Community Hospital	58.3%	0.4%	16.9%	0.0%	21.6%	0.6%	2.2%	100.0%
Alta Bates Summit Medical Center	44.5%	0.5%	25.2%	0.0%	24.3%	0.9%	4.6%	100.0%
Sutter Santa Rosa Regional Hospital	42.4%	5.1%	24.8%	0.0%	21.9%	3.5%	2.3%	100.0%
Sutter Amador Hospital	61.1%	0.3%	16.3%	0.0%	20.8%	0.1%	1.4%	100.0%
Eden Medical Center	47.1%	0.3%	28.1%	0.0%	22.2%	0.8%	1.5%	100.0%
Menlo Park Surgical Hospital	28.7%	1.1%	0.6%	0.0%	63.2%	3.5%	2.9%	100.0%
Total Acute Care Payer Mix (%)	43.0%	4.9%	21.2%	0.4%	23.8%	2.7%	4.0%	100.0%