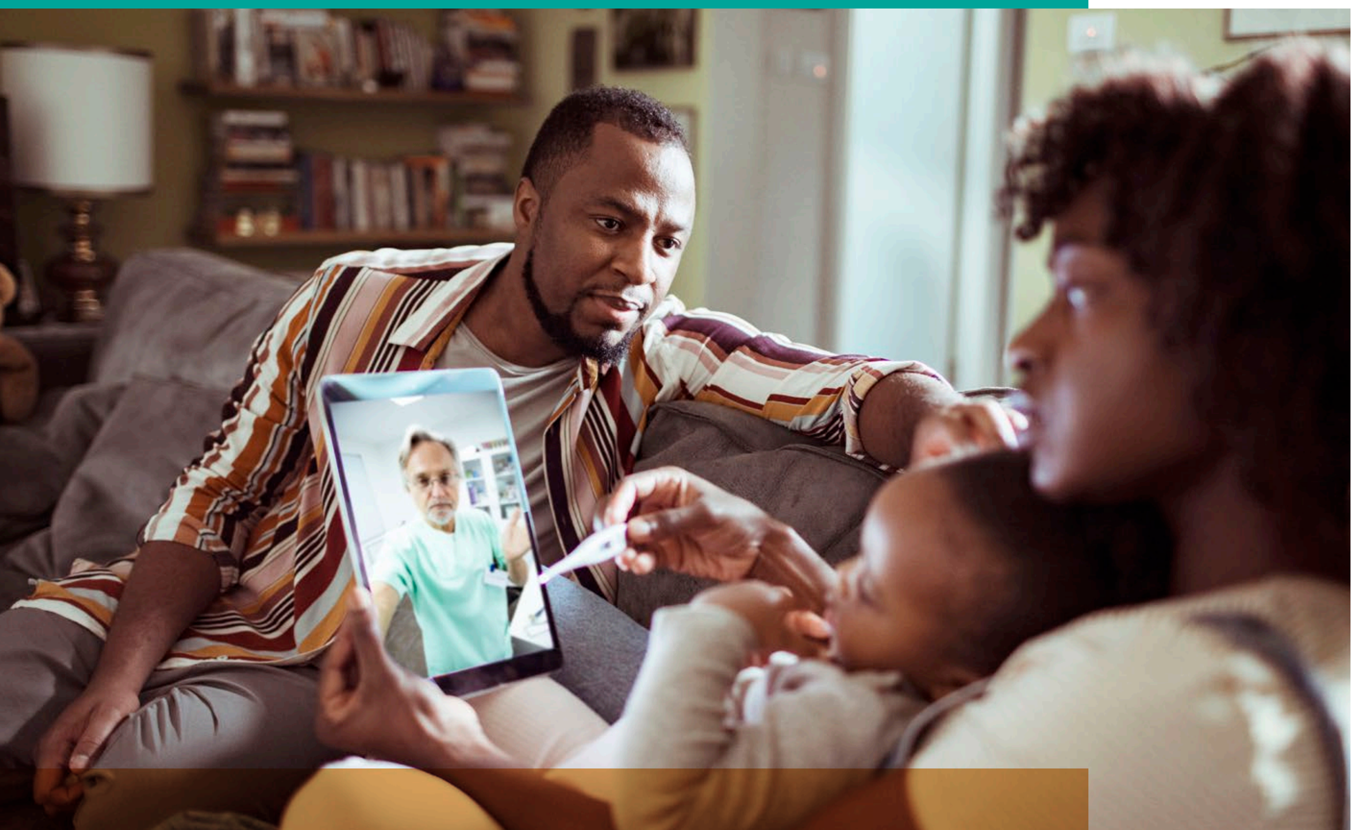
2022 AUDITED FINANCIAL STATEMENTS



December 31, 2022

Sutter Health

Sutter Health and Affiliates

Consolidated Financial Statements

Years ended December 31, 2022 and 2021

Contents

Audited Consolidated Financial Statements

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Report of Independent Auditors

Sutter Health Board of Directors
Sutter Health and Affiliates

Opinion

We have audited the consolidated financial statements of Sutter Health and Affiliates (Sutter), which comprise the consolidated balance sheets as of December 31, 2022 and 2021, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Sutter at December 31, 2022 and 2021, and the results of its operations, changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Sutter and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Sutter's ability to continue as a going concern for one year after the date that the financial statements are issued.

Building a better working world

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Sutter's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Sutter's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Ernst & Young LLP

March 22, 2023

Sutter Health and Affiliates

Consolidated Balance Sheets

(Dollars in millions)

	December 31, 2022	December 31, 2021
Assets		
Current assets:		
Cash and cash equivalents	**$ 514**	$ 735
Short-term investments	**6,292**	6,884
Patient accounts receivable	**1,681**	1,419
Other receivables	**941**	976
Inventories	**131**	135
Other	**175**	259
Total current assets	**9,734**	10,408
Non-current investments	**1,546**	1,427
Property, plant and equipment, net	**7,416**	7,683
Other non-current assets	**1,235**	813
	$ 19,931	$ 20,331
Liabilities and net assets		
Current liabilities:		
Accounts payable	**$ 871**	$ 747
Accrued salaries and related benefits	**709**	854
Other accrued expenses	**1,134**	1,601
Current portion of long-term obligations	**43**	25
Total current liabilities	**2,757**	3,227
Non-current liabilities:		
Long-term obligations, less current portion	**4,509**	4,556
Other	**946**	1,168
Net assets:		
Without donor restrictions:		
Controlling	**11,129**	10,692
Noncontrolling	**88**	95
With donor restrictions	**502**	593
Total net assets	**11,719**	11,380
	$ 19,931	$ 20,331

See accompanying notes.

Sutter Health and Affiliates

Consolidated Statements of Operations and Changes in Net Assets

(Dollars in millions)

	Year ended December 31, 2022	2021
Net assets without donor restrictions:		
Operating revenues:		
Patient service revenues	**$ 12,564**	$ 12,145
Premium revenues	**1,740**	1,605
Contributions	**119**	100
Other	**350**	375
Total operating revenues	**14,773**	14,225
Operating expenses:		
Salaries and employee benefits	**6,533**	6,645
Purchased services	**4,193**	3,658
Supplies	**1,816**	1,763
Depreciation and amortization	**688**	735
Rentals and leases	**178**	197
Interest	**139**	138
Insurance	**29**	28
Other	**919**	862
Total operating expenses	**14,495**	14,026
Income from operations	**278**	199
Investment income	**130**	758
Change in net unrealized gains and losses on investments	**(578)**	122
Loss on deconsolidation of affiliate	**(208)**	–
Other components of net periodic postretirement cost	**209**	142
(Loss) income	**(169)**	1,221
Less income attributable to noncontrolling interests	**(80)**	(83)
(Loss) income attributable to Sutter Health	**(249)**	1,138

Sutter Health and Affiliates

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

(Dollars in millions)

	Year ended December 31, 2022	2021
Net assets without donor restrictions (continued):		
Controlling:		
(Loss) income attributable to Sutter Health	**$ (249)**	$ 1,138
Change in net unrealized gains and losses on investments classified as other-than-trading	**(15)**	(3)
Net assets released from restriction for equipment acquisition	**21**	24
Postretirement-related changes other than net periodic postretirement cost	**666**	823
Other	**14**	(31)
Increase in controlling	**437**	1,951
Noncontrolling:		
Income attributable to noncontrolling interests	**80**	83
Distributions	**(84)**	(81)
Other	**(3)**	(20)
Decrease in noncontrolling	**(7)**	(18)
Net assets with donor restrictions:		
Contributions	**40**	46
Investment income	**6**	39
Change in net unrealized gains and losses on investments	**(21)**	(4)
Net assets released from restriction	**(43)**	(53)
Loss on deconsolidation of affiliate	**(75)**	–
Other	**2**	(3)
(Decrease) increase in net assets with donor restrictions	**(91)**	25
Increase in net assets	**339**	1,958
Net assets at beginning of year	**11,380**	9,422
Net assets at end of year	**$ 11,719**	$ 11,380

See accompanying notes.

Sutter Health and Affiliates

Consolidated Statements of Cash Flows

(Dollars in millions)

	Year ended December 31, 2022	2021
Operating activities		
Increase in net assets	**$ 339**	$ 1,958
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Loss on deconsolidation of affiliate	**283**	–
Depreciation and amortization	**682**	725
Amortization of bond issuance costs, premium and discount, net	**(22)**	(23)
Net realized gains and losses and change in net unrealized gains and losses on investments	**587**	(724)
Restricted contributions and related investment income	**(46)**	(85)
Distributions to noncontrolling interests	**84**	81
Change in net postretirement benefits	**(567)**	(592)
Net changes in operating assets and liabilities:		
Patient accounts receivable and other receivables	**(236)**	(250)
Inventories and other assets	**(18)**	(33)
Accounts payable and accrued expenses	**(448)**	(448)
Other non-current liabilities	**(88)**	(601)
Net cash provided by operating activities	**550**	8
Investing activities		
Purchases of property, plant and equipment	**(463)**	(378)
Proceeds from disposal of property, plant and equipment	**98**	10
Purchases of investments	**(3,947)**	(4,210)
Proceeds from sales of investments	**3,716**	4,558
Deconsolidation of affiliate	**(129)**	–
Other	**(1)**	(3)
Net cash used in investing activities	**(726)**	(23)

Sutter Health and Affiliates

Consolidated Statements of Cash Flows (continued)

(Dollars in millions)

	Year ended December 31,	
	2022	**2021**
Financing activities		
Payment on line of credit	**$ (800)**	$ (400)
Proceeds from borrowings on line of credit	**800**	–
Payments of long-term obligations	**(28)**	(28)
Proceeds from issuance of long-term obligations	**21**	5
Restricted contributions and related investment income	**46**	85
Distributions to noncontrolling interests	**(84)**	(81)
Net cash used in financing activities	**(45)**	(419)
Net decrease in cash and cash equivalents	**(221)**	(434)
Cash and cash equivalents at beginning of year	**735**	1,169
Cash and cash equivalents at end of year	**$ 514**	$ 735

See accompanying notes.

1. ORGANIZATION

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

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

2. ACCOUNTING POLICIES

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

Sutter Bay Hospitals (SBH), an affiliate of Sutter Health, and Samuel Merritt University (SMU), an affiliate of SBH, mutually agreed for SMU to disaffiliate from SBH to allow each organization to respond more effectively to the needs of the communities they serve and further their respective missions. As of January 1, 2022, SMU became an independent nonprofit public benefit corporation, which resulted in a Loss on deconsolidation of affiliate of $208 for Net assets without donor restrictions and $75 for Net assets with donor restrictions in the Consolidated Statements of Operations and Changes in Net Assets for the year ended December 31, 2022.

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

2. ACCOUNTING POLICIES (continued)

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

Investments: Investments consist principally of U.S. and foreign equity, corporate and government securities, a hedge fund portfolio, and private equity funds, all of which are carried at fair value or net asset value (NAV) as a practical expedient to estimate fair value. These investments include financial instruments, which are valued using the most current information available, which may be less current than the date of these consolidated financial statements. Short-term investments consist of investments with an original maturity of more than three months and could be utilized within one year. Non-current investments consist of investments that cannot be utilized within one year, including certain investments held in trust, and investments designated by the appropriate Sutter governing boards for future capital improvements.

Derivative Instruments: Sutter offsets fair value amounts recognized for certain derivative transactions from contracts executed with the same counterparty under a master netting arrangement. As a result, there is no net exposure to counterparties at December 31, 2022 and 2021.

Securities Lending: Sutter participates in securities lending transactions with its investment custodian, whereby Sutter lends a portion of its securities to various brokers in return for securities as collateral for the securities loaned, usually on a short-term basis. Noncash collateral provided by the brokers generally approximates 102% to 105% of the fair value of the securities on loan and is adjusted for daily market fluctuations. Sutter earns a rebate on the loaned securities. Neither Sutter nor its investment custodian has the ability to pledge or sell securities received as collateral unless a borrower defaults; therefore, these transactions are not recorded on the Consolidated Balance Sheets. As of December 31, 2022 and 2021, the fair value of securities on loan is $269 and $503, respectively, and the related noncash collateral is $287 and $531, respectively. The majority of the securities on loan are U.S. equity and U.S. government securities and are collateralized by U.S. and Foreign equity securities.

Sutter's noncontributory defined benefit plan also participates in a securities lending arrangement (see Note 13).

(Dollars in millions)

2. ACCOUNTING POLICIES (continued)

Patient Accounts Receivable: Sutter's primary concentration of credit risk is patient accounts receivable, which consist of amounts owed from patients and third-party payers. Sutter manages the receivables by regularly reviewing its patient accounts and contracts.

Significant concentrations of Patient accounts receivable are as follows:

	December 31, 2022	December 31, 2021
Medicare	**$ 437**	$ 319
Medi-Cal	**225**	192
Commercial	**943**	842
Other	**76**	66
	$ 1,681	$ 1,419

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

Property, Plant and Equipment: Property, plant and equipment are stated on the basis of cost or, in the case of donated items, on the basis of fair market value at the date of donation, less depreciation and any impairment write-downs. Equipment includes medical equipment, furniture and fixtures, software, and internally-developed software. Routine maintenance and repairs are charged to expense as incurred. Expenditures that increase values, change capacities, or extend useful lives are capitalized, as is interest on amounts borrowed to finance constructed assets during the construction phase. Sutter capitalized interest costs of $3 and $6 and accrued obligations for property, plant and equipment of $50 and $36 as of December 31, 2022 and 2021, respectively.

Depreciation is computed by the straight-line method over the estimated useful lives of the assets, which range from 2 to 40 years for buildings and improvements and from 2 to 20 years for equipment. Leasehold improvements are amortized using the straight-line method over the shorter of the useful life or lease term, which range from 2 to 40 years. Amortization of equipment under finance leases is included in depreciation and amortization expense.

2. ACCOUNTING POLICIES (continued)

Asset Impairment: Sutter routinely evaluates the carrying value of its long-lived assets for impairment. The evaluations address the estimated recoverability of the assets' carrying value. When the carrying value of an asset exceeds estimated recoverability, asset impairment is recognized.

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

The changes in the carrying amount of goodwill, which are included in Other non-current assets, are as follows:

	December 31, 2022	December 31, 2021
Goodwill at beginning of year	**$ 128**	$ 134
Disposition	**(1)**	(6)
Goodwill at end of year	**$ 127**	$ 128

Liquidity Management: As part of its liquidity management, Sutter's strategy is to structure its financial assets to be available to satisfy general operating expenses, current liabilities, and other obligations as they come due. Sutter invests cash in excess of daily requirements in investments and has a committed syndicated line of credit, as discussed in Note 8, to help manage unanticipated liquidity needs.

(Dollars in millions)

2. ACCOUNTING POLICIES (continued)

Sutter's financial assets available for general operating expenses within one year are as follows:

	December 31, 2022	December 31, 2021
Cash and cash equivalents	**$ 514**	$ 735
Short-term investments	**6,292**	6,884
Patient accounts receivable	**1,681**	1,419
Other receivables	**941**	976
	$ 9,428	$ 10,014

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

Risk Management: Sutter Health and most affiliates are insured by a wholly owned self-insured captive insurance company for professional liability claims and comprehensive general liability. Sutter Health and most affiliates are also self-insured for workers' compensation and employee health. Claim reserves are based on the best data available to Sutter; however, these estimates are subject to a significant degree of inherent variability. Estimates are continually monitored and reviewed, and as reserves are adjusted, the differences are reflected in current operations. Management is of the opinion that the associated liabilities recognized in the accompanying consolidated financial statements are adequate to cover such claims.

The provisions for estimated professional liability and comprehensive general liability claims, workers' compensation, and employee health include estimates of the ultimate costs for both uninsured reported claims and claims incurred-but-not-reported, in accordance with actuarial projections or paid claims lag models based on historical experience. Professional liabilities and comprehensive general liabilities were $145 and $138, discounted at a rate of 4.5% and 1.1%, as of December 31, 2022 and 2021, respectively. Workers' compensation liabilities were $235 and $290, discounted at a rate of 4.5% and 1.6%, as of December 31, 2022 and 2021, respectively. Employee health liabilities were $75 and $59 as of December 31, 2022 and 2021, respectively, and were recorded on an undiscounted basis.

2. ACCOUNTING POLICIES (continued)

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

In lieu of a workers' compensation security deposit requirement, Sutter paid assessment charges to participate in the California Self Insurers' Alternative Security Program, which provided coverage of $277 and $284 as of December 31, 2022 and 2021, respectively.

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

Net Assets: Net resources that are not restricted by donors are included in Net assets without donor restrictions. Gifts of long-lived operating assets, such as property, plant or equipment, are reported as Net assets without donor restrictions and excluded from income. Resources restricted by donors for a specified time or purpose are reported as Net assets with donor restrictions.

When the specific purposes are met, either through passage of a stipulated time period or when the purpose for restriction is accomplished, they are released to Other operating revenues in the Consolidated Statements of Operations and Changes in Net Assets. Resources restricted by donors for additions to property, plant and equipment are initially reported as Net assets with donor restrictions and are transferred to Net assets without donor restrictions when expended. Donor-imposed restrictions, which stipulate that the resources be maintained permanently, are reported as Net assets with donor restrictions.

Investment income related to net assets with donor restrictions is classified as either Net assets without donor restrictions or Net assets with donor restrictions based on the intent of the donor.

Purchased Services: Purchased services expense is made up of a wide variety of contracted and other purchased services, including medical group compensation, other professional fees, repairs and maintenance, capitated purchased services, and revenue cycle management services. Medical group compensation is accrued by Sutter according to professional services agreements between affiliated medical foundations and contracted medical groups. Capitated purchased services include paid claims, sub-capitation payments, stop-loss payments, and accruals for incurred-but-not-reported estimates based on historical experience and available data.

2. ACCOUNTING POLICIES (continued)

Research and Development: Sutter expenses research and development costs as incurred. Research and development expense, included in Operating expenses, was $59 for both years ended December 31, 2022 and 2021, respectively.

Income Taxes: Sutter Health and many affiliates have been determined to be exempt organizations by the Internal Revenue Service and the California Franchise Tax Board and generally are not subject to taxes on income. Certain activities of Sutter are subject to income taxes; however, such activities are not significant to the consolidated financial statements. With respect to its taxable activities, Sutter records income taxes using the liability method, under which deferred tax assets and liabilities are determined based on the differences between the financial accounting and tax basis of assets and liabilities. Deferred tax assets or liabilities at the end of each period are determined using the currently enacted tax rate expected to apply to taxable income in the periods that the deferred tax asset or liability is expected to be realized or settled.

Sutter recognizes the tax benefit from uncertain tax positions, only if it is more likely than not that the tax positions will be sustained on examination by the tax authorities, based on the technical merits of the position. The tax benefit is measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. The statute of limitations for tax years 2019 through 2021 remains open in U.S. tax jurisdictions in which Sutter and its affiliates are subject to taxation. Sutter recognizes interest and penalties related to income tax matters in Operating expenses. There were no such uncertain tax positions recognized for the years ended December 31, 2022 and 2021.

Performance Indicator: (Loss) income and (Loss) income attributable to Sutter Health, as reflected in the Consolidated Statements of Operations and Changes in Net Assets, are performance indicators. The performance indicators include all changes in Net assets without donor restrictions, excluding Net assets released from restriction for equipment acquisition, Change in net unrealized gains and losses on investments classified as other-than-trading, Postretirement-related changes other than net periodic postretirement cost, and Other changes.

3. SIGNIFICANT EVENTS – COVID-19

Sutter received $89 and $61 in Coronavirus Aid, Relief, and Economic Security Act (CARES Act) Relief Funds (Relief Funds) from the Department of Health & Human Services as of December 31, 2022 and 2021, respectively. Based on an analysis of the compliance and reporting requirements of the Relief Funds and the impact of the pandemic on Sutter's operating results, Sutter believes the applicable terms and conditions have been met to recognize the Relief Funds. Sutter reported Relief Funds of $87 and $68 as Contributions in the Consolidated Statements of Operations and Changes in Net Assets for the years ended December 31, 2022 and 2021, respectively. Sutter will continue to monitor the terms and conditions of the CARES Act and the impact of COVID-19 on revenues and expenses. If Sutter is unable to comply with future terms and conditions, the ability to retain some or all of the Relief Funds received may have an impact on the revenue recognized historically or in the future.

During 2020, Sutter received $999 from the Centers for Medicare and Medicaid Services (CMS) as part of the Accelerated and Advance Payment Program, pursuant to which providers receive advance Medicare disbursements, which are considered a loan that providers must pay back as offsets from Patient accounts receivable. The Consolidated Balance Sheets include $592 in Other accrued expenses related to these advance payments as of December 31, 2021. The loan was paid in 2022.

The CARES Act also provides for a deferral of payments of the employer portion of payroll tax incurred during the pandemic, allowing half of such payroll taxes to be deferred until December 31, 2021, and the remaining half deferred until December 31, 2022. Sutter has deferred payroll taxes of $102, that are reported in Accrued salaries and related benefits in the Consolidated Balance Sheets as of December 31, 2021. These deferred payroll taxes were disbursed in December 2022.

In 2022, Sutter submitted COVID-19 reimbursement documentation of $243 to the Federal Emergency Management Agency (FEMA). Sutter did not record revenue in the Consolidated Statements of Operations and Changes in Net Assets, as FEMA and California Governor's Office of Emergency Services had not approved Sutter's submission as of December 31, 2022. In January 2023, Sutter received notice that $128 has been obligated and it was received in February 2023.

(Dollars in millions)

4. INVESTMENTS AND CHANGE IN NET UNREALIZED GAINS AND LOSSES ON INVESTMENTS

Investments are held for the following uses:

	December 31, 2022	December 31, 2021
Board-designated	**$ 301**	$ 289
Investments	**7,537**	8,022
	7,838	8,311
Less short-term investments	**(6,292)**	(6,884)
Non-current investments	**$ 1,546**	$ 1,427

Change in net unrealized gains and losses on investments:

	Year ended December 31, 2022	Year ended December 31, 2021
Fixed income securities	**$ (246)**	$ (87)
Equity securities and Investments measured at NAV	**(332)**	209
	$ (578)	$ 122

5. 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.

(Dollars in millions)

5. 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 December 31, 2022 and 2021.

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

	December 31, 2022		
	Quoted Prices in Active Markets for Identical Instruments (Level 1)	**Significant Other Observable Inputs (Level 2)**	**Total**
Liquid investments			
Cash equivalents	$ 89	$ –	$ 89
Equity securities			
U.S. equity	952	–	952
Foreign equity	350	–	350
Fixed income securities			
U.S. government	568	–	568
U.S. government agencies	–	7	7
U.S. state and local government	–	36	36
U.S. federal agency mortgage-backed	–	465	465
Foreign government	–	231	231
U.S. corporate	16	934	950
Foreign corporate	3	218	221
	$ 1,978	$ 1,891	$ 3,869
Investments measured at net asset value			3,969
			$ 7,838

(Dollars in millions)

5. FAIR VALUE MEASUREMENTS (continued)

	December 31, 2021		
	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Total
Liquid investments			
Cash equivalents	$ 226	$ –	$ 226
Equity securities			
U.S. equity	1,297	–	1,297
Foreign equity	570	–	570
Fixed income securities			
U.S. government	698	–	698
U.S. government agencies	–	8	8
U.S. state and local government	–	42	42
U.S. federal agency mortgage-backed	–	345	345
Foreign government	–	352	352
U.S. corporate	60	938	998
Foreign corporate	8	268	276
	$ 2,859	$ 1,953	$ 4,812
Investments measured at net asset value			3,499
			$ 8,311

As of December 31, 2022 and 2021, 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.

5. 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 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.

(Dollars in millions)

5. FAIR VALUE MEASUREMENTS (continued)

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

	December 31, 2022			
	Fair Value	**Unfunded Commitments**	**Redemption Frequency**	**Redemption Notice Period**
Commingled funds – U.S. equity securities	**$ 315**	**$ –**	**Daily**	**1 day**
Commingled funds – foreign equity securities	**564**	**–**	**Semi-monthly, Monthly**	**5–30 days**
Commingled funds – debt securities	**89**	**–**	**Daily**	**3 days**
Commodity-linked funds	**328**	**–**	**Daily**	**None, 1 day**
Hedge funds	**1,651**	**–**	**Monthly, Quarterly, Annually**	**10–120 days**
Private equity funds	**603**	**361**	**None**	**None**
Private equity real estate funds	**419**	**321**	**None, Quarterly**	**None, 90 days**
	$ 3,969	**$ 682**		

	December 31, 2021			
	Fair Value	**Unfunded Commitments**	**Redemption Frequency**	**Redemption Notice Period**
Commingled funds – U.S. equity securities	$ 272	$ –	Daily	1 day
Commingled funds – foreign equity securities	538	–	Monthly	5–30 days
Commingled funds – debt securities	147	–	Daily	3 days
Commodity-linked funds	296	–	Daily	None, 1 day
Hedge funds	1,352	–	Monthly, Quarterly, Annually	10–120 days
Private equity funds	525	447	None	None
Private equity real estate funds	369	254	None, Annually	None, 90 days
	$ 3,499	$ 701		

5. 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 December 31, 2022, approximately 36% of this class is redeemable daily with a notice period of 1 day, and approximately 13% of this class is redeemable semi-monthly with a notice period of 5 days. The remaining 51% 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 U.S. debt, of which the majority are traded in over-the-counter markets. As of December 31, 2022, these funds are redeemable daily with a notice period of 3 days.

Commodity-linked funds: This class includes commodity-linked funds that pursue long-only fully collateralized commodity futures strategies to provide diversification and inflation protection. As of December 31, 2022, these funds are redeemable daily with no notice period or a notice period of 1 day.

(Dollars in millions)

5. FAIR VALUE MEASUREMENTS (continued)

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 that 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 December 31, 2022:

% of Hedge Funds	Redemption Criteria	Notice Period
50%	Redeemable monthly	10–120 days
10%	Redeemable quarterly	45–120 days
1%	Redeemable within one year, with monthly gates from 25% to 100%	120 days
5%	Redeemable within one year, with quarterly gates from 25% to 100%	45–120 days
12%	Limited to a 25% gate, redeemable quarterly	60–120 days
2%	Redeemable annually	95 days
1%	One-year lock-up expiring in December 2023	90-95 days
11%	Two-year rolling lock-up expiring in December 2023 and quarterly gate limited to 10% annually	60–120 days
1%	Two-year rolling lock-up expiring in July 2024 and semi-annual gate limited to 12.5%	60 days
2%	Three-year lock-up expiring in November 2025	75 days
5%	Redeemable over five years after a rolling annual election with quarterly payments or limited to a 5% quarterly gate	120 days

Private equity funds: This class includes domestic and foreign private equity funds that specialize in providing capital to a variety of investment groups including, but not limited to venture capital, leveraged buyout, mezzanine debt, distressed debt, and other strategies, which may include land, water processing, and alternative energy. There is no provision for redemptions during the life of these funds.

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. As of December 31, 2022, 3% of this class is redeemable quarterly, with a notice period of at least 90 days. There is no provision for redemptions during the life of these funds for the remaining 97%.

(Dollars in millions)

6. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

	December 31, 2022	December 31, 2021
Land improvements	**$ 213**	$ 212
Leasehold improvements	**659**	688
Buildings and improvements	**9,814**	9,570
Equipment	**4,363**	4,513
	15,049	14,983
Less amortization and accumulated depreciation	**(8,499)**	(8,247)
	6,550	6,736
Land	**555**	558
Construction-in-progress	**311**	389
	$ 7,416	$ 7,683

7. OTHER NON-CURRENT ASSETS

Other non-current assets consist of the following:

	December 31, 2022	December 31, 2021
Prepaid postretirement benefits	**$ 457**	$ 11
Right-of-use assets for operating leases	**428**	418
Goodwill, net	**127**	128
Trust receivable	**81**	107
Reinsurance recoveries receivable	**42**	63
Non-current portion of pledges receivable	**20**	22
Other	**80**	64
	$ 1,235	$ 813

(Dollars in millions)

8. LONG-TERM OBLIGATIONS

Long-term obligations consist of the following:

	December 31, 2022	December 31, 2021
Tax-exempt revenue bonds under the Sutter Health Master Indenture of Trust, fixed interest at 4.0% to 5.0%, through 2048 (includes unamortized premiums of $113 and $138 and debt issuance costs of ($6) and ($7) at December 31, 2022 and 2021, respectively)	**$ 1,669**	$ 1,710
Taxable bonds under the Sutter Health Master Indenture of Trust, fixed interest at 1.32% to 4.09%, through 2050 (includes unamortized discount of ($2) and ($3) and debt issuance costs of ($11) and ($12) at December 31, 2022 and 2021, respectively)	**2,664**	2,662
Various collateralized and unsecured obligations	**11**	16
Obligations under finance leases	**208**	193
	4,552	4,581
Less current portion	**(43)**	(25)
	$ 4,509	$ 4,556

The central financing vehicle for Sutter is the Obligated Group. Those entities that comprise the Obligated Group are each nonprofit public benefit corporations organized and existing under the laws of the State of California. Only the Obligated Group members are subject to the covenants under the Master Trust Indenture, dated as of October 1, 2020. Each Obligated Group member has granted to the Master Trustee a security interest in its gross receivables to secure the timely payment and performance of its covenants under the Master Trust Indenture.

In February 2021, Sutter Health paid down $400 on a short-term credit facility and terminated this credit facility. Sutter Health had another $100 credit facility, which it never drew upon and was terminated in February 2021, and entered into a new short-term credit facility with commercial banks for $500, which matures in February 2024. In April 2021, Sutter Health increased the aggregate amount available to Sutter Health under this credit facility to $900. In March 2022, Sutter Health drew $800 on the credit facility, which it

(Dollars in millions)

8. LONG-TERM OBLIGATIONS (continued)

repaid in late March 2022. The revolving credit facility is used to guarantee letters of credit of $82. There are currently no draws outstanding under this credit facility.

Aggregate principal payments of long-term obligations, excluding finance leases, various collateralized and unsecured obligations, net unamortized premiums and discounts, and issuance costs as of December 31, 2022, are as follows:

2023	$	29
2024		31
2025		332
2026		34
2027		15
Thereafter		3,798
	$	4,239

Sutter paid interest of $162 and $149 for the years ended December 31, 2022 and 2021, respectively.

9. LEASES

Sutter leases property and equipment under operating and finance leases. The related assets and obligations 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 non-lease services related to the lease, are excluded from the Right-of-use assets 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.

Sutter elected the package of practical expedients permitted under the transition guidance which, among other things, allowed the historical lease classification not to be reassessed. Sutter made an accounting policy election not to apply the recognition requirements of the guidance to short-term leases with a term of 12 months or less for equipment and vehicle

(Dollars in millions)

9. LEASES (continued)

classes of assets. Sutter also made an accounting policy election not to 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.

Lease-related assets and liabilities are recorded on the Consolidated Balance Sheets as follows:

		December 31,	
	Classification	**2022**	**2021**
Right-of-use Assets			
Operating	Other non-current assets	**$ 428**	$ 418
Finance	Property, plant and equipment, net	**174**	164
		$ 602	$ 582
Current Liabilities			
Operating	Other accrued expenses	**$ 97**	$ 108
Finance	Current portion of long-term obligations	**10**	4
Non-current Liabilities			
Operating	Other	**381**	371
Finance	Long-term obligations, less current portion	**198**	189
		$ 686	$ 672

Weighted-average operating leases remaining lease term	9.5 years
Weighted-average finance leases remaining lease term	24.0 years
Weighted-average operating lease discount rate	3.2%
Weighted-average finance lease discount rate	4.5%

(Dollars in millions)

9. LEASES (continued)

The components of lease costs are as follows:

	Year ended December 31,			
	2022		**2021**	
Operating lease cost	**$**	**115**	$	136
Variable lease cost	**$**	**31**	$	30
Finance lease cost:				
Amortization of leased assets	**$**	**6**	$	4
Interest on lease liabilities	**$**	**8**	$	9

Supplemental cash flow information related to leases is as follows:

	Year ended December 31,			
	2022		**2021**	
Cash paid for amounts included in the measurement of lease liabilities:				
Operating cash outflows for operating leases	**$**	**125**	$	130
Operating cash outflows for finance leases	**$**	**8**	$	9
Financing cash outflows for finance leases	**$**	**5**	$	3
Right-of-use assets obtained in exchange for lease obligations:				
Operating leases	**$**	**118**	$	62
Finance leases	**$**	**20**	$	2

(Dollars in millions)

9. LEASES (continued)

Future lease payments as of December 31, 2022 for operating and finance leases are as follows:

	Operating Leases	Finance Leases
2023	$ 111	$ 18
2024	97	17
2025	72	16
2026	56	10
2027	45	11
Thereafter	193	283
	574	355
Less imputed interest	(96)	(147)
	$ 478	$ 208

10. NET ASSETS AND CONTRIBUTIONS

Sutter Health and its not-for-profit affiliates receive donations from generous individuals and organizations that support certain programs and services. Donations included in Net assets with donor restrictions were maintained for the following purposes:

	December 31, 2022	2021
Subject to expenditure for specified purpose:		
Capital projects and medical equipment	**$ 27**	$ 30
Research and education	**74**	115
Operations and/or capital projects	**259**	273
	360	418
Subject to passage of time	**23**	27
Subject to donor restrictions in conjunction with Sutter's spending policy:		
Investment in perpetuity – endowment	**119**	148
	$ 502	$ 593

(Dollars in millions)

10. NET ASSETS AND CONTRIBUTIONS (continued)

From time to time, a Sutter Health or its not-for-profit affiliate's board will designate certain unrestricted funds to be used in the future for specific projects. Board-designated funds included in Net assets without donor restrictions were maintained for the following purposes:

	December 31, 2022	December 31, 2021
Capital projects and medical equipment	**$ 120**	$ 126
Research and education	**26**	24
Operations and/or capital projects	**155**	139
	$ 301	$ 289

Sutter Health and its not-for-profit affiliates report individuals' and organizations' unconditional promises to give cash or other assets at fair value at the date Sutter Health or its not-for-profit affiliate receives the promises. Sutter Health and its not-for-profit affiliates report conditional promises to give and conditional indications of intentions to give at fair value when the conditions are met. Therefore, Sutter Health and its not-for-profit affiliates do not recognize any revenue or receivable at the time a conditional promise or indication of intent is received. Sutter Health and its not-for-profit affiliates' conditional promises or indications of intent received were $265 and $240 for the years ended December 31, 2022 and 2021, respectively. These gifts will support clinical programs and technology.

Endowments: Sutter Health and its not-for-profit affiliates follow the Uniform Prudent Management of Institutional Funds Act (UPMIFA). UPMIFA eliminates the concept of "historic dollar value" and allows an institution to spend or accumulate as the board determines is prudent for the uses, benefits, purposes, and duration of the endowment fund, unless the gift instrument states a particular spending rate or formula.

In accordance with UPMIFA, Sutter Health and its not-for-profit affiliates consider the following factors when appropriating or accumulating an endowment fund: (i) general economic conditions, (ii) effects of inflation and deflation, (iii) the purposes of the institution and the endowment fund, (iv) expected total return from income and appreciation of investments, (v) Sutter's other resources, (vi) the duration and preservation of the endowment fund, and (vii) Sutter's investment policies.

(Dollars in millions)

10. NET ASSETS AND CONTRIBUTIONS (continued)

If the fair market value of assets associated with individual endowment funds falls below the corpus, Sutter Health or its not-for-profit affiliate's management assesses facts and circumstances to determine whether to suspend appropriation activities until the corpus has recovered or to continue to withdraw funds in compliance with UPMIFA in order to fund critical initiatives. There were no deficiencies of this nature reported in Net assets with donor restriction as a result of unfavorable investment market fluctuations as of December 31, 2022 and 2021.

Following UPMIFA, Sutter Health and its not-for-profit affiliates' investment and spending policies for endowment assets attempt to provide a predictable stream of funding to programs supported by its endowment, while seeking to maintain the purchasing power of the endowment assets. Under these policies, endowment assets are invested in a manner that is intended to produce results that exceed the price and yield results, while assuming a moderate level of investment risk.

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

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

	December 31, 2022		
	Net Assets without Donor Restrictions	**Net Assets with Donor Restrictions**	**Total**
Donor-restricted endowment funds	$ –	$ 177	$ 177
Board-designated funds	127	–	127
	$ 127	$ 177	$ 304

(Dollars in millions)

10. NET ASSETS AND CONTRIBUTIONS (continued)

	December 31, 2021		
	Net Assets without Donor Restrictions	**Net Assets with Donor Restrictions**	**Total**
Donor-restricted endowment funds	$ –	$ 245	$ 245
Board-designated funds	158	–	158
	$ 158	$ 245	$ 403

The changes in endowment net assets are as follows:

	Net Assets without Donor Restrictions	**Net Assets with Donor Restrictions**	**Total**
Balance at December 31, 2020	$ 138	$ 222	$ 360
Investment return, net	16	27	43
Contributions	–	4	4
Appropriation of endowment assets for expenditure	(3)	(5)	(8)
Other	7	(3)	4
Balance at December 31, 2021	158	245	403
Investment return, net	**(12)**	**(9)**	**(21)**
Contributions	**–**	**2**	**2**
Appropriation of endowment assets for expenditure	**(2)**	**(2)**	**(4)**
Deconsolidation of affiliate	**(1)**	**(60)**	**(61)**
Other	**(16)**	**1**	**(15)**
Balance at December 31, 2022	**$ 127**	**$ 177**	**$ 304**

11. 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 and does not adjust the promised amount of consideration for the effects of a significant financing component, due to Sutter's

11. OPERATING REVENUES (continued)

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, 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.

<u>Patient service revenues</u>: 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 patients and third-party payers after 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 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 had been 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

11. OPERATING REVENUES (continued)

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 affiliates, the requirements of tax exemption. Sutter Health 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, other third-party payers and/or disclosure of such overpayments including, but not limited to, disclosure to 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.

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 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, 2017. The estimated net settlement balances and adjustments from the finalization of prior-year cost reports were immaterial in 2022 and 2021.

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

(Dollars in millions)

11. OPERATING REVENUES (continued)

Department of Health Care Services after submission of annual cost reports. Sutter's Medi-Cal cost reports have been audited generally through December 31, 2018. The estimated net settlement balances and adjustments from the finalization of prior-year cost reports were immaterial in 2022 and 2021.

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.

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

	Year ended December 31,	
	2022	**2021**
Medicare	**$ 3,407**	$ 3,286
Medi-Cal	**1,616**	1,710
Commercial	**7,375**	6,953
Other	**166**	196
	$ 12,564	$ 12,145

(Dollars in millions)

11. OPERATING REVENUES (continued)

The composition of Patient service revenues, based on Sutter's areas of operations and entity types, is as follows:

	Year ended December 31, 2022			
	Sutter Health Bay Area	Sutter Health Valley Area	Other	Total
Acute Care	**$ 4,304**	**$ 3,694**	**$ 128**	**$ 8,126**
Medical Foundation	**2,695**	**1,269**	**–**	**3,964**
Other	**131**	**30**	**677**	**838**
Eliminations	**(124)**	**(118)**	**(122)**	**(364)**
	$ 7,006	**$ 4,875**	**$ 683**	**$ 12,564**

	Year ended December 31, 2021			
	Sutter Health Bay Area	Sutter Health Valley Area	Other	Total
Acute Care	$ 4,151	$ 3,607	$ 121	$ 7,879
Medical Foundation	2,571	1,252	–	3,823
Other	122	31	682	835
Eliminations	(122)	(119)	(151)	(392)
	$ 6,722	$ 4,771	$ 652	$ 12,145

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 three approved hospital fee programs that had activity in 2022 and 2021: a 30-month hospital fee program covering the period from January 1, 2017 through June 30, 2019, a 30-month hospital fee program covering the period from July 1, 2019 through December 31, 2021, and a 12-month hospital fee program covering the period from January 1, 2022 through December 31, 2022. 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 all related quality assurance fees have been recognized as expense in 2022 and 2021.

(Dollars in millions)

11. OPERATING REVENUES (continued)

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

	Year ended December 31, 2022	2021
Hospital fee program revenue	**$ 427**	$ 514
Hospital fee program expense	**(252)**	(328)
Income from operations from hospital fee program	**$ 175**	$ 186

	December 31, 2022	2021
Other receivables	**$ 584**	$ 628
Accounts payable	**$ 310**	$ 298

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 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 arising from a change in the transaction price and from the finalization of prior-year settlements were immaterial for the years ended December 31, 2022 and 2021, respectively.

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.

(Dollars in millions)

11. OPERATING REVENUES (continued)

The composition of Premium revenues, based on Sutter's areas of operations and lines of business, is as follows:

	Year ended December 31, 2022			
	Sutter Health Bay Area	**Sutter Health Valley Area**	**Other**	**Total**
Acute Care	**$ 211**	**$ 461**	**$ –**	**$ 672**
Medical Foundation	**350**	**431**	**–**	**781**
Insurance	**–**	**–**	**650**	**650**
Other	**–**	**54**	**109**	**163**
Eliminations	**(4)**	**(6)**	**(516)**	**(526)**
	$ 557	**$ 940**	**$ 243**	**$ 1,740**

	Year ended December 31, 2021			
	Sutter Health Bay Area	**Sutter Health Valley Area**	**Other**	**Total**
Acute Care	$ 199	$ 449	$ –	$ 648
Medical Foundation	319	396	–	715
Insurance	–	–	592	592
Other	–	50	111	161
Eliminations	(3)	(3)	(505)	(511)
	$ 515	$ 892	$ 198	$ 1,605

Contributions: Sutter receives contributions and grants from donors and government agencies. Sutter reported $87 and $68 as contributions from Relief Funds from the Department of Health & Human Services in 2022 and 2021, respectively (see Note 3).

Other revenues: Sutter has additional revenue streams from 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.

(Dollars in millions)

12. COMMUNITY BENEFIT EXPENSE

Services for the poor and underserved include traditional charity care, unpaid costs of public programs treating Medi-Cal, county, and indigent beneficiaries, other services for the poor and underserved, and cash donations towards programs and services for the underserved. Charity care covers health care services provided to persons who meet certain criteria and cannot afford to pay. Sutter provided charity care services to patients at an estimated cost of $82 and $91 for 2022 and 2021, respectively. Sutter received funding of $2 and $12 from Health Resources and Services Administration for services provided to uninsured patients at an estimated cost of $2 and $11 for 2022 and 2021, respectively, and these costs are not reflected in the charity care estimated costs. Estimated costs are based on a ratio of costs to charges.

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

The following is a summary of Sutter's estimated costs of providing services to the poor and broader community for the year ended December 31, 2022 (unaudited):

Services for the poor and underserved	
Traditional charity care	$ 82
Unpaid costs of public programs:	
Medi-Cal	615
Other public programs	55
Other benefits for the poor and underserved	51
	803
Benefits for the broader community	
Nonbilled services	30
Education and research	53
Cash and in-kind donations	11
Other community benefits	2
	96
	$ 899

(Dollars in millions)

13. 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. In addition, certain affiliates participate in multiemployer defined benefit retirement plans. Sutter's total net postretirement benefits were $208 and $343 in 2022 and 2021, respectively.

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

	Year ended December 31,	
	2022	**2021**
Projected benefit obligation at beginning of year	**$ 6,312**	$ 6,346
Service cost	**298**	361
Interest cost	**194**	185
Actuarial gain	**(1,677)**	(43)
Benefits paid	**(306)**	(255)
Plan amendments	**41**	(282)
Projected benefit obligation at measurement date	**$ 4,862**	$ 6,312
Fair value of plan assets at beginning of year	**$ 6,205**	$ 5,680
Actual (loss) gain on plan assets	**(596)**	780
Benefits paid	**(306)**	(255)
Fair value of plan assets at measurement date	**$ 5,303**	$ 6,205
Funded status at end of year	**$ 441**	$ (107)

The accumulated benefit obligation for the Retirement Plan was $4,351 and $5,540 as of December 31, 2022 and 2021, respectively.

The actuarial gain of $1,677 for the year ended December 31, 2022, was primarily due to the increase in discount rate of 5.6% in 2022 from 3.0% in 2021, actual terminations and retirements, and changes in census data that differed from expectations. This was offset by changes in the rate of compensation increases ranging from 4.5% to 6.5% used in 2022 from 4.5% used in 2021, updated increases in cash balance interest crediting rates, and increases in inflation rates ranging from 2.5% to 8.2% used in 2022 from 2.5% used in

(Dollars in millions)

13. POSTRETIREMENT BENEFITS (continued)

2021. The actuarial gain of $43 for the year ended December 31, 2021, was primarily due to the increase in discount rate of 3.0% in 2021 from 2.8% in 2020 and actual terminations and retirements. This was offset by changes in census data that differed from expectations, change in the rate of compensation increases of 4.5% in 2021 from 4.3% in 2020, account balance conversion rates updated to November 2021 417(e) rates, updated mortality projections scale, and the increase in inflation rate of 2.5% in 2021 from 1.9% in 2020.

During 2021, Sutter Health announced amendments to the Retirement Plan to convert certain participants in the traditional pension design and the original final pay design to the enhanced cash balance design and the original cash balance design, respectively, effective January 1, 2022. Benefits that have been accrued by affected participants as of December 31, 2021 were converted to a starting cash account balance, effective January 1, 2022. In addition, the minimum interest crediting rate under both the enhanced cash balance and original cash balance designs increased from 2.5% to 3.5% and 3.1% to 3.5%, respectively, for eligible employees effective January 1, 2022. These plan amendments resulted in a reduction of $30 in the 2021 net periodic benefit cost due to the remeasurement as of October 31, 2021 and $282 reduction in the projected benefit obligation as of December 31, 2021.

Included in Controlling net assets without donor restrictions as of December 31, 2022 and 2021, are the following amounts that have not yet been recognized in net periodic benefit cost: unrecognized prior service credits of $230 and $298, respectively, and unrecognized actuarial losses of $140 and $854, respectively.

The benefits expected to be paid from the Retirement Plan as of December 31, 2022 in each of the next five years, and in the aggregate for the next five years, are as follows:

2023	$	307
2024		322
2025		335
2026		343
2027		347
2028–2032		1,864
	$	3,518

(Dollars in millions)

13. POSTRETIREMENT BENEFITS (continued)

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

	December 31, 2022	December 31, 2021
Weighted-average discount rates for calculating pension expense	**3.0%**	2.8%, 3.0%
Weighted-average discount rates for calculating projected benefit obligation	**5.6%**	3.0%
Weighted-average rates of compensation increase for calculating pension expense	**4.5%**	4.3%
Weighted-average rates of compensation increase for calculating projected benefit obligation	**4.5%–6.5%**	4.5%
Weighted-average interest crediting rates for calculating projected benefit expense	**3.3%**	2.5%, 3.3%
Weighted-average interest crediting rates for calculating pension obligation	**3.3%–4.0%**	3.3%
Expected long-term rates of return on plan assets for calculating pension expense	**6.4%**	6.5%

As of December 31, 2022 and 2021, the healthy mortality assumption reflected the Pri-2012 table, and the mortality projection scale reflected the MP-2021 without adjustment.

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

	Year ended December 31, 2022	Year ended December 31, 2021
Service cost	**$ 298**	$ 361
Interest cost	**194**	185
Expected return on plan assets	**(387)**	(368)
Amortization of actuarial loss	**20**	56
Amortization of prior service credit	**(27)**	(6)
	$ 98	$ 228

(Dollars in millions)

13. POSTRETIREMENT BENEFITS (continued)

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

	Year ended December 31, 2022	2021
Projected benefit obligation at beginning of year	**$ 326**	$ 333
Service cost	**15**	16
Interest cost	**10**	9
Actuarial gain	**(71)**	(16)
Benefits paid	**(18)**	(16)
Other change in benefit obligation	**3**	–
Projected benefit obligation at measurement date	**$ 265**	$ 326
Fair value of plan assets at beginning of year	**$ 300**	$ 274
Actual (loss) gain on plan assets	**(29)**	38
Employer contributions	**5**	4
Benefits paid	**(18)**	(16)
Fair value of plan assets at measurement date	**$ 258**	$ 300
Funded status at end of year	**$ (7)**	$ (26)

The actuarial gain of $71 for the year ended December 31, 2022, was primarily due to discount rate increases to 5.6% in 2022 from 3.0% in 2021, updated claims experience, and terminations and retirements. This was offset primarily by changes in census data that differed from expectations and updated health care cost trend rates. The actuarial gain of $16 for the year ended December 31, 2021, was primarily due to discount rate increases to 3.0% in 2021 from ranges of 2.5% to 2.7% in 2020, updated drawdown trend and related claims assumptions, and terminations and retirements. This was offset primarily by updated claims cost lookup age assumption and changes in census data that differed from expectations.

Included in Controlling net assets without donor restrictions as of December 31, 2022 and 2021, are the following amounts that have not yet been recognized in net periodic benefit

(Dollars in millions)

13. POSTRETIREMENT BENEFITS (continued)

cost: unrecognized prior service costs of $8 and $6, respectively, and unrecognized actuarial gain of $58 and $36, respectively.

The benefits expected to be paid from the Health Plans as of December 31, 2022 in each of the next five years, and in the aggregate for the next five years, are as follows:

2023	$	24
2024		25
2025		25
2026		25
2027		25
2028–2032		121
	$	245

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

	December 31,	
	2022	**2021**
Weighted-average discount rates for calculating retiree medical expense	**3.0%**	2.5%–2.7%
Weighted-average discount rates for calculating projected benefit obligation	**5.6%**	3.0%
Expected long-term rates of return on plan assets for calculating retiree medical expense	**6.4%**	6.5%

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

	Year ended December 31,			
	2022		**2021**	
Service cost	**$**	**15**	$	16
Interest cost		**10**		9
Expected return on plan assets		**(19)**		(18)
Amortization of prior service cost		**1**		1
Amortization of actuarial gain		**(1)**		(1)
	$	**6**	$	7

(Dollars in millions)

13. POSTRETIREMENT BENEFITS (continued)

Sutter's projected medical cost trend rate related to the Health Plans for 2022 is 6.5%. The assumed medical cost trend rate is expected to gradually decrease in subsequent years to 4.8% in 2030 and thereafter.

The Sutter Heath Retirement Benefits Investment Committee (RBIC) oversees the investments and investment policy of the plans. Management of the assets is governed by the application of modern portfolio theory, resulting in asset class diversification and mean-variance optimization. Sutter's investment strategy is to balance the liquidity needs of the plans with the long-term return goals necessary to satisfy future obligations.

The target asset allocation seeks to reduce volatility while capturing the equity premium from the capital markets over the long term and maintaining security of principal to meet near-term expenses and obligations. The target asset allocation at December 31, 2022, by major asset category, is as follows:

	Target Allocation
Equity securities	44%
Fixed income securities	13%
Other investments – alternative	33%
Real estate investments	10%
	100%

Equity securities are comprised of U.S. and foreign equity securities, common and collective trusts, and commingled funds. The equity securities' target asset allocation of 44% is further comprised of 17.8% domestic large capitalization, 4.7% domestic small capitalization and 21.5% international/global.

The expected long-term rate of return assumptions of 6.4% and 6.5% for 2022 and 2021, respectively, are based on the weighted-average return of comparative market indices for the major asset classes represented in the portfolio, net of administrative expenses.

(Dollars in millions)

13. POSTRETIREMENT BENEFITS (continued)

A fair value hierarchy has been established, with three levels that prioritize the valuation inputs into each level (see Note 5). The fair value and NAV of the Retirement Plan's and the Health Plans' assets measured on a recurring basis consist of the following:

	December 31, 2022			
	Quoted Prices in Active Markets for Identical Instruments (Level 1)	**Significant Other Observable Inputs (Level 2)**	**Net Asset Value (NAV)**	**Total**
Liquid investments:				
Cash equivalents	$ 5	$ –	$ 58	$ 63
Equity securities:				
U.S. equity	854	–	–	854
Foreign equity	469	–	–	469
Common collective trusts	–	–	428	428
Commingled funds	–	–	671	671
Fixed income securities:				
U.S. government and agencies	63	3	–	66
U.S. federal agency mortgage-backed	–	151	–	151
Foreign government	–	110	–	110
U.S. corporate	–	204	–	204
Foreign corporate	–	71	–	71
Common collective trusts and commingled funds	–	–	25	25
Other investments:				
Private equity funds	–	–	627	627
Private equity real estate funds	–	–	701	701
Commodity-linked funds	–	–	146	146
Commingled funds	–	–	10	10
Hedge funds	–	–	958	958
Accrued income	7	–	–	7
	$ 1,398	$ 539	$ 3,624	$ 5,561

(Dollars in millions)

13. POSTRETIREMENT BENEFITS (continued)

	December 31, 2021			
	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Net Asset Value (NAV)	Total
Liquid investments:				
Cash equivalents	$ 19	$ –	$ 96	$ 115
Equity securities:				
U.S. equity	1,125	–	–	1,125
Foreign equity	676	–	–	676
Common collective trusts	–	–	643	643
Commingled funds	–	–	811	811
Fixed income securities:				
U.S. government and agencies	240	5	–	245
U.S. federal agency mortgage-backed	–	155	–	155
Foreign government	–	160	–	160
U.S. corporate	–	202	–	202
Foreign corporate	–	90	–	90
Common collective trusts and commingled funds	–	–	46	46
Other investments:				
Private equity funds	–	–	603	603
Private equity real estate funds	–	–	600	600
Commodity-linked funds	–	–	221	221
Commingled funds	–	–	15	15
Hedge funds	–	–	790	790
Accrued income	8	–	–	8
	$ 2,068	$ 612	$ 3,825	$ 6,505

Retirement Plan assets may also be loaned to various brokers in exchange for securities as collateral. As of December 31, 2022 and 2021, the fair value of securities on loan is $92 and $134, respectively, and the related noncash collateral is $94 and $137, respectively. The majority of the securities on loan are U.S. equity securities and are collateralized by U.S. government securities.

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

(Dollars in millions)

13. POSTRETIREMENT BENEFITS (continued)

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 $19 and $13 in 2022 and 2021, respectively.

Sutter also maintains various defined contribution plans for eligible employees. Sutter's contributions to such plans were $85 and $95 in 2022 and 2021, respectively.

14. FUNCTIONAL CLASSIFICATION OF EXPENSES

Sutter groups like expenses into financial statement lines and classifies programmatic expenses by business line. Expenses that are attributable to one or more programs or supporting functions are allocated based on operating expenses, square footage, and other criteria.

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

	Year ended December 31, 2022					
	Program				General and Administrative	Total
	Acute Care	Medical Foundation	Other	Eliminations		
Salaries and employee benefits	$ 3,977	$ 1,258	$ 812	$ (292)	$ 778	$ 6,533
Purchased services	2,483	2,761	678	(1,977)	248	4,193
Supplies	1,242	399	193	(22)	4	1,816
Depreciation and amortization	515	142	101	(82)	12	688
Rentals and leases	48	103	37	(33)	23	178
Interest	118	26	(5)	–	–	139
Insurance	62	12	14	(66)	7	29
Other	406	42	830	(441)	82	919
	$ 8,851	$ 4,743	$ 2,660	$ (2,913)	$ 1,154	$ 14,495

(Dollars in millions)

14. FUNCTIONAL CLASSIFICATION OF EXPENSES (continued)

	Year ended December 31, 2021					
	Program				General and Administrative	Total
	Acute Care	Medical Foundation	Other	Eliminations		
Salaries and employee benefits	$ 3,984	$ 1,248	$ 880	$ (298)	$ 831	$ 6,645
Purchased services	2,019	2,669	587	(1,816)	199	3,658
Supplies	1,198	388	193	(24)	8	1,763
Depreciation and amortization	544	149	136	(109)	15	735
Rentals and leases	51	105	51	(38)	28	197
Interest	124	21	(7)	–	–	138
Insurance	62	11	16	(67)	6	28
Other	459	50	855	(558)	56	862
	$ 8,441	$ 4,641	$ 2,711	$ (2,910)	$ 1,143	$ 14,026

15. 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, environmental regulations, and other regulations by health care providers from federal and state regulatory agencies, including, but not limited to, 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, proposed class-action complaints, tax examinations, security events resulting in potential privacy incidents, internal compliance activities (including those discussed in Note 11), 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, except as stated in the consolidated financial statements, including this note. 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. Following is a discussion of matters of note.

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. The court certified the class as to injunctive relief and a monetary damages class but excluded plaintiffs' damages claims and ultimately granted summary judgment against plaintiffs for the 2008-2010 time period.

15. CONTINGENCIES AND COMMITMENTS (continued)

The trial for this matter began on February 10, 2022. On March 11, 2022, the jury returned an unanimous verdict in favor of Sutter Health and the affiliates. On April 26, 2022, plaintiffs filed a notice with the court that they will appeal the verdict and Appellants' opening brief was filed on October 3, 2022 and Sutter filed its answering brief on January 3, 2023. Appellants' reply brief was filed on February 23, 2023.

Two anonymous plaintiffs filed a civil class action lawsuit against Sutter Health, alleging Sutter Health shared the medical information of plaintiffs and a proposed class of similarly situated individuals with third parties without authorization. After Sutter Health filed several successful challenges to the sufficiency of the plaintiffs' complaint, the plaintiffs' claims are now limited to two causes of action: violation of the California Invasion of Privacy Act and breach of contract. Discovery has commenced.

Sutter Health and one of its affiliates finalized contractual dispute issues with third-party commercial payers related to a lab outreach program, and those settlement amounts have been reflected in prior consolidated financial statements. After a civil investigation by the DOJ, Sutter Health and the affiliate have agreed to settle the matter with the DOJ and the settlement amount has been reflected in prior consolidated financial statements.

Two separate proposed class-action complaints were filed against Sutter Health and subsequently consolidated by the courts, alleging that Sutter Health, as fiduciaries of Sutter Health's 403(b) savings plan (Plan), and RBIC breached the fiduciary duties of loyalty and prudence that they owed to the Plan, to plaintiffs, and others under the Employee Retirement Income Security Act (ERISA). The complaint asserts claims for: (1) breach of fiduciary duty related to the selection of investment options and failure to monitor other fiduciaries of the Plan; (2) failure to monitor against Sutter Health for failing to adequately monitor the RBIC and against the RBIC for failing to monitor delegated appointees; and (3) an alternative claim of liability for knowing breach of trust against all defendants seeking equitable relief in the event any of the defendants are not deemed a fiduciary or co-fiduciary under ERISA. The court denied Sutter Health's motion to dismiss but granted the motion to strike the jury trial.

A plaintiff filed a proposed class action lawsuit against Sutter Health and certain affiliates, premised on the theory that Sutter Health and the related affiliates submitted and received payment from plaintiff for anesthesia services that were either not provided, separately billed by a third-party anesthesiologist, or reimbursed through other charges on the affiliates' bills. The court certified the class and a bench trial is expected to be scheduled for early 2024.

15. CONTINGENCIES AND COMMITMENTS (continued)

A relator filed a qui tam action alleging Sutter and its affiliates misused chronometric charging for revenue codes associated with nerve blocks and recovery room care. The matter is brought pursuant to the California Insurance Frauds Prevention Act. The case has been set for a bench trial on September 18, 2023.

As of December 31, 2022, Sutter has approximately 51,000 employees. Approximately 26% of these 51,000 employees are represented by collective bargaining units and 18% of the agreements have expired or will expire in 2023. Sutter is currently in negotiation or will be in negotiation during 2023 for successor agreements. While working to mitigate any potential work stoppages through successful negotiations, Sutter remains prepared to address the possibility of work stoppages. Should such disruptions occur, they may have a material adverse effect on the operations or on the financial position or results of operations of Sutter. Despite these uncertainties, Sutter remains committed to bargaining in good faith, evaluating positions that remain grounded in the realities of market pay and practices, reflecting business priorities, and acknowledging the needs of the workforce. Additionally, Sutter faces the difficulties of operating in a competitive and complex Northern California labor market further exacerbated by the protracted challenges of the COVID-19 pandemic.

Commitments: Sutter is currently compliant with pre-2030 seismic deadlines under a State of California law and continues investments to meet 2030 compliance. Sutter remains committed to prioritizing capital investments that strengthen access, affordability and quality of care. Sutter evaluates the timing and scope of capital investments, facility utilization, and resource allocations based on its mission, federal and state regulations, and the rapidly evolving health care delivery environment. The current commitments are estimated at $1,000 (unaudited).

16. SUBSEQUENT EVENTS

Sutter has evaluated subsequent events and disclosed all material events through March 22, 2023, which is the date these consolidated financial statements were issued.