

*Review of Hospital Organizations
Holding Organizational Clearance Certificates
as to Qualification for the Welfare Exemption*

**Assessment Policy and Standards Division
Property and Special Taxes Department
State Board of Equalization
May 26, 2006**

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I. General Information -- Welfare Exemption

Under section 4(b) of article XIII of the California Constitution, the Legislature has the authority to exempt property: (1) used exclusively for religious, hospital, or charitable purposes, and (2) owned or held in trust by nonprofit organizations operating for those purposes.

This exemption from property taxation, known as the welfare exemption, was first adopted by voters as a constitutional amendment on November 7, 1944. A fourth purpose, scientific, was added to the three mentioned in the Constitution when the Legislature enacted section 214 of the Revenue and Taxation Code to implement the Constitutional provision in 1945.

Revenue and Taxation Code section 214 et seq. contain statutory provisions pertaining to the welfare exemption. Section 214 provides that the welfare exemption is available for property used exclusively for religious, hospital, scientific, or charitable purposes owned and operated by organizations that are organized and operated exclusively for those purposes.

In general, the welfare exemption from local property taxes is available for property of nonprofit organizations: formed and operated exclusively for qualifying purposes (religious, scientific, hospital, or charitable) [*organizational requirement*], and that use their property exclusively for those qualifying purposes [*use requirement*].¹ The Board's guidance on the welfare exemption is set forth in Assessors' Handbook Section 267, *Welfare, Church, and Religious Exemptions* (<http://www.boe.ca.gov/proptaxes/pdf/ah267.pdf>.)

Organizational Requirements

In brief, an organization must meet the following organizational requirements:

- It must be organized and operated for exempt purposes (religious, hospital, scientific, charitable) in accordance with section 214(a).
- It must not be organized or operated for profit in accordance with section 214(a)(1).
- It must have tax exemption status with the Internal Revenue Service under 501(c)(3) of the Internal Revenue Code, or the Franchise Tax Board under 23701(d) of the Revenue and Taxation Code (section 214.8).
- The organization's earnings must not benefit any private shareholder or individual (section 214(a)(2)).
- The organization's formative documents, i.e. Articles of Incorporation, must contain acceptable irrevocable dedication and dissolution clauses as provided by sections 214(a)(6) and 214.01.

Use Requirements

In order to be eligible for the welfare exemption, the property must be used exclusively for religious, hospital, scientific, or charitable purposes. A qualifying organization's property may be exempted fully or partially depending on how much of the property is used for qualifying purposes or activities.

¹ The nonprofit organization must be a community chest, fund, foundation, limited liability company, or corporation.

II. Administration of the Welfare Exemption and Board Duties

The welfare exemption is co-administered by the State Board of Equalization (Board) and County Assessors. As of January 1, 2004, the Board is responsible for determining whether the *organization* itself is eligible for the exemption. The county assessor is responsible for determining whether the *property* of a qualifying organization qualifies for exemption based on the property's use.

As part of the Board's administration role, staff reviews claims for an organizational clearance certificate to determine qualification for the welfare exemption. Upon the Board's determination that an organization qualifies for the welfare exemption, it issues an *Organizational Clearance Certificate for Welfare or Veterans' Organization Exemption* (OCC), which remains valid until the Board determines that the organization no longer meets the requirements for exemption and the certificate is revoked.²

III. Periodic Claim Filing Process

As part of its statutory duties, the Board may conduct an audit or verification of an organization to determine if the organization meets the requirements of Revenue and Taxation Code section 214. In regard to this duty, the Board requires organizations holding an OCC to file a periodic claim form once every three years to ensure continued qualification for the welfare exemption. Periodic filings are made on claim form BOE-277-P, *Periodic Filing for Organization Clearance Certificate – Welfare or Veterans' Organization Exemption*, with the filing cycle based on the alphabetical grouping of the name of the organization.

Periodic Claim Review

As part of the periodic claim review process, Board staff reviews information concerning the organization's formative documents, tax exemption status with the Internal Revenue Service or Franchise Tax Board, financial statements, and activities to ensure that organizational requirements for the welfare exemption continue to be met. In its review, staff examines an organization's formative documents to ensure acceptable irrevocable dedication and dissolution language, verifies current tax exemption status with the Internal Revenue Service or Franchise Tax Board, reviews California Secretary of State information for current status and recent amendments to articles of incorporation, and reviews activity information to ensure that activities are consistent with the purpose of the organization.

Periodic Claim Filing Request of Hospital Organizations

As a result of increased inquiries and media coverage in regard to hospitals, the Board initiated a review of hospital organizations as part of its 2005 periodic claim review. On December 30, 2004, Board staff mailed periodic claim forms to hospital organizations with a due date of February 15, 2005; a second request was made to non-filers on June 14, 2005, with a due date of July 15, 2005.³

² The holding of an organizational clearance certificate demonstrates that the organization meets the qualifications for exemption. An organization must have an OCC in order for the county assessor to grant exemption on its property.

³ The second request was made to approximately 750 OCC holders, 36 of which were hospital organizations.

Board staff received the periodic claims from all hospital organizations by the end of August 2005 and completed its initial review of the filings to determine if any hospital organization had surplus revenues. Following this determination, staff began issuing finding sheets to request additional information from those organizations as to use of surplus revenue and an explanation of certain revenue items.

IV. Review of Periodic Claim Filings of Hospital Organizations

The Board review encompassed approximately 200 hospital organizations (see *Exhibit A*). As previously indicated, Board staff reviews information on formative documents, tax exemption status, financial statements and activities, as part of the periodic claim review process to ensure that an organization continues to meet the requirements for exemption. As part of its review, staff examines the income statement of the organization for the immediately preceding fiscal or calendar year.

With respect to hospital organizations, Revenue and Taxation Code section 214, subdivision (a)(1) provides that a hospital shall not be deemed to be organized or operated for profit, if, during the immediately preceding fiscal year, operating revenues, exclusive of gifts, endowments and grants-in-aid, did not exceed operating expenses by the amount equivalent to ten percent of those operating expenses. However, revenue in excess of this ten percent threshold is not a bright line test for disqualification for the welfare exemption. A hospital may earn surplus revenue and still qualify for exemption, provided that it meets the requirements in section 214, subdivision (a)(1) through (a)(5), and the revenue is used for such purposes as debt retirement, expansion of plant and facilities or reserve for operating contingencies.⁴

As part of the Board's review, staff examines each organization's financial statements (income and expense) to determine what organization, if any, had surplus revenue. If Board staff determines that a hospital organization has earned in excess of the ten percent threshold, additional information is requested of that organization as to the use of the surplus revenue. The review of periodic filings for hospital organizations resulted in 15 organizations with reported operating revenues that exceeded operating expenses by an amount equivalent to ten percent or more of those operating expenses (see *Exhibit B*).

Request for Additional Information for Organizations Exceeding 10% Threshold

With respect to the 15 hospital organizations determined to have surplus revenues, Board staff requested information as to each organization's use of surplus revenues and a further description of certain items identified as deductions from revenue. Additionally, staff requested submission of financial statements for additional years to enable staff to analyze surplus revenues over a four-year period. This information was requested in the form of a finding sheet, form BOE 277-F, *Welfare or Veterans Organization Exemption Organizational Clearance Certificate Finding Sheet* (finding sheet). Staff sent these finding sheets out September 15, 2005, requesting that information be provided within 90 days.

⁴ *Rideout Hospital Foundation, Inc. v. Yuba County* (1992) 8 Cal.App.4th 214.

Use of Surplus Revenues

Staff requested specific information as to the use of surplus revenues. The finding sheet requested that the organization identify the intended purpose for all surplus revenues and provide supporting documentation for amounts of debt retirement, plant and facilities expansion, and reserve for operating contingencies. With respect to expansion to plant and facilities, it specifically requested that it provide documentation identifying the purpose and location of the expansion and the current stage of the expansion.

Deductions from Revenue

In some cases, the revenue portion of the income statement contained an item identified as "Deductions from revenue" which represented a substantial percentage of "Gross patient service revenues." Therefore, information was also requested as to what these items consisted of and how the amount was derived.

Responses to Findings Submitted by Organizations and Board Analysis

Board staff received responses to its request for information from 12 of the 15 hospital organizations by December 30, 2005. Staff contacted the remaining three hospital organizations, which resulted in these remaining organizations providing a response by the end of April 2006. Supplementary information was requested of several organizations, which was received in March, April and May 2006.

In general, the organizations' submittals identified expenditures for plant expansion, debt retirement, and reserve for operating contingencies. As indicated in the responses, many hospital organizations are building new facilities or expanding existing facilities to meet the needs of the community. In addition, some hospitals need to be replaced or existing facilities upgraded in order to meet compliance standards of California's Seismic Safety Act.

In order to substantiate hospital organizations' expansion of plant and facilities, staff requested information from the county assessor's office where the organization has property and extracted information from the Internet websites of newspapers and the State of California Office of Statewide Health Planning and Development (OSHPD) as follows:

- County assessors provided documentation on construction or plant expansion in form of project descriptions, photos, construction in progress and/or completion values, information on land acquisitions, copies of business property statement filings, etc.
- Internet research located various newspaper articles providing information on hospital acquisitions and construction projects.
- OSHPD's website contained specific data on current hospital construction projects by county, name of organization, and name of specific hospital.⁵

Exhibit C is a listing of the 15 hospital organizations with surplus revenues, which identifies amounts of surplus revenues and uses of surplus revenues, and includes a description of major

⁵ The list of hospital construction projects may be accessed on OSHPD's website using the following link: <http://www.oshpd.state.ca.us/oshpdKEY/ProjStatus.htm>. To view a specific project, one must select the county where the hospital is located, then locate the name of the hospital organization, and specific hospital location.

construction projects based on Board staff's analysis of information provided by the hospital organization and secondary substantiation of expansion activities.

Board Research on Seismic Requirements for Hospitals and Deductions from Revenue

Board staff conducted research to gain a further understanding of the seismic requirements and explanation of revenue items that organizations identified in their response to the Board's request for information. The following provides general information on the California Seismic Safety Act, the function and role of the Office of Statewide Health Planning and Development's Facilities Development Division (OSHDP), which is part of the California Health and Human Services Agency, as far as hospital organizations and deductions from revenue.

California Seismic Safety Act Amendment [Hospital Building Requirements]

In 1973, the Legislature passed the Alfred E. Alquist Hospital Seismic Safety Act (Seismic Safety Act), following the 1971 Sylmar earthquake, to require that California hospitals be designed and constructed to withstand a major earthquake and remain operational immediately after the earthquake. Senate Bill 1953 (Stats. 1994, ch. 740) amended the Seismic Safety Act, following the 1994 Northridge earthquake, and tightened the building standards that California hospitals must meet and requires that hospitals evaluate and rate their buildings using standards developed by the OSHDP to determine the building's ability to withstand a major earthquake.⁶ California Health and Safety Code section 130065, states, in part:

In accordance with the compliance schedule approved by the office (*refers to OSHDP*), but in any case no later than January 1, 2030, owners of all acute care inpatient hospitals shall either:

- (a) Demolish, replace, or change to nonacute care use all hospital buildings not in substantial compliance with the regulations and standards developed by the office pursuant to the Alfred E. Alquist Hospital Facilities Seismic Safety Act and this act.
- (b) Seismically retrofit all acute care inpatient hospital buildings so that they are in substantial compliance with the regulations and standards developed by the office pursuant to the Alfred E. Alquist Hospital Facilities Seismic Safety Act and this act.

OSHDP – Seismic Overview

OSHDP works closely with California hospitals to ensure that the facilities can withstand a major earthquake or other type of disaster. A publication issued by OSHDP titled, *California's Hospital Seismic Safety Law, Its History, Implementation & Progress*, includes the following information on page 9:

- By 2001, hospitals reported the findings of their evaluation. They showed that approximately 40 percent of California's hospital buildings are at risk of collapse in a major earthquake.
- Compliance plans that hospitals submitted to OSHDP by January 1, 2002, indicated the facilities' intent to do one of the following:
 - Retrofit the buildings for continued acute care operation beyond 2003.

⁶ Further information as to the history of the Seismic Safety Act and its requirements is available in a publication issued by the Office of Statewide Health Planning & Development (OSHDP), titled *California's Hospital Seismic Safety Law, Its History, Implementation, & Progress*. This publication may be accessed on OSHDP's website using the following link: <http://www.oshpd.cahwnet.gov/FDD/SB1953/index.htm>.

- Partially retrofit the building for initial compliance with closure or replacement by 2002, 2008 or 2030.
- Relocate acute care services or close or demolish the building. Hospitals may request an extension of the 2008 deadline to 2013.

OSHPD annually reviews more than 1,200 hospital projects to ensure that these facilities can withstand a major earthquake or other type of disaster.⁷

Deductions from Revenue

OSHPD oversees hospital organizations and establishes a uniform accounting and reporting system required to be implemented by all California hospitals. The following information was obtained from the OSHPD's *Accounting and Reporting Manual for California Hospitals*. Chapter 1100, *Accounting Principles and Concepts*, provides that deductions from revenue result in the following three instances:

1. A hospital may agree to accept less than 100% of charges as payment in full through a contractual arrangement. The difference between gross charges and the agreed upon payment, which may include patient liability, is referred to as a contractual adjustment.
2. A hospital may write off an account as bad debt because the party in debt, although determined able to pay, refuses to pay. Provisions created to estimate this amount are a deduction from revenue.
3. A hospital may treat a patient who does not have the ability to pay for the services rendered. This type of care is written-off as charity care, which is also a deduction from revenue.

V. Results of Review and Recommendation

General Results

Board staff's review resulted in determining that all hospital organizations holding Organizational Clearance Certificates continue to meet the requirements for exemption. Staff found that the:

- Organizations are organized and operated for hospital purposes in compliance with Revenue and Taxation Code sections 214(a) and 214(a)(1). These organizations also have current tax exemption status with the Internal Revenue Service or Franchise Tax Board under IRC 501(c)(3) or 23701(d), as required by Revenue and Taxation Code section 214.8.
- Organizations' earnings do not benefit any private shareholder or individual, in compliance with section 214(a)(2).
- Organizations' formative documents, i.e., Articles of Incorporation, contain acceptable irrevocable dedication and dissolution clauses, as provided by Revenue and Taxation Code sections 214(a)(6) and 214.01.

Organizations with Surplus Revenues

Of the 200 hospital organizations examined, staff found 15 had operating revenues that exceeded operating expenses by ten percent or more of those expenses (surplus revenues). Further analysis was conducted as to the use of surplus revenues to ensure compliance with Revenue and Taxation

⁷ Office of Statewide Health Planning & Development (OSHPD), *Hospital Seismic Safety*, Vol. 1 July 2005, page 1.

Code section 214(a)(1). Section 214(a)(1) provides that hospitals are deemed not to be organized or operated for profit, if during the immediately preceding fiscal year, operating revenues, exclusive of gifts, endowments and grants-in-aid, do not exceed operating expenses by the amount equivalent to ten percent of those operating expenses.

This statutory provision was interpreted by an appellate court decision to mean that a nonprofit hospital with net operating revenues in excess of ten percent of its operating expenses can still qualify for the welfare exemption.⁸ The Court of Appeal stated that the legislative intent of section 214(a)(1) was not to deny the exemption to a nonprofit hospital using such excess revenue for debt retirement, plant and facility expansion or operating cost contingencies.

Board staff's analysis of the organizations' use of surplus revenues disclosed that surplus revenues were or are being used for one or more purposes specified by the Court of Appeal, including debt retirement, plant and facility expansion, and operating cost contingencies. Overall, the 15 organizations had significant construction projects of new hospitals (inpatient and outpatient facilities), office buildings, and other related facilities; expenditures; which well exceed surplus revenues. Over half the organizations expending funds for plant expansion indicated some construction costs on existing facilities resulting from compliance with seismic retrofitting requirements. *Exhibit C* identifies each of the 15 organizations' surplus revenues and use of surplus revenues.

Qualification for Exemption

The Board finds that all of these organizations continue to qualify for the welfare exemption and an Organizational Clearance Certificate. Staff will continue to review hospital organizations every three years on its periodic claim cycle; and conduct a further analysis if review of a hospital organization's period claim and financial statement information results in identification of surplus revenues.

⁸ *Rideout Hospital Foundation, Inc. v. Yuba County* (1992) 8 Cal.App.4th214.

EXHIBIT A

Hospital Organizations in 2005 Periodic Claim Review

ORGANIZATION NAME	OCC No.	ORGANIZATION NAME	OCC No.
Adventist Health Clearlake Hospital, Inc.	160	City of Hope National Medical Center	2919
Adventist Health System/West	164	Colaborativo Saber	16136
Alameda Health Consortium	257	Collis P. and Howard Huntington Memorial Hospital Trust	3046
Alameda Hospital	258	Colusa Regional Medical Center	15124
Alta Bates Summit Medical Center	385	Community Clinics Health Network	14588
Anaheim Memorial Medical Center	579	Community Health Group	3179
Banner Health System, Inc. (AKA: Lassen Community Hospital, Inc.)	1027	Community Hospital of Long Beach	16032
Barlow Respiratory Hospital	1040	Community Hospital of San Bernardino	3186
Barton Memorial Hospital	1051	Community Hospital of the Monterey Peninsula	3187
Berkeley Long-Term Care Company	5779	Community Hospital Properties	3188
Betty Ford Center at Eisenhower, The	1275	Community Hospitals of Central California	3189
Beverly Community Hospital Association	1277	Community Memorial Hospital of San Buenaventura	3212
California Pacific Medical Center	1824	Coronado Hospital Foundation	3466
Catholic Healthcare West	14974	Dameron Hospital Association	3677
Cedars-Sinai Medical Center	2254	Daniel Freeman Hospitals, Incorporated	3684
Central California Foundation for Health	2365	Dominican Hospital Foundation	3906
Children's Hospital & Research Center at Oakland	2605	Dos Palos Memorial Hospital, Inc.	3924
Children's Hospital and Research Center Foundation	2604	Downey Regional Medical Center-Hospital, Inc.	3930
Children's Hospital Central California	15091	East Valley Huntington Hospital	4048
Children's Hospital of Los Angeles	2607	Enloe Medical Center	4247
Children's Hospital of Orange County	2609	Family Health Centers of San Diego, Inc.	4503
Chinese Hospital Association	2659	Feather River Hospital	4586
CHOCO Realty Corporation	2668	Florence Crittenton Center	5041
Citrus Valley Health Foundation, Inc.	2903	Foothill Hospital-Morris L. Johnston Memorial	5079
Citrus Valley Medical Center, Inc.	2906	Frank R. Howard Foundation	5186

ORGANIZATION NAME	OCC No.	ORGANIZATION NAME	OCC No.
Fremont Medical Center	5210	Kaiser Foundation Health Plan, Inc.	6891
Fremont-Rideout Health Group, The	5217	Kaiser Foundation Hospitals	6892
French Hospital Medical Center	5219	Kaiser Health Plan Asset Management, Inc.	14495
Fresno Community Hospital and Medical Center	5230	Kaiser Hospital Asset Management, Inc.	6893
Gardens Regional Hospital and Medical Center, Inc.	15948	Little Company of Mary Health Services	14433
General Conference Corporation of Seventh-day Adventists	5411	Little Company of Mary Hospital	7374
Glendale Adventist Medical Center	5482	Livingston Community Health Services	7417
Golden Gate Regional Center, Inc.	5543	Lodi Memorial Hospital Association, Inc.	7429
Goleta Valley Cottage Hospital	15566	Loma Linda Mercantile	7443
Good Samaritan Hospital	6257	Loma Linda University Adventist Health Sciences Center	163
Good Samaritan Medical Office Building, Inc.	5573	Loma Linda University Anesthesiology Medical Group, Inc.	7446
Guidance Center, The	16040	Loma Linda University Behavioral Medicine Center, Inc.	7447
Hayward Sisters Hospital	5916	Loma Linda University Cardiology Medical Group, Inc.	7448
Healthcare Association of San Diego and Imperial Counties	5938	Loma Linda University Dermatology Medical Group, Inc.	7449
HealthCare Foundation for Orange County, The	5939	Loma Linda University Eye Medical Group, Inc.	7450
Henrietta Weill Memorial Child Guidance Clinic, The	5994	Loma Linda University Gynecology & Obstetrics Medical Group, Inc.	7452
Henry Mayo Newhall Memorial Hospital	5998	Loma Linda University Medical Center	7455
Heritage Rancho Healthcare Inc.	6012	Loma Linda University Physicians Medical Group, Inc.	7460
Hoag Memorial Hospital Presbyterian	6105	Loma Linda University Surgery Medical Group, Inc.	7464
Hospice of Marin Foundation	6234	Loma Linda University Urology Medical Group, Inc.	7465
Hospital Chaplancy Services, Inc.	6252	Long Beach Memorial Medical Center	7493
Independence Community Treatment Clinic	15978	Los Angeles Orthopaedic Foundation	7584
Institute of Islamic Studies	6531	Lucile Salter Packard Children's Hospital at Stanford	7658
Interhealth Corporation	6582	Marin General Hospital	7848
John Muir/Mt.Diablo Health System	6813	Marshall Medical Center	7908

ORGANIZATION NAME	OCC No.	ORGANIZATION NAME	OCC No.
Maryknoll Hospital	7932	Redwood Memorial Hospital of Fortuna	10401
Mater Misericordiae Hospital	7950	Rideout Memorial Hospital	10499
Memorial Hospital Association	8025	Ridgecrest Community Hospital	10502
Memorial Hospital Los Banos	8027	Riverside Community Health Foundation	10535
Mercy Foundation	8093	Saint Agnes Medical Center	12138
Methodist Hospital of Southern California	8133	Saint Francis Memorial Hospital	12202
Mills-Peninsula Health Services	8234	San Antonio Community Hospital	10849
Mission Hospital Regional Medical Center	8280	San Antonio Community Hospital Dental Center	10850
Montebello Community Health Services Inc.	8354	San Fernando Community Hospital	10992
Northbay Health Advantage	9015	San Joaquin Community Hospital	11120
Northern Sierra Rural Health Network	16137	Santa Barbara Cottage Hospital	11229
Novato Community Hospital	9107	Santa Barbara Cottage Hospital Foundation	11228
Ojai Valley Community Hospital, a California corporation	14476	Santa Marta Hospital	11315
Orthopaedic Hospital	9383	Santa Paula Memorial Hospital	11331
Pacific Clinics	9447	Santa Teresita Hospital	11341
Pacific Family Health, Inc.	5235	Santa Ynez Valley Cottage Hospital Inc.	15565
Palo Alto Medical Foundation for Health Care, Research and Education	9560	Scripps Health	11403
Palo Alto Medical Foundation Hospital Corporation	14801	Selma Community Hospital, Inc.	11458
Paradise Valley Hospital	9592	Sequoia Health Services	11498
Parkview Community Hospital Medical Center	9632	Seton Medical Center	16089
Pasadena Hospital Association, Ltd.	9656	Sharp Cabrillo Hospital	11562
Prime Infusion Network	10062	Sharp Chula Vista Medical Center	11563
Queen of the Valley Hospital of Napa, California	10197	Sharp Coronado Hospital and Healthcare Center	11565
QueensCare	10199	Sharp Memorial Hospital	11568
Redlands Community Hospital	10363	Sherman Oaks Health System	11630

ORGANIZATION NAME	OCC No.	ORGANIZATION NAME	OCC No.
Shriners Hospitals for Children	11660	Sutter Lakeside Hospital	12547
Shriners Hospitals for Children	11661	Sutter Maternity and Surgery Center of Santa Cruz	12548
Sierra Family Medical Clinic, Inc.	11687	Sutter Medical Center Foundation	12546
Sierra Hospital Foundation	11695	Sutter Medical Center of Santa Rosa	12549
Sierra Nevada Memorial-Miners Hospitals, Inc.	11706	Sutter Medical Foundation	12550
Simi Valley Hospital Association	11743	Sutter Merced Medical Center	12551
Siskiyou Hospital, Inc.	11754	Sutter North Medical Foundation	15050
Sisters of Charity of Leavenworth Health Services Corporation	11765	Sutter Solano Charitable Foundation	12553
Sisters of Providence in California	11777	Sutter Solano Medical Center	12552
Sonora Community Hospital	11922	Sutter Tracy Community Hospital	12554
Southern Monterey County Memorial Hospital	12072	Sutter Visiting Nurse Association And Hospice	13544
SRM Alliance Hospital Services	12137	Torrance Health Association, Inc.	12810
St. John's Hospital and Health Center	12241	Torrance Memorial Hospital Medical Center	12812
St. Joseph Health System	12258	Ukiah Adventist Hospital	13027
St. Joseph's Regional Housing Corporation	12269	University of Southern California Kenneth Norris Jr. Cancer Hospital	13234
St. Jude Hospital	12270	Valley Health System Service Corporation	13327
St. Luke's Hospital	12275	Valley Presbyterian Hospital	13348
St. Mary Desert Valley Hospital	12293	Vector Rehabilitation	13377
Sutter Amador Hospital	12534	Verdugo Hills Hospital	13419
Sutter Coast Hospital	12537	Victor Valley Community Hospital	13448
Sutter Delta Medical Center	12542	Vista Hill Foundation	13567
Sutter East Bay Medical Foundation	384	Vista Hospital Systems Inc.	13569
Sutter Gould Medical Foundation	16088	Weimar Institute	13714
Sutter Health	12543	White Memorial Medical Center	13895
Sutter Health at Work	12535	Willits Hospital, Inc.	13933
Sutter Health Sacramento Sierra Region	15735		

EXHIBIT B

List of 15 Hospital Organizations with Surplus Revenues

Organization Name	OCC No.
California Pacific Medical Center	1824
John Muir/Mt. Diablo Health System	6813
Kaiser Foundation Hospitals	6892
Lucile Salter Packard Children's Hospital at Stanford	7658
Memorial Hospital Association	8025
Mills-Peninsula Health Services	8234
QueensCare	10199
Santa Ynez Valley Cottage Hospital, Inc.	15565
St. Jude Hospital	12270
Sutter Delta Medical Center	12542
Sutter Health at Work	12535
Sutter Health Sacramento Sierra Region	15735
Sutter Maternity and Surgery Center of Santa Cruz	12548
Sutter Merced Medical Center	12551
Sutter Tracy Community Hospital	12554

EXHIBIT C

Hospital Organizations with Surplus Revenues¹ and Uses of Surplus Revenues²

Name of Hospital Organization	Surplus Revenues 2001 - 2004	Use of Surplus Revenues				
1. California Pacific Medical Center (OCC No. 1824)	2001: \$ 25,531,828	Year	Debt Retirement	Plant & Facility Expansion	Operating Contingencies	Total Uses
	2002: 76,674,947	2001	\$ 470,658	\$ 3,042,000	\$ 32,914,500	\$ 36,427,158
	2003: 48,150,662	2002	1,638,297	20,139,000	13,056,600	34,833,897
	2004: 72,749,325	2003	1,581,719	26,264,000	33,879,900	61,725,619
	Total: \$ 223,106,762	2004	391,122	127,099,000	26,711,900	154,202,022
		Total	\$ 4,081,796	\$ 176,544,000	\$ 106,562,900	\$ 287,188,696
		Projected Capital Expenditures and Description of Major Project:				
		Years 2005 - 2013		\$ 1,684,168,000		
		Cathedral Hill Project- Building of a new 1,100,000 sq. ft. hospital (508 beds), a 160,000 sq. ft. medical office building, a 70,000 sq. ft. research building. In 2003 and 2004, 5 properties were acquired for this project; total acquisition price of \$101.3 million. Projected project cost is \$590 million; anticipated construction to begin in 2008.				
		Seismic upgrades and refurbishments to its existing facilities at Davies Medical Center, Pacific Campus and California Campus. Projected costs of \$128 million.				

¹ If operating revenues exceed operating expenses by ten percent or more of those operating expenses, there are surplus revenues for purposes of Revenue and Taxation Code section 214(1)(1). The amounts identified, surplus revenues, represent the amount of excess. Only the years with excess are listed in the table.

² Hospital organizations with surplus revenues can still qualify for the welfare exemption if such excess revenues are used for debt retirement, plant and facility expansion or operating cost contingencies. The amounts identified, use of surplus revenues, represent amounts expended or anticipated to be spent for such uses.

Name of Hospital Organization	Surplus Revenues 2001 - 2004	Use of Surplus Revenues																				
2. John Muir/Mt. Diablo Health System (OCC No. 6813)	2002: \$ 12,644,800 2003: 11,905,400 2004: 47,481,200 Total: \$ 72,031,400	<p>Expenditures of Plant and Facility Expansion</p> <p>Years 2003 - 2005 \$ 35,780,191 <i>(figures provided by project, not by year)</i></p> <p>Projected Capital Expenditures and Description of Major Project:</p> <p>Years 2006 - 2012 \$ 567,807,017</p> <p>Expansion of Concord and Walnut Creek hospital for replacement of certain facilities to meet seismic requirements and expansion to meet growing demand. The Walnut Creek facility expansion includes a 377,000 sq. ft. patient care tower. Projected total cost is \$577 million of which \$440 million for the Walnut Creek campus.</p>																				
3. Kaiser Foundation Hospitals (OCC No. 6892)	2001: \$ 9,500,000 2003: 86,700,000 2004: 268,000,000 Total: \$ 364,200,000	<table border="1" data-bbox="871 673 1816 885"> <thead> <tr> <th>Year</th> <th>Debt Retirement</th> <th>Plant & Facility Expansion</th> <th>Total Uses</th> </tr> </thead> <tbody> <tr> <td>1999-2002</td> <td></td> <td>\$ 831,231,207</td> <td>\$ 831,231,207</td> </tr> <tr> <td>2003</td> <td>\$ 20,000,000</td> <td>327,768,793</td> <td>347,768,793</td> </tr> <tr> <td>2004</td> <td>965,680,000</td> <td>447,565,491</td> <td>1,413,245,491</td> </tr> <tr> <td>Total</td> <td>\$ 985,680,000</td> <td>\$ 1,606,565,491</td> <td>\$ 2,592,245,491</td> </tr> </tbody> </table> <p>Projected Capital Expenditures and Description of Major Project:</p> <p>Years 2005 - 2012 \$ 10,157,665,716</p> <p>Numerous California construction projects, including building new hospitals in growing communities, expanding existing hospitals, and seismic work. Projects include 14 seismic replacement hospitals or bed towers, 6 new hospitals in growing communities, 3 major hospital bed expansions projects, and numerous hospital renovation and improvement projects. With respect to planned hospitals, bed towers and bed expansions, the organization expects to add 4,786 beds and anticipates spending \$10.9 billion in total project costs from 2003 though 2013. Eleven hospitals are in construction phases.</p> <p>Two of the major projects are in Santa Clara and Los Angeles. The Santa Clara project involves a new medical office building, parking structure and addition of 66 beds. The Los Angeles project rebuilds the Medical Center service building to house 400 beds.</p>	Year	Debt Retirement	Plant & Facility Expansion	Total Uses	1999-2002		\$ 831,231,207	\$ 831,231,207	2003	\$ 20,000,000	327,768,793	347,768,793	2004	965,680,000	447,565,491	1,413,245,491	Total	\$ 985,680,000	\$ 1,606,565,491	\$ 2,592,245,491
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Name of Hospital Organization	Surplus Revenues 2001 - 2004	Use of Surplus Revenues																																		
4. Lucile Salter Packard Children's Hospital at Stanford (OCC No. 7658)	2002: \$ 338,500 2003: 12,862,700 Total: \$ 13,201,200	<p>Expenditures of Plant and Facility Expansion</p> <table border="1" data-bbox="877 370 1270 576"> <thead> <tr> <th>Year</th> <th>Amount</th> </tr> </thead> <tbody> <tr> <td>2001</td> <td>\$ 23,077,000</td> </tr> <tr> <td>2002</td> <td>7,574,000</td> </tr> <tr> <td>2003</td> <td>5,347,000</td> </tr> <tr> <td>2004</td> <td>5,494,000</td> </tr> <tr> <td>Total</td> <td>\$ 41,492,000</td> </tr> </tbody> </table> <p>Projected Capital Expenditures and Description of Major Project: Years 2005 – 2007 \$ 161,551,000</p> <p>Improvements to existing structures to add a medical records unit, an ambulatory care center, operating rooms, a cancer center, a pediatric intensive care unit and a dialysis treatment center, and seismic upgrades to existing facilities.</p>					Year	Amount	2001	\$ 23,077,000	2002	7,574,000	2003	5,347,000	2004	5,494,000	Total	\$ 41,492,000																		
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5. Memorial Hospital Association (OCC No. 8025)	2001: \$ 5,818,593 2002: 16,520,025 2003: 50,537,125 2004: 28,284,422 Total: \$ 101,160,165	<table border="1" data-bbox="877 841 1906 1112"> <thead> <tr> <th>Year</th> <th>Debt Retirement</th> <th>Plant & Facility Expansion</th> <th>Operating Contingencies</th> <th>Total Uses</th> </tr> </thead> <tbody> <tr> <td>2001</td> <td>\$ 1,511,584</td> <td>\$ 2,547,000</td> <td>\$ 17,644,500</td> <td>\$ 21,703,084</td> </tr> <tr> <td>2002</td> <td>706,516</td> <td>9,198,000</td> <td>27,356,300</td> <td>37,260,816</td> </tr> <tr> <td>2003</td> <td>1,702,434</td> <td>11,436,000</td> <td>3,693,300</td> <td>16,831,734</td> </tr> <tr> <td>2004</td> <td>7,571,810</td> <td>23,454,000</td> <td>11,344,100</td> <td>42,369,910</td> </tr> <tr> <td>Total</td> <td>\$ 11,492,344</td> <td>\$ 46,635,000</td> <td>\$ 60,038,200</td> <td>\$ 118,165,544</td> </tr> </tbody> </table> <p>Projected Capital Expenditures and Description of Major Project: Years 2005 – 2008 \$ 157,367,000</p> <p>Construction of a new 120 bed patient tower and medical office building, the expansion of the OB Dept, the neonatal intensive care unit, and Emergency Dept, and seismic upgrades and refurbishments to existing facilities. The parking structure was completed in December 2004; other facilities are still under construction.</p>					Year	Debt Retirement	Plant & Facility Expansion	Operating Contingencies	Total Uses	2001	\$ 1,511,584	\$ 2,547,000	\$ 17,644,500	\$ 21,703,084	2002	706,516	9,198,000	27,356,300	37,260,816	2003	1,702,434	11,436,000	3,693,300	16,831,734	2004	7,571,810	23,454,000	11,344,100	42,369,910	Total	\$ 11,492,344	\$ 46,635,000	\$ 60,038,200	\$ 118,165,544
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Name of Hospital Organization	Surplus Revenues 2001 - 2004	Use of Surplus Revenues																																		
6. Mills-Peninsula Health Services (OCC No. 8234)	2003: \$ 7,593,912 2004: 2,781,178 Total: \$ 10,375,090	<table border="1"> <thead> <tr> <th>Year</th> <th>Debt Retirement</th> <th>Plant & Facility Expansion</th> <th>Operating Contingencies</th> <th>Total Uses</th> </tr> </thead> <tbody> <tr> <td>2001</td> <td>\$ 2,366,233</td> <td>\$ 0</td> <td>\$ 13,937,700</td> <td>\$ 16,303,933</td> </tr> <tr> <td>2002</td> <td>2,541,099</td> <td>4,061,000</td> <td>3,719,600</td> <td>10,321,699</td> </tr> <tr> <td>2003</td> <td>2,670,681</td> <td>1,885,000</td> <td>12,459,900</td> <td>17,015,581</td> </tr> <tr> <td>2004</td> <td>51,022,262</td> <td>2,193,000</td> <td>8,035,300</td> <td>61,250,562</td> </tr> <tr> <td>Total</td> <td>\$ 58,600,275</td> <td>\$ 8,139,000</td> <td>\$ 38,152,500</td> <td>\$ 104,891,775</td> </tr> </tbody> </table>	Year	Debt Retirement	Plant & Facility Expansion	Operating Contingencies	Total Uses	2001	\$ 2,366,233	\$ 0	\$ 13,937,700	\$ 16,303,933	2002	2,541,099	4,061,000	3,719,600	10,321,699	2003	2,670,681	1,885,000	12,459,900	17,015,581	2004	51,022,262	2,193,000	8,035,300	61,250,562	Total	\$ 58,600,275	\$ 8,139,000	\$ 38,152,500	\$ 104,891,775				
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7. QueensCare (OCC No. 10199)		<p>Not Applicable</p> <p>Revenue did not reflect healthcare services, but charitable services.</p> <p><i>No Major Projects, Organization no longer Hospital</i></p> <p>The organization sold its hospital operations in 1998. It currently provides healthcare services for medically indigent persons through programs and grants funding, and provides inpatient and outpatient healthcare services, and provides full management responsibility for six Franciscan Clinics. The organization is no longer operating a hospital but continues to be eligible for an Organizational Clearance Certificate under the welfare exemption. The organization's purpose will be changed on its Organizational Clearance Certificate from "Hospital" to "Charitable" to reflect the current purposes for which the organization is organized and operated.</p>																																		

Name of Hospital Organization	Surplus Revenues 2001 - 2004	Use of Surplus Revenues												
8. Santa Ynez Valley Cottage Hospital, Inc. (OCC No. 15565)	2003: \$ 249,137 Total: \$ 249,137	<p>Expenditures of Plant and Facility Expansion</p> <table border="1"> <thead> <tr> <th data-bbox="890 375 978 402">Year</th> <th data-bbox="1041 375 1205 402">Amount</th> </tr> </thead> <tbody> <tr> <td data-bbox="890 407 978 435">2001</td> <td data-bbox="1041 407 1205 435">\$ 60,164</td> </tr> <tr> <td data-bbox="890 440 978 467">2002</td> <td data-bbox="1041 440 1205 467">24,149</td> </tr> <tr> <td data-bbox="890 472 978 500">2003</td> <td data-bbox="1041 472 1205 500">89,039</td> </tr> <tr> <td data-bbox="890 505 978 532">2004</td> <td data-bbox="1041 505 1205 532">288,332</td> </tr> <tr> <td data-bbox="890 537 978 565">Total</td> <td data-bbox="1041 537 1205 565">\$ 461,684</td> </tr> </tbody> </table> <ul style="list-style-type: none"> <li data-bbox="890 597 1646 625">• Claimant reported Capital Expenditures of \$ 230,020 in 2005 <p data-bbox="869 662 1640 690">Projected Capital Expenditures and Description of Major Project:</p> <p data-bbox="919 711 1373 738">Years 2006 – 2008 \$ 10,457,427</p> <p data-bbox="869 760 1915 878">Planning for the development of a new 10 bed patient care unit and a new radiology department. Renovation of the existing hospital to comply with Seismic Safety Act including expansion of the Laboratory and the Emergency Room and Lobby area renovation.</p>	Year	Amount	2001	\$ 60,164	2002	24,149	2003	89,039	2004	288,332	Total	\$ 461,684
Year	Amount													
2001	\$ 60,164													
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2004	288,332													
Total	\$ 461,684													
9. St. Jude Hospital (OCC No. 12270)	2004: \$ 21,789,100 Total: \$ 21,789,100	<p>Expenditures of Plant and Facility Expansion</p> <table border="1"> <thead> <tr> <th data-bbox="890 971 978 998">Year</th> <th data-bbox="1041 971 1205 998">Amount</th> </tr> </thead> <tbody> <tr> <td data-bbox="890 1003 978 1031">2001</td> <td data-bbox="1041 1003 1205 1031">\$ 930,146</td> </tr> <tr> <td data-bbox="890 1036 978 1063">2002</td> <td data-bbox="1041 1036 1205 1063">5,245,710</td> </tr> <tr> <td data-bbox="890 1068 978 1096">2003</td> <td data-bbox="1041 1068 1205 1096">4,356,444</td> </tr> <tr> <td data-bbox="890 1101 978 1128">2004</td> <td data-bbox="1041 1101 1205 1128">18,174,963</td> </tr> <tr> <td data-bbox="890 1133 978 1161">Total</td> <td data-bbox="1041 1133 1205 1161">\$ 28,707,263</td> </tr> </tbody> </table> <p data-bbox="869 1193 1640 1221">Projected Capital Expenditures and Description of Major Project:</p> <p data-bbox="919 1242 1394 1269">Years 2005 – 2013 \$ 223,840,974</p> <p data-bbox="869 1291 1915 1409">Construction of parking structure and conversion of office space into 58 acute care beds, and the building of a new Southwest Tower and seismically retrofitting the Main, North and West Buildings. A new parking structure with 570 parking spaces and a new 86,365 sq. ft. medical office building was completed in 2005.</p>	Year	Amount	2001	\$ 930,146	2002	5,245,710	2003	4,356,444	2004	18,174,963	Total	\$ 28,707,263
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Name of Hospital Organization	Surplus Revenues 2001 - 2004	Use of Surplus Revenues																														
10. Sutter Delta Medical Center (OCC No. 12542)	2001: \$ 3,524,678 2002: 6,572,408 2003: 13,150,897 2004: 2,407,092 Total: \$ 25,655,075	<table border="1"> <thead> <tr> <th data-bbox="865 354 1003 386">Year</th> <th data-bbox="1003 354 1213 386">Debt Retirement</th> <th data-bbox="1213 354 1465 386">Plant & Facility Expansion</th> <th data-bbox="1465 354 1717 386">Operating Contingencies</th> <th data-bbox="1717 354 1906 386">Total Uses</th> </tr> </thead> <tbody> <tr> <td>2001</td> <td>\$ 332,406</td> <td>\$ 517,000</td> <td>\$ 5,913,700</td> <td>\$ 6,763,106</td> </tr> <tr> <td>2002</td> <td>281,985</td> <td>71,000</td> <td>2,415,600</td> <td>2,768,585</td> </tr> <tr> <td>2003</td> <td>1,929,966</td> <td>4,937,000</td> <td>1,468,800</td> <td>8,335,766</td> </tr> <tr> <td>2004</td> <td>1,830,630</td> <td>11,410,000</td> <td>7,454,600</td> <td>20,695,230</td> </tr> <tr> <td>Total</td> <td>\$ 4,374,987</td> <td>\$ 16,935,000</td> <td>\$ 17,252,700</td> <td>\$ 38,562,687</td> </tr> </tbody> </table> <p data-bbox="865 570 1640 602">Projected Capital Expenditures and Description of Major Project:</p> <p data-bbox="919 621 1367 654">Year 2005 \$ 11,675,000</p> <p data-bbox="865 673 1892 771">Construction of a new building housing an Emergency Room, OB Department, and an imaging center. The building is in its final stages of completion and the projected total project cost is approximately \$25 million. <i>(No reported seismic improvements.)</i></p>	Year	Debt Retirement	Plant & Facility Expansion	Operating Contingencies	Total Uses	2001	\$ 332,406	\$ 517,000	\$ 5,913,700	\$ 6,763,106	2002	281,985	71,000	2,415,600	2,768,585	2003	1,929,966	4,937,000	1,468,800	8,335,766	2004	1,830,630	11,410,000	7,454,600	20,695,230	Total	\$ 4,374,987	\$ 16,935,000	\$ 17,252,700	\$ 38,562,687
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Total	\$ 4,374,987	\$ 16,935,000	\$ 17,252,700	\$ 38,562,687																												
11. Sutter Health at Work (OCC No. 12535)	2004: \$ 56,142 Total: \$ 56,142	<p>Organization ceased operations effective 3/31/06. Organizational Clearance Certificate will be revoked effective fiscal year 07/08, the fiscal year corresponding to the January 1 property lien date following ceasing of operations. Operating Contingencies for 2004 (year of surplus) amounted to \$3,778,200.</p>																														

Name of Hospital Organization	Surplus Revenues 2001 - 2004	Use of Surplus Revenues																																		
12. Sutter Health Sacramento Sierra Region (OCC No. 15735)	2001: \$ 3,658,438 2002: 27,776,563 2003: 34,229,274 Total: \$ 65,664,275	<table border="1"> <thead> <tr> <th>Year</th> <th>Debt Retirement</th> <th>Plant & Facility Expansion</th> <th>Operating Contingencies</th> <th>Total Uses</th> </tr> </thead> <tbody> <tr> <td>2001</td> <td>0</td> <td>\$ 4,234,000</td> <td>\$ 28,666,000</td> <td>\$ 32,900,000</td> </tr> <tr> <td>2002</td> <td>0</td> <td>24,643,000</td> <td>48,393,700</td> <td>73,036,700</td> </tr> <tr> <td>2003</td> <td>0</td> <td>57,632,000</td> <td>48,167,700</td> <td>105,799,700</td> </tr> <tr> <td>2004</td> <td>0</td> <td>65,496,000</td> <td>46,072,600</td> <td>111,568,600</td> </tr> <tr> <td>Total</td> <td>0</td> <td>\$ 152,005,000</td> <td>\$ 171,300,000</td> <td>\$ 323,305,000</td> </tr> </tbody> </table>	Year	Debt Retirement	Plant & Facility Expansion	Operating Contingencies	Total Uses	2001	0	\$ 4,234,000	\$ 28,666,000	\$ 32,900,000	2002	0	24,643,000	48,393,700	73,036,700	2003	0	57,632,000	48,167,700	105,799,700	2004	0	65,496,000	46,072,600	111,568,600	Total	0	\$ 152,005,000	\$ 171,300,000	\$ 323,305,000				
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		<p>Projected Capital Expenditures and Description of Major Project:</p> <p>Years 2005 - 2012 \$ 727,378,000</p> <p>Construction of a new maternal-child hospital, remodeling and expansion of existing facilities for increased capacity for cardiac services, parking spaces, and physician office; and new land acquisition to house additional outpatient services.</p>																																		
13. Sutter Maternity and Surgery Center of Santa Cruz (OCC No. 12548)	2002: \$ 955,558 2003: 1,431,939 2004: 3,453,930 Total: \$ 5,841,427	<table border="1"> <thead> <tr> <th>Year</th> <th>Debt Retirement</th> <th>Plant & Facility Expansion</th> <th>Operating Contingencies</th> <th>Total Uses</th> </tr> </thead> <tbody> <tr> <td>2001</td> <td>\$ 343,823</td> <td>\$ 274,144</td> <td>\$ 748,800</td> <td>\$ 1,366,767</td> </tr> <tr> <td>2002</td> <td>226,076</td> <td>406,589</td> <td>1,067,300</td> <td>1,699,965</td> </tr> <tr> <td>2003</td> <td>398,052</td> <td>690,831</td> <td>1,089,000</td> <td>2,177,883</td> </tr> <tr> <td>2004</td> <td>444,930</td> <td>1,252,171</td> <td>1,499,600</td> <td>3,196,701</td> </tr> <tr> <td>Total</td> <td>\$ 1,412,881</td> <td>\$ 2,623,735</td> <td>\$ 4,404,700</td> <td>\$ 8,441,316</td> </tr> </tbody> </table>	Year	Debt Retirement	Plant & Facility Expansion	Operating Contingencies	Total Uses	2001	\$ 343,823	\$ 274,144	\$ 748,800	\$ 1,366,767	2002	226,076	406,589	1,067,300	1,699,965	2003	398,052	690,831	1,089,000	2,177,883	2004	444,930	1,252,171	1,499,600	3,196,701	Total	\$ 1,412,881	\$ 2,623,735	\$ 4,404,700	\$ 8,441,316				
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		<p>Projected Capital Expenditures and Description of Major Project:</p> <p>Years 2005 - 2008 \$ 4,330,012</p> <p>Surgery expansion and radiology upgrade. (<i>No reported seismic improvements.</i>)</p>																																		
14. Sutter Merced Medical Center (OCC No. 12551)	Not Applicable Revenue did not reflect healthcare services.	Organization ceased hospital operations; it sold its hospital assets to Mercy Hospital in 2001. Organizational Clearance Certificate will be revoked effective with the year under review.																																		

Name of Hospital Organization	Surplus Revenues 2001 - 2004	Use of Surplus Revenues				
15. Sutter Tracy Community Hospital (OCC No. 12554)	2001: \$ 11,903,514		Debt	Plant & Facility	Operating	
	2002: 15,710,980	<u>Year</u>	<u>Retirement</u>	<u>Expansion</u>	<u>Contingencies</u>	<u>Total Uses</u>
	2003: 12,394,180	2001	\$ 152,598	\$ 730,000	\$ 1,408,400	\$ 2,290,998
	2004: 5,439,302	2002	66,238	3,277,000	2,409,000	5,752,238
	Total: \$ 45,447,976	2003	0	11,690,000	4,605,200	16,295,200
		2004	2,336,303	11,529,000	4,216,500	18,081,803
		Total	\$ 2,555,139	\$ 27,226,000	\$ 12,639,100	\$ 42,420,239
		Projected Capital Expenditures and Description of Major Project:				
		Years 2005 - 2006		\$ 16,054,000		
		Renovation and expansion of its facilities (Ambulatory Surgery, Obstetrics, Emergency Department), infrastructure and seismic improvements; modular building construction; the purchase of medical office space; and construction of a new medical office.				