Scripps

Obligated Group Financial Statements

1st Quarter
December 31, 2014

Scripps Health
Obligated Group

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For the Three Months Ended December 31, 2014

SCRIPPS HEALTH

OBLIGATED GROUP
STATEMENTS OF FINANCIAL POSITION
December 31, 2014
($000s)

	December 2014		December 2013		September 2014	
ASSETS						
Current Assets:						
Cash and Cash Equivalents	$	329,425	$	347,284	$	283,239
Accounts Receivable, Net		263,482		302,333		273,844
Assets Limited As To Use		9		10		5,357
Other Current Assets		182,001		104,059		98,963
Total Current Assets		774,917		753,687		661,403
Investments:						
Assets Limited As To Use		226,397		220,304		218,443
Unrestricted		1,810,195		1,746,298		1,827,712
Property, Plant and Equipment		2,757,730		2,481,846		2,699,434
Less Accumulated Depreciation		(1,294,806)		(1,193,691)		(1,266,511)
Property, Plant and Equipment, Net		1,462,923		1,288,155		1,432,923
Other Assets		111,975		89,114		112,777
Total Assets	$	4,386,407	$	4,097,559	$	4,253,258
LIABILITIES AND EQUITY						
Current Liabilities:						
Current Portion of Long-term Debt	$	22,530	$	19,238	$	20,967
Accounts Payable		162,757		120,403		112,904
Accrued Liabilities		243,005		229,498		220,749
Total Current Liabilities		428,293		369,140		354,620
Long Term Debt		830,502		849,268		847,745
Other Liabilities		93,747		105,957		96,396
Total Liabilities		1,352,542		1,324,364		1,298,761
Equity:						
Unrestricted		2,819,673		2,562,115		2,747,775
Temporarily Restricted		135,035		133,022		127,888
Permanently Restricted		79,156		78,057		78,834
Total Equity		3,033,865		2,773,194		2,954,497
Total Liabilities and Equity	$	4,386,407	$	4,097,559	$	4,253,258

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

	For the Three Months Ended	
	December 31, 2014	December 31, 2013
Operating revenues:		
Patient services revenue, net of contractual allowances and discounts	$ 585,388	$ 587,704
Provision for bad debts	(12,125)	(19,441)
Net patient service revenue less provision for bad debts before provider fee	573,263	568,263
Provider fee	77,681	21,047
Net patient service revenue less provision for bad debts	650,944	589,311
Capitation premium	29,542	15,100
Other	20,604	19,237
Meaningful use	1,150	-
Equity released from restrictions used for operations	5,407	4,299
Total operating revenues	707,647	627,945
Operating expenses:		
Wages and benefits	295,810	284,527
Supplies	104,855	100,574
Physician services	87,634	84,925
Other services	71,357	69,328
Provider fee	65,415	14,778
Capitation services	406	304
Depreciation and Amortization	28,307	23,565
Interest	5,712	3,993
Total operating expenses	659,496	581,994
Operating income before corporate overhead allocation and income tax	48,151	45,951
Corporate overhead allocation	1,386	711
Provision for income tax expense	2	(147)
Operating income after corporate overhead allocation and income tax	49,539	46,514
Nonoperating gains (losses):		
Interest and dividends	11,589	8,993
Realized gains	50,265	54,184
Holding (losses) gains on trading portfolio	(44,867)	13,502
Contributions	534	394
Market adjustment on interest rate swaps	(3,250)	2,829
Excess of revenues over expenses	$ 63,810	$ 126,417

SCRIPPS HEALTH

OBLIGATED GROUP

STATEMENTS OF CHANGES IN NET ASSETS

($000s)

	For the Three Months Ended	
	December 31, 2014	December 31, 2013
Unrestricted net assets:		
Excess of revenue over expenses	$ 63,810	$ 126,417
Other changes affecting unrestricted net assets		
Net assets released from restrictions used for purchase of property and equipment	7,399	7,795
Other	(79)	(79)
Increase in unrestricted net assets	71,130	134,133
Temporarily restricted net assets:		
Contributions	18,926	8,524
Interest and dividends	780	669
Realized gains	3,320	3,535
Holding gains on trading portfolio	(2,683)	1,356
Net assets released from restrictions used for operations	(5,436)	(4,368)
Net assets released from restrictions used for purchases of property and equipment	(7,399)	(7,795)
Change in value of deferred gifts	(302)	405
Other	(59)	(32)
Increase in temporarily restricted net assets	7,148	2,292
Permanently restricted net assets:		
Contributions	320	4
Change in value of deferred gifts	-	(113)
Other	2	5
Increase (decrease) in permanently restricted net assets	322	(104)
Total increase in net assets	$ 78,600	$ 136,322

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

	For the Three Months Ended	
	December 31, 2014	December 31, 2013
Operating activities and nonoperating gains		
Total increase in net assets	$78,600	$136,322
Reconciliation of total change in net assets to cash flows provided by operating activities and nonoperating gains and losses:		
Depreciation and amortization	28,307	23,565
Amortization of debt issuance costs	101	77
Amortization of original issue premium	(152)	(153)
Provision for bad debts	12,115	19,463
Realized and unrealized gains on investments	(6,035)	(72,576)
Decrease (increase) in investments designated as trading	20,945	(150,672)
Market adjustment on interest rate swaps	3,250	(2,829)
Gain on disposal of property	(8)	-
Restricted contributions and investment income	(23,346)	(12,732)
Change in assets and liabilities:		
Accounts receivable - net	(1,753)	(24,758)
Other current assets	(83,038)	17,514
Other assets	(530)	7,451
Accounts payable and accrued liabilities	65,859	(7,925)
Other liabilities	(1,878)	(1,710)
Net cash provided by (used in) operating activities:	92,439	(68,963)
Investing activities:		
Purchases of property, plant and equipment	(54,988)	(51,433)
Net cash used in investing activities:	(54,988)	(51,433)
Financing activities:		
Proceeds from restricted contributions and investment income	19,573	12,468
Payments on notes / lease payable	(885)	(709)
Payments on long-term debt	(14,945)	(14,490)
Proceeds from sale of donated financial assets	4,992	264
Net cash provided by (used in) financing activities:	8,735	(2,467)
Increase (decrease) in cash and cash equivalents	46,186	(122,864)
Cash and cash equivalents at beginning of period	283,239	470,148
Cash and cash equivalents at end of period	$329,425	$347,284

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

NOTE (1) BASIS OF PRESENTATION

In the opinion of management, all adjustments, consisting of normal recurring adjustments necessary for the fair presentation of the statements of financial position and results of operations as of and for the quarter ended December 31, 2014 and 2013 as well as for the year-to-date September 30, 2014 have been made.

NOTE (2) FAIR VALUE MEASUREMENTS

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

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

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

Level 3: Pricing inputs are generally unobservable for the assets or liabilities and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require management's judgment or estimation of assumptions that market participants would use in pricing the assets or liabilities. The fair values are therefore determined using factors that involve considerable judgment and interpretations, including but not limited to private and public comparables, third-party appraisals, discounted cash flow models and fund manager estimates. There are no Level 3 financial assets or liabilities at December 31, 2014 and September 30, 2014.

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

a) Market approach. Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities.
b) Cost approach. Amount that would be required to replace the service capacity of asset (replacement cost).
c) Income approach. Techniques to convert future amounts to a single present amount based on market expectations (including present value techniques, option-pricing, and excess earnings models).

The following represents financial assets and liabilities measured at fair value on a recurring basis as of December 31, 2014 (in thousands). Alternative investments are accounted for using the equity method of accounting, which is not a fair value measurement.

	December 31, 2014	Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Fair Value	Equity Method	Valuation Technique (a,b,c)
Investments:						
Liquid investments						
Cash equivalents	$ 10,564	$ 10,564	$ -	$ 10,564	$ -	a
Equity securities						
U.S. equity	$ 159,313	$ 159,313	$ -	$ 159,313	$ -	a
U.S. equity (commingled)	235,668	-	235,668	235,668	-	a
Foreign equity	443,386	443,386	-	443,386	-	a
Foreign equity (commingled)	73,104	-	73,104	73,104	-	a
	$ 911,471	$ 602,699	$ 308,772	$ 911,471	$ -	
Fixed income securities						
U.S. government	$ 19,126	$ -	$ 19,126	$ 19,126	$ -	a
U.S. government agencies	1,952	-	1,952	1,952	-	a
U.S. federal agency mortgage-backed	11,188	-	11,188	11,188	-	a
Foreign government	887	-	887	887	-	a
Foreign government (commingled)	144,260	-	144,260	144,260	-	a
U.S. corporate	274,278	-	274,278	274,278	-	a
U.S. corporate (commingled)	258,154	-	258,154	258,154	-	a
Foreign corporate	9,145	-	9,145	9,145	-	a
	$ 718,990	$ -	$ 718,990	$ 718,990	$ -	
Other investments						
Multi-strategy hedge funds	$ 371,532	$ -	-	$ -	$ 371,532	a
Private equity funds	15,804	-	-	-	15,804	a
Real estate	8,240	-	8,240	8,240	-	a
	$ 395,576	$ -	$ 8,240	$ 8,240	$ 387,336	
Total investments	$ 2,036,601	$ 613,263	$ 1,036,002	$ 1,649,265	$ 387,336	
Other assets						
Pledges receivable, net	$ 17,072	$ -	$ 17,072	$ 17,072	$ -	c
Land held for sale	655	-	655	655	-	b
	$ 17,727	$ -	$ 17,727	$ 17,727	$ -	
Total assets at fair value	$ 2,054,328	$ 613,263	$ 1,053,729	$ 1,666,992	$ 387,336	
Current liabilities						
Swap hedge	$ 23,615	$ -	$ 23,615	$ 23,615	$ -	c
	$ 23,615	$ -	$ 23,615	$ 23,615	$ -	
Other liabilities						
Annuity/unitrust liabilities	$ 12,006	$ -	$ 12,006	$ 12,006	$ -	c
	$ 12,006	$ -	$ 12,006	$ 12,006	$ -	
Total liabilities at fair value	$ 35,621	$ -	$ 35,621	$ 35,621	$ -	

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

	September 30, 2014	Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Fair Value	Equity Method	Valuation Technique (a,b,c)
Investments:						
Liquid investments						
Cash equivalents	$ 15,728	$ 15,728	$ -	$ 15,728	$ -	a
Equity securities						
U.S. equity	$ 183,495	$ 183,495	$ -	$ 183,495	$ -	a
U.S. equity (commingled)	262,355	-	262,355	262,355	-	a
Foreign equity	389,551	389,551	-	389,551	-	a
Foreign equity (commingled)	95,389	-	95,389	95,389	-	a
	$ 930,790	$ 573,046	$ 357,744	$ 930,790	$ -	
Fixed income securities						
U.S. government	$ 21,788	$ -	$ 21,788	$ 21,788	$ -	a
U.S. government agencies	1,996	-	1,996	1,996	-	a
U.S. federal agency mortgage-backed	11,815	-	11,815	11,815	-	a
Foreign government	1,284	-	1,284	1,284	-	a
Foreign government (commingled)	143,602	-	143,602	143,602	-	a
U.S. corporate	271,019	-	271,019	271,019	-	a
U.S. corporate (commingled)	253,964	-	253,964	253,964	-	a
Foreign corporate	9,187	-	9,187	9,187	-	a
	$ 714,655	$ -	$ 714,655	$ 714,655	$ -	
Other investments						
Multi-strategy hedge funds	$ 368,111	$ -	-	$ -	$ 368,111	a
Private equity funds	13,480	-	-	-	13,480	a
Real estate	8,750	-	8,750	8,750	-	a
	$ 390,341	$ -	$ 8,750	$ 8,750	$ 381,591	
Total investments	$ 2,051,514	$ 588,774	$ 1,081,149	$ 1,669,923	$ 381,591	
Other assets						
Pledges receivable, net	$ 18,291	$ -	$ 18,291	$ 18,291	$ -	c
	$ 18,291	$ -	$ 18,291	$ 18,291	$ -	
Total assets at fair value	$ 2,069,805	$ 588,774	$ 1,099,440	$ 1,688,214	$ 381,591	
Current liabilities						
Swap hedge	$ 20,365	$ -	$ 20,365	$ 20,365	$ -	c
	$ 20,365	$ -	$ 20,365	$ 20,365	$ -	
Other liabilities						
Annuity/unitrust liabilities	$ 11,711	$ -	$ 11,711	$ 11,711	$ -	c
	$ 11,711	$ -	$ 11,711	$ 11,711	$ -	
Total liabilities at fair value	$ 32,076	$ -	$ 32,076	$ 32,076	$ -	

Transfers to/from Levels 1, 2 and 3 are recognized at the end of the reporting period. There were no transfers for the three months ended December 31, 2014 and 2013.

As of December 31, 2014 and September 30, 2014, the Level 2 instruments listed in the fair value hierarchy table above use the following valuation techniques and inputs:

U.S. and Foreign Government Securities

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

U.S. and Foreign Corporate Bonds

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

Real Estate and Land Held for Sale

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

Pledges Receivable Annuity/Unitrust Liabilities, and Cease Use Liability

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

Commingled Funds

The fair value of investments in U.S. equity commingled funds, classified as Level 2, was primarily determined using the calculated net asset value per share (NAV). The values for underlying investments are fair value estimates determined either internally or by an external fund manager based on recent filings, operating results, balance sheet stability, growth and other business and market sector fundamentals.
The fair value of all other commingled fund investments classified as Level 2 was determined using the calculated NAV. The values for underlying investments are fair value estimates determined either internally or by an external fund manager based on recent filings, operating results, balance sheet stability, growth and other business and market sector fundamentals. Due to the significant unobservable inputs present in these valuations, Scripps Health classifies all such investments as Level 2.

Swap Hedge

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

Included within the assets above are investments in certain entities that report fair value using a calculated NAV or its equivalent. The following table and explanations identify attributes relating to the nature and risk of such investments as of December 31, 2014 (in thousands):

NAV Valuation		Fair Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Commingled:					
Equity securities	(1)	$ 73,104	$ -	Monthly	6 days
Fixed income securities	(2)	402,415	-	Daily to monthly	2–15 days
		$ 475,519	$		

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

(2) Commingled Funds: Fixed Income – This category includes investments in three commingled funds with underlying investments that are fair value estimates determined either internally or by an external fund manager based on recent filings, operating results, balance sheet stability, growth and other business and market sector fundamentals. The investments are diversified by geography, sector, maturity, and issue. Liquidity is provided on a daily and/or monthly basis. As of December 31, 2014, the category consisted of 67% daily and 33% monthly liquidity.

NOTE (3) ENDOWMENTS

The Organization's endowments consist of 85 individual funds as of December 31, 2014 and 2013, respectively, established for a variety of purposes. Net assets associated with the endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

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

From time-to-time, the fair value of assets associated with individual endowment funds may fall below the level that the donor or UPMIFA requires the Organization to retain as a fund of perpetual duration.

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

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

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

Changes in endowment net assets for the three months ended December 31, 2014, are is as follows (in thousands):

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets as of September 30, 2014	$ 37,165	$ 78,834	$ 115,999
Investment return:			
Investment income	759	-	759
Net depreciation (realized and unrealized)	305	-	305
Total investment return	38,229	78,834	117,063
Contributions	-	320	320
Appropriation of endowment assets for expenditure	(3,929)	-	(3,929)
Other changes	-	2	2
Endowment net assets as of December 31, 2014	$ 34,300	$ 79,156	$ 113,456

Changes in endowment net assets for the three months ended December 31, 2013, are as follows (in thousands):

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets as of September 30, 2013	$ 34,129	$ 78,161	$ 112,290
Investment return:			
Investment income	655	–	655
Net depreciation (realized and unrealized)	4,237	–	4,237
Total investment return	39,021	78,161	117,182
Contributions	-	4	4
Appropriation of endowment assets for expenditure	(2,231)	–	(2,231)
Other changes	–	(108)	(108)
Endowment net assets as of December 31, 2013	$ 36,790	$ 78,057	$ 114,847

Temporarily restricted endowment net assets is as follows at December 31 (in thousands):

	2014	2013
Temporarily restricted net assets:		
The portion of perpetual endowment funds subject to a time restriction under UPMIFA:		
Without purpose restrictions	$ 1,580	$ 4,769
With purpose restrictions	32,720	32,021
Total endowment funds classified as temporarily restricted net assets	$ 34,300	$ 36,790

NOTE (4) GOODWILL

Goodwill

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

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

Scripps Clinic

In 2000, Scripps Health acquired all the outstanding shares of SCPO and its wholly owned subsidiaries and substantially all the assets and liabilities of Scripps Clinic Medical Group (SCMG). As a result of the acquisition, the excess of the purchase price over the fair value of the net assets acquired was recorded as goodwill in the accompanying consolidated statements of financial position in the amount of $50,216,000. Accumulated amortization of goodwill totaled $20,421,000 at December 31, 2014 and 2013.

Scripps Coastal Medical Centers

In 2008, Scripps Health purchased substantially all of the net assets of Sharp Mission Park Medical Clinic (the Clinic). As a result of the acquisition, the excess of the purchase price over the fair value of the net assets acquired was recorded as goodwill in the accompanying consolidated statements of financial position in the amount of $6,884,000. Accumulated amortization of goodwill totaled $2,983,000 at December 31, 2014 and 2013.

NOTE (5) SUBSEQUENT EVENTS

Scripps Health has evaluated subsequent events occurring between the quarter ended December 31, 2014 and January 21, 2015, the date the financial statements were issued.

SCRIPPS HEALTH
OBLIGATED GROUP FINANCIAL STATEMENTS
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE THREE MONTHS ENDED DECEMBER 31, 2014

	For the Three Months Ended ($000s)	
	December 31, 2014	December 31, 2013
	Actual	Actual
Operating Revenue	$707,647	$627,945
Operating Revenue (Excluding Provider Fee)	$629,966	$606,898
Operating Income	$49,539	$46,514
Operating Income (Excluding Net Proceeds from Provider Fee)	$37,273	$40,245
Operating Margin	7.0%	7.4%
Operating Margin (Excluding Net Proceeds from Provider Fee)	5.9%	6.6%
Operating EBITDA	$83,555	$74,220
Operating EBITDA (Excluding Net Proceeds from Provider Fee)	$71,285	$67,950
Operating EBITDA Margin	11.8%	11.8%
Operating EBITDA Margin (Excluding Net Proceeds from Provider Fee)	11.3%	11.2%
Excess Margin	$63,810	$126,417
Excess Margin %	8.8%	17.9%

The operating revenue for the quarter ended December 31, 2014 was $79,702,000 higher than the quarter ended December 31, 2013 primarily attributable to $56,634,000 higher Provider Fee revenue recognized for The California Hospital Fee Program in the current quarter. In addition, patient service revenue for the quarter ended December 31, 2014 at Hospital Division was $16,500,000 higher than prior year primarily attributable to higher emergency room visits, trauma cases, and outpatient visits. The hospital revenues have increased since the opening of the new Encinitas Emergency Department and the addition of 36 beds in the Critical Care Building in the last quarter.

The operating expense for the quarter ended December 31, 2014 was $77,502,000 higher than the quarter ended December 31, 2013 primarily attributable to $50,637,000 higher Provider Fee expense recognized for The California Hospital Fee Program in the current quarter, higher wages and benefits due to merit increases, as well as higher depreciation expense related to the Scripps Prebys Cardiovascular Institute (SPCI) at La Jolla Hospital which was placed in service during December 2014 and the Critical Care building at Encinitas Hospital which was placed in service during June 2014.

The excess margin for the quarter ended December 31, 2014 compared to the quarter ended December 31, 2013 was $62,607,000 lower than prior year primarily attributable to $65,632,000 less realized and unrealized investment income partially offset by $3,025,000 higher operating income in the first quarter of the current year.

	December 31, 2014	December 31, 2013	September 30, 2014
Unrestricted Cash & Investments ($000s)	$2,139,620	$2,093,582	$2,110,951
Days Unrestricted Cash on Hand	344.1	339.4	350.6
Days Unrestricted Cash on Hand *	354.3	354.1	352.9
Days in AR, Net	37.2	47.2	44.6
Days in AR, Net *	42.3	48.9	45.0
Accounts Payable & Accrued Liabilities ($000s)	$405,762	$349,901	$333,653
Days in AP & Accrued Liabilities	59.3	57.7	55.4
Days in AP & Accrued Liabilities *	56.0	57.6	55.6
Unrestricted Cash & Investments to Total Debt	250.8%	241.1%	243.0%
Long Term Debt ($000s)	$830,502	$849,268	$847,745
Current Portion of Long-Term Debt ($000s)	$22,530	$19,238	$20,967
Total Debt ($000s)	$853,032	$868,506	$868,712
Debt to Capitalization	23.2%	25.3%	24.0%

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

Unrestricted cash and investments increased by $46,038,000 from December 31, 2013 to December 31, 2014 primarily due to earnings from operations in excess of capital expenditures.

In the first quarter of FY2015, Scripps Health made scheduled annual principal payments of $12,160,000 for the 2008A and 2008G tax-exempt bond series and $2,785,000 for the 2010A tax-exempt bond series.

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

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

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

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

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

On December 10, 2014, CHA announced that the Centers for Medicare & Medicaid Services (CMS) approved the fee-for-service payments for CY2014-CY2016. In December 2014, Scripps Health recognized $15,555,000 net income for the fee-for-service component for the program period from January to December 2014 based on estimated CHA model for CY2014-CY2016 Provider Fee Program. CHA will continue to work with the California Department of Health Care Services and CMS to begin securing approvals for the managed care payments. It is unclear when the Managed Care program will be approved.