

Sutter Health and Affiliates

Combined Financial Statements

Years Ended December 31, 2000 and 1999

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Audited Combined Financial Statements

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Report of Independent Auditors

The Board of Directors
Sutter Health and Affiliates

We have audited the accompanying combined balance sheets of Sutter Health and Affiliates as of December 31, 2000 and 1999, and the related combined statements of operations and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of Sutter Health and Affiliates' management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined financial position of Sutter Health and Affiliates at December 31, 2000 and 1999, and the combined results of their operations and changes in their net assets, and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

Ernst + Young LLP

March 9, 2001

Sutter Health and Affiliates

Combined Balance Sheets

(In Millions)

	December 31,	
	2000	1999
Assets		
Current assets:		
Cash and equivalents	\$ 233	\$ 161
Short-term investments	243	255
Patient accounts receivable (less allowance for doubtful accounts of \$125 in 2000 and \$86 in 1999)	600	510
Other receivables	92	81
Inventories	44	40
Property held for sale	—	22
Other current assets	28	18
Total current assets	<u>1,240</u>	<u>1,087</u>
Non-current investments	681	669
Property, plant and equipment, net	1,625	1,608
Other assets	145	157
	<u>\$ 3,691</u>	<u>\$ 3,521</u>
Liabilities and net assets		
Current liabilities:		
Short-term borrowings	\$ 100	\$ 93
Current maturities of long-term obligations	23	27
Accounts payable and accrued expenses	538	535
Estimated third-party settlements	63	65
Total current liabilities	<u>724</u>	<u>720</u>
Non-current liabilities:		
Long-term obligations, less current maturities	1,176	1,156
Other	180	163
Net assets:		
Unrestricted	1,352	1,233
Temporarily restricted	200	195
Permanently restricted	59	54
	<u>1,611</u>	<u>1,482</u>
	<u>\$ 3,691</u>	<u>\$ 3,521</u>

See accompanying notes.

Sutter Health and Affiliates

Combined Statements of Operations and Changes in Net Assets

(In Millions)

	Years Ended December 31,	
	2000	1999
Unrestricted net assets:		
Unrestricted revenues, gains and other support:		
Patient service revenues	\$ 2,585	\$ 2,146
Capitation revenues	692	550
Other revenues	269	223
Total revenues	3,546	2,919
Operating expenses:		
Salaries and employee benefits	1,564	1,339
Purchased services	577	457
Supplies	440	366
Depreciation and amortization	191	160
Capitated purchased services	214	167
Provision for bad debts	138	109
Rentals and leases	61	53
Interest	59	52
Insurance	10	14
Other	181	151
Total operating expenses	3,435	2,868
Income	111	51

Sutter Health and Affiliates

Combined Statements of Operations and Changes in Net Assets (Continued)

(In Millions)

	Years Ended December 31,	
	2000	1999
Unrestricted net assets (Continued):		
Income (page 3)	\$ 111	\$ 51
Change in net unrealized gains and losses on investments	(10)	(3)
Contribution of long-lived assets in connection with the Summit Medical Center affiliation	-	60
Net assets released from restrictions for equipment acquisition	10	37
Donated equipment	3	2
Other	1	9
<hr/>		
Increase in unrestricted net assets before discontinued operations, cumulative effect of change in accounting principle and extraordinary item	115	156
Discontinued operations:		
Gain (loss) on disposal, including provision in 1999 of \$2 for operating losses during the phase-out period	4	(10)
Cumulative effect of change in accounting principle	-	(2)
Extraordinary loss from extinguishment of debt	-	(7)
<hr/>		
Increase in unrestricted net assets	119	137
Temporarily restricted net assets:		
Contributions and investment income	73	62
Change in net unrealized gains and losses on investments	(20)	3
Net assets released from restriction	(48)	(77)
Other, including impact of Summit Medical Center affiliation	-	10
<hr/>		
Increase (decrease) in temporarily restricted net assets	5	(2)
Permanently restricted net assets:		
Contributions	3	1
Change in net unrealized gains and losses on investments	(1)	-
Investment gains contributed to capital	3	-
Other, including impact of Summit Medical Center affiliation	-	23
<hr/>		
Increase in permanently restricted net assets	5	24
<hr/>		
Increase in net assets	129	159
Net assets, beginning of year	1,482	1,323
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Net assets, end of year	\$ 1,611	\$ 1,482

See accompanying notes.

Sutter Health and Affiliates
 Combined Statements of Cash Flows

(In Millions)

	Years Ended December 31,	
	2000	1999
Operating activities		
Change in net assets	\$ 129	\$ 159
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Noncash impact of Summit Medical Center affiliation	–	(97)
Extraordinary loss from extinguishment of debt	–	7
Depreciation and amortization	191	160
Change in net unrealized gains and losses on investments	31	–
Provision for bad debts	138	109
Increase in professional liability reserves	9	4
Equity in earnings on investments in health care-related businesses	(1)	(2)
Increase in other non-current liabilities	8	10
Restricted contributions and investment income	(3)	(1)
Gain on sale of property held for sale	(21)	–
Other	3	2
Net changes in operating assets and liabilities:		
Patient accounts receivable and other receivables	(233)	(105)
Inventories and other assets	(14)	(4)
Accounts payable, accrued expenses and estimated third-party settlements	1	15
Net cash provided by operating activities	238	257
Investing activities		
Payments for business acquisitions, net of cash and equivalents acquired	–	10
Purchases of property, plant and equipment	(202)	(282)
Purchases and sales or maturities of investments, net	(31)	37
Proceeds from property held for sale	43	–
Other	(2)	19
Net cash used in investing activities	(192)	(216)

Sutter Health and Affiliates

Combined Statements of Cash Flows (Continued)

(In Millions)

	Years Ended December 31,	
	2000	1999
Financing activities		
Net increase in short-term borrowings	\$ 7	\$ 49
Payments of long-term obligations	(38)	(81)
Payments for legal defeasance of bonds	–	(201)
Proceeds from long-term obligations	54	254
Bond issuance costs and discount	–	(8)
Proceeds from restricted contributions and investment income	3	1
	26	14
Net cash provided by financing activities	26	14
Net increase in cash and equivalents	72	55
Cash and equivalents at beginning of year	161	106
Cash and equivalents at end of year	\$ 233	\$ 161

Supplementary disclosures of cash flow information and schedule of noncash investing and financing activities:

Cash paid during the year for interest (net of capitalized interest costs of \$2 in 2000 and \$5 in 1999)	\$ 57	\$ 49
Noncash investing and financing activities:		
Assets acquired (none in 2000 and \$243 in 1999) in excess of liabilities assumed (none in 2000 and \$156 in 1999) in connection with business acquisitions accounted for as purchases, exchanges or contributions of long-lived assets, excluding cash and equivalents	\$ –	\$ 87

See accompanying notes.

Sutter Health and Affiliates

Notes to Combined Financial Statements (Continued)

(Dollars in Millions)

1. ORGANIZATION

Organization: Sutter Health is a California nonprofit 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 five service areas, principally in Northern California.

Sutter Health and its affiliates and subsidiaries provide the following services: health care, education, research, and administration.

Affiliates in the five service areas include acute care and psychiatric hospitals, skilled nursing facilities, medical foundations, fundraising foundations, and a variety of other specialized health care service providers. The 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 programs including health education, health libraries, school-based clinics, home health care, hospice care, adult day care, prenatal clinics, community clinics and immunization services.

2. ACCOUNTING POLICIES

Basis of Combination: The combined financial statements include the accounts of Sutter Health and affiliated corporations and subsidiaries ("Sutter"). All significant intercompany accounts and transactions have been eliminated in combination.

Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

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

Sutter Health and Affiliates

Notes to Combined Financial Statements (Continued)

(Dollars in Millions)

2. ACCOUNTING POLICIES (Continued)

Investments: Investments consist principally of corporate notes and stocks, and U.S. Government and agency securities, all of which are other than trading and carried at fair market value. Certain investments are designated as assets held in trust. These include assets held by trustees in accordance with the indentures relating to long-term obligations and assets set aside in accordance with self-insurance requirements. In addition, certain investments are set aside by the appropriate governing boards for future capital improvements.

Patient Accounts Receivable: Sutter's primary concentration of credit risk is patient accounts receivable, which consist of amounts owed by various governmental agencies, insurance companies and private patients. Sutter manages the receivables by regularly reviewing its accounts and contracts and by providing appropriate allowances for uncollectible amounts. Significant concentrations of gross fee-for-service patient accounts receivable were as follows:

	December 31,	
	2000	1999
Medicare	22%	21%
Medi-Cal	14%	12%

Inventories: Inventories, which consist principally of medical 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 any impairment write-downs. 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 such constructed assets.

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

Sutter Health and Affiliates

Notes to Combined Financial Statements (Continued)

(Dollars in Millions)

2. ACCOUNTING POLICIES (Continued)

The application of Statement of Financial Standards (“SFAS”) No. 121, “Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of,” resulted in unusual charges to Sutter’s 2000 operations of \$2 (none in 1999) related to long-lived assets held and used in operations and long-lived assets designated for sale. Long-lived assets held for sale are stated at the lower of cost or estimated fair value less costs of disposal. The fair market values of these assets, and resultant impairment losses, were calculated based on discounted cash flow analyses or independent appraisals. As of December 31, 1999, assets to be disposed of (which were sold in 2000) included land and buildings located in Palo Alto, California whose aggregate carrying value was \$22 (none as of December 31, 2000).

Other Assets: Goodwill represents the excess of purchase price over the fair market value of net assets acquired and is being amortized over periods ranging from 5 to 20 years using the straight-line method. Realization of Sutter’s residual goodwill balance of \$25 as of December 31, 2000 is dependent on generating sufficient operating cash flows at certain affiliates to which such balance relates. Based on current estimates, management believes that the goodwill balance will be realized. The amount of goodwill considered realizable, however, could be revised in the near term if estimates of future operating cash flows are reduced. Unamortized financing costs associated with the issuance of long-term obligations are amortized ratably over the term of the respective obligations. Sutter has minority interests in various health care-related businesses. The majority of these investments are accounted for on the equity method and the assets, liabilities and results of operations of these unconsolidated investees are not material to Sutter’s combined financial statements.

Risk Management: Sutter maintains several self-insured medical and other benefit plans for certain employees and is self-insured for workers’ compensation for certain affiliates. Also, certain affiliates of Sutter participate in wholly owned self-insured captives for professional liability claims and comprehensive general liability. In addition, certain affiliates of Sutter purchase (a) workers’ compensation insurance coverage with nominal or no deductibles and (b) professional liability insurance coverage using both claims-made and modified occurrence-basis policies. The modified occurrence-basis policies include prepaid tail coverage for seven years. The provisions for estimated workers’ compensation, professional liability and comprehensive general liability claims include estimates of the ultimate costs for both reported claims and claims incurred but not

Sutter Health and Affiliates

Notes to Combined Financial Statements (Continued)

(Dollars in Millions)

2. ACCOUNTING POLICIES (Continued)

reported, in accordance with actuarial projections based on past experience. Such claim reserves are based on the best data available to Sutter; however, in some cases, because of the lack of historical experience, these estimates are subject to a significant degree of inherent variability. Accordingly, there is at least a reasonable possibility that a material change to the estimated reserves will occur in the future. Such estimates are continually monitored and reviewed, and as reserves are adjusted, the differences are reflected in current operations. While the ultimate amount of workers' compensation, professional liability and general liability claims is dependent on future developments, management is of the opinion that the associated liabilities recognized in the accompanying combined financial statements are adequate to cover such claims. Sutter has entered into reinsurance agreements with independent insurance companies to limit its losses on workers' compensation, professional liability and comprehensive general liability claims. Reserves for reported and incurred but not reported professional liability claims, which are discounted using a rate of 6% as of December 31, 2000 and 1999, amount to \$49 and \$45 as of December 31, 2000 and 1999, respectively. Management is aware of no potential professional liability claims whose settlement, if any, would have a material adverse effect on Sutter's combined financial position.

Other Liabilities: Other non-current liabilities consist of (a) insurance liabilities, including estimated liabilities for (i) professional liability losses and (ii) referral claims; (b) minority interests in net assets of subsidiaries; (c) obligations to return assets to local hospital districts, and (d) certain other liabilities.

Net Assets: All resources that are not restricted by donors are included in unrestricted net assets. Resources temporarily restricted by donors for specific purposes are reported as temporarily restricted net assets. When the specific purposes are achieved, either through passage of a stipulated time or the purpose for restriction is accomplished, they are reclassified to unrestricted net assets and reported as such in the combined statement of operations and changes in net assets. Resources temporarily restricted by donors for additions to land, buildings and equipment are initially reported as temporarily restricted net assets and are transferred to unrestricted net assets when expended. Donor-imposed restrictions which stipulate that the resources be maintained permanently are reported as permanently restricted net assets. Investment income related to these permanently restricted net assets is classified as either temporarily restricted or unrestricted based on the intent of the donor, or is added to the balance if required by the donor.

Sutter Health and Affiliates

Notes to Combined Financial Statements (Continued)

(Dollars in Millions)

2. ACCOUNTING POLICIES (Continued)

Temporarily restricted and permanently restricted net assets were maintained for the following purposes as determined by management:

	December 31,	
	2000	1999
Temporarily restricted:		
Capital projects, medical equipment and services	\$ 96	\$ 63
Time restricted under annuity trust agreements	26	43
Rehabilitation medicine	14	12
Community benefit	26	33
Research and education	38	44
	\$ 200	\$ 195
Permanently restricted -		
Endowment	\$ 59	\$ 54

Donor Gifts: Unconditional promises to give cash and other assets are reported at fair market value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair market value at the date the gift is received (however, such amounts were not material at December 31, 2000 and 1999).

As of December 31, 2000, aggregate pledges receivable consisted of the following unconditional promises to give:

Pledges due in 2001	\$ 14
Pledges due 2002-2005	20
Pledges due after 2005	9
Less allowance for uncollectible pledges	(2)
	\$ 41

Sutter Health and Affiliates

Notes to Combined Financial Statements (Continued)

(Dollars in Millions)

2. ACCOUNTING POLICIES (Continued)

Gifts of long-lived operating assets, such as land, buildings, or equipment, are reported as unrestricted support and excluded from income, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated long-lived assets are acquired and placed in service.

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

Capitation Revenues: Sutter has agreements with various Health Maintenance Organizations (“HMOs”) to provide medical services to subscribing participants. Under these agreements, Sutter receives monthly capitation payments based on the number of each HMOs’ participants, regardless of services actually performed by Sutter. Certain of these agreements also contain provisions whereby additional amounts may be due or paid.

Charity Care: Sutter provides medically necessary care to all patients who meet certain criteria under its charity care policy regardless of the patient’s ability to pay.

Performance Indicator: “Income,” as reflected in the accompanying combined statements of operations and changes in net assets, is a performance indicator. Income includes changes in unrestricted net assets other than contributions of long-lived assets, changes in net unrealized gains and losses on investments, investment returns restricted by donors, discontinued operations, cumulative effects of changes in accounting principles and extraordinary items. Impairment of long-lived assets is included in other operating expenses.

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

Sutter Health and Affiliates

Notes to Combined Financial Statements (Continued)

(Dollars in Millions)

2. ACCOUNTING POLICIES (Continued)

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

Fair Values of Financial Instruments: The methods and assumptions used by Sutter in estimating its financial instrument fair value disclosures, as well as the resultant amounts, are as indicated in Notes 5 and 8.

Adoption of New Accounting Pronouncements: In 2000, Sutter adopted SFAS No. 136, "Transfers of Assets to a Not-for-Profit Organization or Charitable Trust that Raises or Holds Contributions for Others." SFAS No. 136 establishes accounting guidance for certain charitable transactions where an entity makes a contribution by transferring assets to a not-for-profit organization or charitable trust that accepts the assets and agrees to transfer these assets to another entity specified by the donor. The adoption of SFAS 136 did not have a material impact on Sutter's combined financial position.

In 1999, Sutter adopted SOP 98-5, "Reporting on the Costs of Start-Up Activities." SOP 98-5 requires costs of start-up activities, including organization costs, to be charged to expense as incurred. In accordance with SOP 98-5, Sutter's unamortized start-up costs as of January 1, 1999 of \$2 have been written-off through a charge to unrestricted net assets and classified as a cumulative effect of a change in accounting principle. Additional start-up costs incurred by Sutter in 1999 and charged to operating expenses were not significant.

Adoption of Other New Accounting Pronouncements in the Future: In 1998, Financial Accounting Standards Board ("FASB") issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" which was subsequently amended in 1999, when the FASB issued SFAS No. 136, "Accounting for Derivative Instruments and Hedging Activities – Deferral of the Effective Date of FASB Statement No. 133" and in 2000 when the FASB issued SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities." Sutter will adopt these pronouncements in 2001. Management does not believe that the adoption of these pronouncements will have a material impact on Sutter's combined financial position.

Sutter Health and Affiliates

Notes to Combined Financial Statements (Continued)

(Dollars in Millions)

2. ACCOUNTING POLICIES (Continued)

Reclassifications: Certain amounts in Sutter's 1999 combined financial statements have been reclassified to conform with the presentation of its 2000 combined financial statements.

3. DISCONTINUED OPERATIONS

On May 13, 1999, Sutter decided to discontinue the operations of its indirect majority-owned HMO, Omni Healthcare, Inc. ("Omni"), and its indirect wholly-owned health and life insurance company, Sutter Preferred Health and Life Insurance Company ("SPH&L"). The enrollees of Omni and SPH&L were transferred to an unrelated insurance company in 1999. SPH&L phased-out its operations and exited the California market in 2000. In addition, effective May 14, 1999, Omni sold its rights to certain contracts and other intangible assets to the aforementioned insurance company for an agreed-upon amount in accordance with the terms of the Member Transfer and Asset Purchase Agreement executed on such date. The remaining assets of Omni, which are reflected in the following captions on the balance sheet, are to be liquidated in future periods and consist of the following:

	December 31, 2000		
	Historical	Allowance for	Net
	Cost Basis	Estimated	Book Value
		Losses on	
		Disposal	
Current assets:			
Cash and equivalents and short-term investments	\$ 9	\$ -	\$ 9
Other receivables	2	-	2
Other	1	-	1
	12	-	12
Property, plant and equipment	5	(5)	-
	\$ 17	\$ (5)	\$ 12

Sutter Health and Affiliates

Notes to Combined Financial Statements (Continued)

(Dollars in Millions)

3. DISCONTINUED OPERATIONS (continued)

The aggregate liabilities of Omni, including accruals for estimated operating losses through the end of the anticipated phase-out period, were \$10 as of December 31, 2000. All of these liabilities are current, and they include reserves related to claims involving prepaid health care services formerly provided by Omni. Such claim reserves are based on the best data available to Sutter; however, these estimates are subject to a significant degree of inherent variability. Accordingly, there is at least a reasonable possibility that a material change to the estimated reserves will occur in the future. While the ultimate amount of health care expenses is dependent on future developments, management is of the opinion that the liability for health care claims payable recognized in the accompanying combined financial statements is adequate to cover such expenses.

Premium revenues generated by Omni and SPH&L was \$68 during the year ended December 31, 1999 (none during the year ended December 31, 2000).

4. BUSINESS COMBINATIONS

Effective December 27, 1999, Sutter Health, Alta Bates Medical Center (“ABMC”), Alta Bates Health System and Sutter Health East Bay (“SHEB”) consummated an affiliation agreement originally executed on November 18, 1998 with Summit Medical Center (“Summit”). (In January 2000, the Attorney General of the State of California filed an appeal to overturn a previous decision by a federal judge which enabled this affiliation to be consummated. The appeal was rejected and the Attorney General’s suit was dismissed in January 2001). Sutter Health is the sole corporate member of SHEB and, pursuant to the terms of the affiliation agreement, SHEB became the sole corporate member of both Summit and ABMC. In addition, the individuals serving as trustees on the governing boards of SHEB, ABMC and Summit are the same. Under the terms of the affiliation agreement, Sutter Health also (a) guaranteed certain bonds and other indebtedness of Summit aggregating \$73 as of December 27, 1999 and (b) made a capital commitment to SHEB for a minimum of \$450 million over a ten year period that commenced on December 27, 1999. This affiliation has been accounted for partially as an exchange transaction (with respect to the Summit indebtedness guaranteed by Sutter Health) and partially as a contribution of long-lived assets from Summit to Sutter, to the extent that the estimated fair value of Summit’s assets as of December 27, 1999 exceeded the estimated fair value of the indebtedness guaranteed by Sutter Health. All of the assets and liabilities of Summit have been adjusted to their estimated fair values as of the date of affiliation. Sutter incurred legal and other costs associated with the Summit affiliation aggregating \$1 and \$7 in 2000 and 1999, respectively. Such costs have been charged to purchased services in the accompanying combined statements of operations and changes in net assets.

Sutter Health and Affiliates

Notes to Combined Financial Statements (Continued)

(Dollars in Millions)

5. INVESTMENTS

Investments are held for the following uses:

	December 31,	
	2000	1999
Assets held in trust:		
Principal, interest and other reserves held in trust under bond indentures	\$ 120	\$ 124
Other	11	10
Board designated funded depreciation and other internal designations	521	503
Investments	272	287
	924	924
Less current portion	(243)	(255)
	\$ 681	\$ 669

Investments consist of the following:

	December 31,			
	2000		1999	
	Cost	Fair Market Value	Cost	Fair Market Value
Money market funds and other cash equivalents	\$ 131	\$ 131	\$ 124	\$ 124
U.S. Government and agency securities	246	243	284	274
Corporate debt securities	277	277	275	272
Marketable equity securities	242	273	182	254
	\$ 896	\$ 924	\$ 865	\$ 924

Sutter Health and Affiliates

Notes to Combined Financial Statements (Continued)

(Dollars in Millions)

5. INVESTMENTS (Continued)

The fair market values for investments listed above are based on quoted market prices.

Investment income is comprised of the following elements:

	Years Ended December 31,	
	2000	1999
Interest and dividends	\$ 62	\$ 47
Realized gains on sales of securities	17	22
	<u>79</u>	<u>69</u>
Less amounts included in changes in restricted net assets	<u>(19)</u>	<u>(15)</u>
Amounts included in income	60	54
Less interest earned on unspent bond project funds	(5)	(5)
	<u>\$ 55</u>	<u>\$ 49</u>

Sutter uses the specific identification method to compute realized gains and losses on U.S. Government and agency securities and corporate debt securities. Sutter uses the average cost method to compute realized gains and losses on marketable equity securities. Marketable equity securities are primarily held for endowments and future capital improvements.

Sutter Health and Affiliates

Notes to Combined Financial Statements (Continued)

(Dollars in Millions)

6. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

	December 31,	
	2000	1999
Land improvements	\$ 45	\$ 54
Leasehold improvements	87	77
Buildings and improvements	1,394	1,258
Equipment	1,223	1,170
	2,749	2,559
Less accumulated depreciation and amortization	(1,438)	(1,277)
	1,311	1,282
Land	141	131
Construction-in-progress (Note 15)	173	195
	\$ 1,625	\$ 1,608

7. OTHER ASSETS

Other assets consist of the following:

	December 31,	
	2000	1999
Goodwill, net	\$ 25	\$ 25
Prepaid rent	18	19
Unamortized financing costs	26	27
Investments in health care-related businesses	11	12
Other	65	74
	\$ 145	\$ 157

Sutter Health and Affiliates

Notes to Combined Financial Statements (Continued)

(Dollars in Millions)

8. LONG-TERM OBLIGATIONS

Long-term obligations consist of the following:

	December 31,	
	2000	1999
Hospital revenue bonds and Certificates of Participation under the Sutter Health Master Indenture of Trust, fixed interest at 4.3% to 6.3%, variable interest at 1.0% - 6.0%, due from 2012 to 2038 (net of discount of \$13 and \$12 at December 31, 2000 and 1999, respectively)	\$ 1,057	\$ 950
Hospital revenue bonds under the California Pacific Medical Center (“CPMC”) Master Indenture of Trust, fixed interest at 5.0% to 6.0%, due from 2014 to 2015 (net of discount of \$1 and \$2 at December 31, 2000 and 1999, respectively)	91	95
Hospital revenue bonds through the City of Modesto, fixed interest at 4.3% to 6.0%, variable interest based on daily rate (4.6% at December 31, 2000) due from 2012 to 2021	36	37
Hospital revenue bonds under the Summit Master Indenture of Trust, fixed interest at 4.1% to 6.0%, due in 2015	–	71
Borrowings under revolving credit, competitive advance and short-term loan placement facilities, as described below	–	7
Various collateralized and unsecured obligations	12	19
Obligations under capital leases	3	4
	1,199	1,183
Less current maturities	(23)	(27)
	\$ 1,176	\$ 1,156

Sutter Health and Affiliates

Notes to Combined Financial Statements (Continued)

(Dollars in Millions)

8. LONG-TERM OBLIGATIONS (Continued)

The aggregate estimated fair market values of Sutter's short-term borrowings and long-term obligations at December 31, 2000 and 1999 of \$1,337 and \$1,218, respectively, were established using discounted cash flow analyses based on (a) the current market yield to maturity for similar types of publicly traded debt issues and (b) Sutter's current incremental borrowing rates for all other debt instruments.

Certain affiliates of Sutter are members of the Obligated Groups of Sutter Health and CPMC. In addition, the assets of certain affiliates of Sutter are subject to the indebtedness of the Obligated Groups of Sutter Health and CPMC.

The Obligated Groups of Sutter Health and CPMC are not legal entities. However, under the terms of the California Health Facilities Financing Authority ("CHFFA") and California Statewide Communities Development Authority ("CSCDA") bonds, members of the two Obligated Groups are jointly and severally liable for the bonds. The related financing documents and various other debt agreements contain certain restrictive covenants requiring compliance by all members, including pledges of gross revenues.

During 2000, Summit joined the Obligated Groups of Sutter Health and CPMC. There were no additions to the Obligated Groups of Sutter Health and CPMC during 1999.

In May 2000, Sutter issued \$52 of 2000 Series A CHFFA fixed rate bonds. The proceeds of this borrowing will be used to finance certain capital expenditures at Summit and Alta Bates.

In January 1999, Sutter issued \$138 of 1999 Series A CHFFA fixed rate bonds. Certain of the proceeds of this borrowing were used in connection with the acquisition of a new hospital campus and to legally defease the 1989 Series A CHFFA and 1990 Series A CHFFA bonds. In October 1999, Sutter issued \$106 of 1999 CSCDA Certificates of Participation, all of which are fixed rate bonds. Certain of the proceeds of this borrowing were used to legally defease the 1989 Series A Roseville Financing Authority, 1990 Series A and B CHFFA and 1996 Series C CHFFA bonds. As a result of these defeasance transactions, Sutter was legally relieved of its obligations under the respective bond indentures and, accordingly, it recognized an extraordinary loss of \$7 in 1999.

Sutter Health and Affiliates

Notes to Combined Financial Statements (Continued)

(Dollars in Millions)

8. LONG-TERM OBLIGATIONS (Continued)

Sutter has entered into interest rate swap agreements with aggregate notional principal amounts of \$43 and \$586 at December 31, 2000 and 1999, respectively. At December 31, 2000 and 1999, the aggregate fair market value of the swaps were net payables of \$1 and \$11, respectively. During 2000, Sutter terminated all but one of its swaps for a gain of \$5. At December 31, 2000, Sutter has one swap remaining. Under the terms of the swap agreement, Sutter pays a fixed rate of 5.04% and receives the variable payment equal to the interest rate on one of its long-term obligations. The interest rate differential to be received or paid is recognized over the term of the swap agreement (which expires in July 2002) as an adjustment of interest expense.

Aggregate maturities of long-term obligations, excluding capital leases and bond discounts, are as follows as of December 31, 2000:

2001	\$	22
2002		27
2003		25
2004		28
2005		29
Thereafter		1,079
	\$	<u>1,210</u>

Sutter has a \$100 revolving line of credit and competitive advance facility, as well as a \$50 short-term loan placement facility, with a syndicate of banks. At December 31, 2000 and 1999, \$100 has been borrowed of which \$100 and \$93 is recorded as short-term borrowings. \$76 and \$60 of such borrowings outstanding as of December 31, 2000 and 1999, respectively, were repaid using existing working capital in January 2001 and 2000, respectively. Sutter intends to repay the additional \$24 million of the borrowings outstanding as of December 31, 2000 using the proceeds of planned activities.

Sutter Health and Affiliates

Notes to Combined Financial Statements (Continued)

(Dollars in Millions)

9. LEASES

Sutter leases various land, buildings, office space, and equipment. The leases expire at various times and contain certain contingent rental provisions, guarantees and various renewal options. These leases are classified as either capital leases (which are not material as of December 31, 2000 and 1999) or operating leases based on the terms of the respective agreements.

Certain of the aforementioned operating leases relate to acute care facilities leased from various municipalities. Such operating lease agreements require Sutter to make specified capital improvements to the municipalities' facilities at various times.

Future minimum payments (net of income from subleases), by year and in the aggregate, under noncancellable operating leases with terms of one year or more consist of the following as of December 31, 2000:

2001	\$	35
2002		24
2003		19
2004		15
2005		13
Thereafter		38
	\$	<u>144</u>

Sutter Health and Affiliates

Notes to Combined Financial Statements (Continued)

(Dollars in Millions)

10. PATIENT SERVICE AND MANAGED CARE REVENUES

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

- *Medicare* - Inpatient acute care services and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per diagnosis. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Inpatient nonacute services and medical education costs related to Medicare beneficiaries are paid based on a cost reimbursement methodology. Sutter is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by Sutter and audits thereof by the Medicare fiscal intermediary. Sutter's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review. Sutter's Medicare cost reports have been audited by the Medicare fiscal intermediary through December 31, 1997.
- *Medi-Cal* - Inpatient and outpatient services rendered to Medi-Cal program beneficiaries are reimbursed either under contracted rates or reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by Sutter and audits thereof by Medi-Cal. Sutter's Medi-Cal cost reports have been audited by the Medi-Cal fiscal intermediary through December 31, 1998.

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

	Years Ended December 31,	
	2000	1999
Medicare	35%	35%
Medi-Cal	11%	13%

Sutter Health and Affiliates

Notes to Combined Financial Statements (Continued)

(Dollars in Millions)

10. PATIENT SERVICE AND MANAGED CARE REVENUES (Continued)

Laws and regulations governing the Medicare and Medi-Cal programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Adjustments from finalization of prior-year cost reports from both Medicare and Medi-Cal resulted in (decreases) increases in patient service revenues of approximately (\$2) and \$20 for the years ended December 31, 2000 and 1999, respectively.

Sutter believes that it is in compliance with all applicable laws and regulations and is not aware of any significant pending or threatened investigations involving allegations of potential wrongdoing. While no such significant regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medi-Cal programs.

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

11. UNSPONSORED COMMUNITY BENEFIT EXPENSE (UNAUDITED)

Traditional Charity Care covers health care services provided to persons who meet certain criteria and cannot afford to pay. Sutter Health Affiliates provided \$57 and \$50 of Charity Care Services to their patients in 2000 and 1999, respectively.

The following is a summary of Sutter's commitment to the communities it serves by reinvesting these estimated costs in providing services to the poor and broader community:

	Years Ended December 31,	
	2000	1999
Services for the poor and underserved	\$ 145	\$ 127
Benefits for the broader community	160	91
	<u>\$ 305</u>	<u>\$ 218</u>

Sutter Health and Affiliates

Notes to Combined Financial Statements (Continued)

(Dollars in Millions)

11. UNSPONSORED COMMUNITY BENEFIT EXPENSE (UNAUDITED) (Continued)

Services for the poor and underserved include services provided to persons who cannot afford health care because of inadequate resources and/or are uninsured or underinsured. It also includes the unpaid costs of public programs treating Medi-Cal and indigent beneficiaries. Cost is computed based on a relationship of cost to charges.

Benefits for the broader community include unpaid costs of providing the following services: treating the elderly, 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. Cash and in-kind donations made on behalf of the poor and needy, and contributions Sutter makes to community agencies to fund charitable activities are also included.

12. RETIREMENT PLANS AND POSTRETIREMENT BENEFITS

Sutter sponsors or participates in various employee benefit plans, including noncontributory defined benefit plans and several contributory defined contribution plans. Sutter's total retirement benefit expense was \$21 and \$24 for the years ended December 31, 2000 and 1999, respectively.

Sutter Health and Affiliates

Notes to Combined Financial Statements (Continued)

(Dollars in Millions)

12. RETIREMENT PLANS AND POSTRETIREMENT BENEFITS (Continued)

The changes in benefit obligations and plan assets for Sutter's noncontributory defined benefit retirement plans are as follows:

	Years Ended December 31,	
	2000	1999
Projected benefit obligation at beginning of year	\$ 411	\$ 415
Effect of change in measurement date	–	(5)
Service cost	23	24
Interest cost	31	29
Amendments	3	–
Actuarial gains	(12)	(37)
Benefits paid	(20)	(15)
Projected benefit obligation at end of year	436	411
Fair value of plan assets at beginning of year	408	379
Effect of change in measurement date	–	(22)
Actual return on plan assets	40	62
Employer contributions	5	4
Benefits paid	(20)	(15)
Fair value of Plan assets at end of year	433	408
Funded status of the plans	(3)	(3)
Unrecognized net actuarial gain	(56)	(39)
Unrecognized net transition asset	–	(3)
Unrecognized prior service cost	3	–
Minimum pension liability	–	–
Net accrued retirement benefit cost at end of year	\$ (56)	\$ (45)

During 1999, Sutter changed the measurement date for plan assets, pension obligations and net periodic pension cost associated with its primary noncontributory defined benefit retirement plan, the Sutter Health Retirement Plan (the "Plan"), from December 31 to September 30.

Sutter Health and Affiliates

Notes to Combined Financial Statements (Continued)

(Dollars in Millions)

12. RETIREMENT PLANS AND POSTRETIREMENT BENEFITS (Continued)

Effective January 1, 2000, the Plan was amended and restated to become a cash balance plan (the "CBP"). Each participant of the Plan has been given a one-time option to either (a) continue accruing benefits under the Plan (grandfather election) or (b) have his/her total accrued benefit converted to a beginning account balance under the CBP, and accrue future benefits under the CBP. The CBP provides each participant with a benefit initially based upon the participant's account balance under the Plan. Each participant's account balance will increase each year by the (a) additional benefit accrued by the participant for the year, if any, weighted by years of service and (b) interest credit. Distributions from the CBP will be made in the form of a single life annuity, a joint and 50% or 100% survivor annuity (for married participants only) or a lump sum. Management expects the impact of the aforementioned amendment on Sutter's combined financial position and results of operations to be immaterial.

Sutter's net accrued retirement benefit cost balances consist of the following elements:

	December 31,	
	2000	1999
Accrued retirement benefit cost	\$ (58)	\$ (47)
Prepaid retirement benefit cost	2	2
	\$ (56)	\$ (45)

Several of Sutter's noncontributory defined benefit retirement plans have benefit obligations in excess of plan assets, as follows:

	December 31,	
	2000	1999
Projected benefit obligation	\$ 406	\$ 386
Fair value of plan assets	\$ 397	\$ 378

Sutter Health and Affiliates

Notes to Combined Financial Statements (Continued)

(Dollars in Millions)

12. RETIREMENT PLANS AND POSTRETIREMENT BENEFITS (Continued)

The weighted average assumptions used by Sutter's noncontributory defined benefit plans were as follows:

	December 31,	
	2000	1999
Discount rates	7.5%	6.75-7.50%
Rates of compensation increase	4.0-4.5%	4.0%
Expected long-term rates of return on plan assets	8.5-9.0%	9.0%

The components of Sutter's net periodic benefit cost associated with its noncontributory defined benefit retirement plans are as follows:

	Years Ended December 31,	
	2000	1999
Service cost	\$ 23	\$ 24
Interest cost	31	30
Expected return on plan assets	(36)	(32)
Amortization of prior service cost	-	(1)
Transition asset recognition	(2)	(2)
Recognized net actuarial gains	-	1
Benefit cost	<u>\$ 16</u>	<u>\$ 20</u>

CPMC is a member of a multiemployer defined benefit retirement plan which covers substantially all of its employees. For the multiemployer plan as a whole, the net assets available for benefits exceeded the actuarially computed value of vested benefits as of the most recent actuarial valuation (January 1, 2000). CPMC's funding policy is to contribute the minimum funding required by the Employee Retirement Income Security Act of 1974. The net pension expense (benefit) associated with CPMC's multiemployer plan was \$1 and (\$1) in 2000 and 1999, respectively.

Sutter maintains various defined contribution plans for eligible employees. Sutter's contributions to such plans were \$4 and \$5 in 2000 and 1999, respectively.

In addition to providing pension benefits, Sutter provides certain health care and health insurance benefits for eligible retired employees and certain of their relatives. The postretirement benefit obligations and costs relating to these benefits are not significant to Sutter's combined financial statements.

Sutter Health and Affiliates

Notes to Combined Financial Statements (Continued)

(Dollars in Millions)

13. INCOME TAXES

Deferred income taxes, which as of December 31, 2000 and 1999 have a net carrying value of zero, reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting and the amounts used for income tax purposes. As of December 31, 2000 and 1999, Sutter had deferred tax assets of \$31 and \$34, respectively, relating principally to net operating loss carryovers. As of both December 31, 2000 and 1999, such deferred tax assets were offset by a valuation allowance of \$31 and \$34, respectively. The valuation allowance decreased by \$3 and \$2 during the year ended December 31, 2000 and 1999, respectively.

Federal net operating loss carryovers totaled \$80 at December 31, 2000 and will expire between 2004 and 2015. State net operating loss carryovers totaled \$36 at December 31, 2000 and will expire between 2000 and 2004.

14. FUNCTIONAL CLASSIFICATION OF EXPENSES

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

	Years Ended December 31,	
	2000	1999
Health services	\$ 3,135	\$ 2,617
General and administrative	300	251
	\$ 3,435	\$ 2,868

Sutter Health and Affiliates

Notes to Combined Financial Statements (Continued)

(Dollars in Millions)

15. CONTINGENCIES AND COMMITMENTS

Contingencies: Marin General Hospital (“MGH”) leases a hospital in Greenbrae, California from Marin Health Care District (the “Marin District”) pursuant to a lease between MGH and the Marin District (the “Marin Lease”). MGH, Marin Community Health and Sutter Health are defendants in a lawsuit filed by the Marin District in 1997 which seeks, among other things, a judgment declaring that the Marin Lease and an Agreement for Transfer of Assets between the Marin District and MGH are void and that the Marin District is entitled to ownership and possession of the hospital and assets transferred and all proceeds and products of the hospital lease and assets transferred. On October 9, 1998, the Sacramento Superior Court granted motions of MGH and Sutter Health for partial summary adjudication. By its order, the Sacramento Superior Court ruled that the Marin District’s claims that the Marin Lease and asset transfer were void because of alleged violations of California Government Code Section 1090 were barred by applicable statutes of limitations. On October 14, 1999, judgment was entered for the defendants by the Sacramento Superior Court, and the Marin District filed and appealed the judgment insofar as it concluded that the claims based on Government Code Section 1090 were barred by applicable statutes of limitation. Briefing has been completed, but the Court of Appeal has not yet set the case for hearing.

Mills-Peninsula Health Services (“MPHS”) leases Mills-Peninsula Medical Center in Burlingame, California from Peninsula Health Care District (the “Peninsula District”) pursuant to a lease between MPHS and the Peninsula District (the “Peninsula Lease”). MPHS is a defendant in a lawsuit filed by the Peninsula District in 1997 which seeks, among other things, a declaration that certain contracts relating to the consolidation of the hospital and medical facilities and operations of the Peninsula District and MPHS are void and canceled, including the 1985 Agreement for Consolidation of Assets and Liability, the 1985 Lease of Peninsula Hospital, the 1997 Amended Lease of Peninsula Hospital, a 1985 cash donation from the Peninsula District to Mills-Peninsula Foundation, and certain 1985 donations of property from the Peninsula District to MPHS, and a declaration that the Peninsula District is entitled to ownership and possession of the assets transferred by the foregoing contracts and documents, including all the real property, improvements and personal property, both tangible and intangible, cash and liquid assets, all proceeds and products thereof, and all substitutions and replacements for the same. Subsequent to the filing of this lawsuit, the San Mateo Superior Court allowed both Sutter Health and the Mills-Peninsula Physicians Group, Inc. (“MPPG”) to intervene as defendants. On September 5, 1997, the San Mateo Superior Court heard arguments on a demurrer to the complaint filed by MPHS and joined in by Sutter Health and MPPG. On November 13, 1997, the San Mateo Superior Court sustained the demurrer without

Sutter Health and Affiliates

Notes to Combined Financial Statements (Continued)

(Dollars in Millions)

15. CONTINGENCIES AND COMMITMENTS (Continued)

leave to amend the complaint. The Peninsula District has filed a motion requesting that the San Mateo Superior Court reconsider its decision. The motion asserts that the stipulated judgment that the San Mateo Superior Court relied on in sustaining the demurrer is invalid under California Government Code Section 1090 because certain parties who approved the stipulation had an interest in it. The Peninsula District and the District Attorney of San Mateo County, who was a party to the stipulated judgment, moved to vacate the stipulated judgment on the same grounds. On November 19, 1998, the San Mateo County Superior Court issued an order granting the motion to vacate. On June 28, 2000 the decision of the San Mateo County Superior Court was sustained. In November of 2000 the parties entered into a letter of intent which provides that the litigation will be dismissed if several conditions are satisfied.

It is difficult to predict either the outcome of the MGH and MPHS litigation or the effect such litigation might have on Sutter's combined financial position and results of operations, but a negative outcome could be material.

In January 1999, St. Luke's Hospital (St. Luke's) filed a lawsuit against Sutter Health and California Pacific Medical Center alleging that CPMC's agreement with Brown & Toland Medical Group and the University of California, San Francisco was anti-competitive because the agreement included an exclusivity clause for full-risk health plan arrangements. St. Luke's is a nonprofit, public benefit, tax-exempt corporation that owns and operates a licensed acute care hospital located in San Francisco, California. On October 26, 2000, Sutter entered into settlement and affiliation agreements with St. Luke's. The Affiliation Agreement is dependent upon regulatory approval by the California Attorney General. Sutter paid \$3 on October 26, 2000, and committed to an additional \$1 monthly for 12 months beginning on December 31, 2000, for working capital and routine capital needs. Upon the closing of the affiliation, Sutter will pay an additional \$10 to St. Luke's. In the opinion of management, all conditions of the Affiliation Agreement are expected to be met in 2001. If the affiliation is not consummated under certain conditions of the Settlement Agreement, St. Luke's may elect to arbitrate its claims to determine if it is entitled to additional damages. In the opinion of management, after consultation with legal counsel, this arbitration, if any, should be resolved without a material adverse effect on Sutter's combined financial position.

Sutter is involved in other litigation, as both plaintiff and defendant, and other routine labor matters, tax examinations and regulatory examinations arising in the ordinary course of business. In the opinion of management, after consultation with legal counsel, these matters should be resolved without a material adverse effect on Sutter's combined financial position.

Sutter Health and Affiliates

Notes to Combined Financial Statements (Continued)

(Dollars in Millions)

15. CONTINGENCIES AND COMMITMENTS (Continued)

Sutter in the ordinary course of business enters into various incentive-based risk sharing agreements with managed care payors and other providers. These agreements require retroactive settlement based on data which may not be available or finalized until all claims are processed. Settlement amounts have been estimated for such risk-based incentives based on available information. However, it is reasonably possible that these estimates may change in the near term.

As of December 31, 2000, approximately 31% of Sutter's employees are represented by collective bargaining units. Employee strikes or other adverse labor actions may have an adverse impact on Sutter's operations in the future.

Commitments: Sutter's combined budgeted capital expenditures, as approved or committed by the Board of Directors, for the period from January 1, 2001 to December 31, 2005 amount to approximately \$416. Such capital expenditures will be financed by funds from various bond issues and certain investments, as designated by Sutter's Board of Directors, for capital improvements.

Sutter is in the process of reviewing the seismic safety of its facilities. Because of the declining utilization resulting from the implementation of managed care and planned replacement of older facilities, management does not anticipate that compliance with certain legislation adopted in California during 1994 (that generally requires each acute care hospital in the State to either comply with new hospital seismic safety standards or cease acute care operations by January 1, 2008) will have a material adverse effect on Sutter's combined financial position. Management expects that Sutter will spend approximately \$559 to comply with the seismic safety standards.

As of December 31, 2000, Sutter had irrevocable standby letters of credit aggregating \$118 and \$77 to (a) collateralize certain long-term obligations aggregating \$122 and (b) satisfy legal requirements for self-insured workers' compensation plans and for other purposes, respectively.