2018 Audited Financial Statements

December 31, 2018

Sutter Health

Sutter Health and Affiliates

Consolidated Financial Statements

Years ended December 31, 2018 and 2017

Contents

Audited Consolidated Financial Statements

Building a better working world

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Report of Independent Auditors

The Board of Directors
Sutter Health and Affiliates

We have audited the accompanying consolidated financial statements of Sutter Health and Affiliates, which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes 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.

Auditor's Responsibility

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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Sutter Health and Affiliates at December 31, 2018 and 2017, and the consolidated results of their operations and changes in net assets, and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

March 6, 2019

Sutter Health and Affiliates

Consolidated Balance Sheets

(Dollars in millions)

	December 31, 2018	December 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	**$ 362**	$ 395
Short-term investments	**5,000**	5,052
Patient accounts receivable	**1,223**	1,277
Other receivables	**835**	878
Inventories	**127**	118
Other	**179**	200
Total current assets	**7,726**	7,920
Non-current investments	**983**	773
Property, plant and equipment, net	**8,193**	7,954
Other non-current assets	**401**	434
	$ 17,303	$ 17,081
Liabilities and net assets		
Current liabilities:		
Accounts payable	**$ 761**	$ 854
Accrued salaries and related benefits	**647**	576
Other accrued expenses	**811**	877
Current portion of long-term obligations	**57**	150
Total current liabilities	**2,276**	2,457
Non-current liabilities:		
Long-term obligations, less current portion	**4,626**	3,972
Other	**1,290**	1,094
Net assets:		
Without donor restrictions:		
Controlling	**8,530**	8,965
Noncontrolling	**112**	108
With donor restrictions	**469**	485
Total net assets	**9,111**	9,558
	$ 17,303	$ 17,081

See accompanying notes.

Sutter Health and Affiliates

Consolidated Statements of Operations and Changes in Net Assets

(Dollars in millions)

	Year ended December 31, 2018	2017
Net assets without donor restrictions:		
Operating revenues:		
Patient service revenues	**$ 10,957**	$ 10,828
Premium revenues	**1,383**	1,220
Contributions	**6**	9
Other	**351**	387
Total operating revenues	**12,697**	12,444
Operating expenses:		
Salaries and employee benefits	**5,852**	5,627
Purchased services	**3,372**	3,246
Supplies	**1,492**	1,391
Depreciation and amortization	**681**	655
Rentals and leases	**176**	176
Interest	**115**	105
Insurance	**15**	15
Other	**793**	903
Total operating expenses	**12,496**	12,118
Income from operations	**201**	326
Investment income	**187**	336
Change in net unrealized gains and losses on investments classified as trading	**(454)**	315
Loss on extinguishment of debt	**(54)**	(19)
(Loss) income	**(120)**	958
Less income attributable to noncontrolling interests	**(78)**	(65)
(Loss) income attributable to Sutter Health	**(198)**	893

Sutter Health and Affiliates

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

(Dollars in millions)

	Year ended December 31, 2018	2017
Net assets without donor restrictions (continued):		
Controlling:		
(Loss) income attributable to Sutter Health	**$ (198)**	$ 893
Change in net unrealized gains and losses on investments classified as other-than-trading	**25**	22
Net assets released from restriction for equipment acquisition	**17**	13
Pension-related changes other than net periodic pension cost	**(301)**	91
Other	**22**	–
(Decrease) increase in controlling	**(435)**	1,019
Noncontrolling:		
Income attributable to noncontrolling interests	**78**	65
Distributions	**(74)**	(73)
Other	**–**	4
Increase (decrease) in noncontrolling	**4**	(4)
Net assets with donor restrictions:		
Contributions	**39**	45
Investment income	**12**	15
Change in net unrealized gains and losses on investments	**(8)**	23
Net assets released from restriction	**(35)**	(35)
Other	**(24)**	(3)
(Decrease) increase in net assets with donor restrictions	**(16)**	45
(Decrease) increase in net assets	**(447)**	1,060
Net assets, beginning of year	**9,558**	8,498
Net assets, end of year	**$ 9,111**	$ 9,558

See accompanying notes.

Sutter Health and Affiliates

Consolidated Statements of Cash Flows

(Dollars in millions)

	Year ended December 31, 2018	2017
Operating activities		
(Decrease) increase in net assets	**$ (447)**	$ 1,060
Adjustments to reconcile (decrease) increase in net assets to net cash provided by operating activities:		
Loss on extinguishment of debt	**54**	19
Depreciation and amortization	**652**	633
Amortization of bond issuance costs, (premium) and discount, net	**(40)**	(29)
Net realized gains and losses and change in net unrealized gains and losses on investments	**315**	(649)
Restricted contributions and investment income	**(51)**	(60)
Distributions to noncontrolling interest	**74**	–
Loss on impairment of property, plant and equipment	**18**	5
Loss on impairment of goodwill	**4**	14
Net loss (gain) on disposal of property, plant and equipment	**4**	(16)
Change in net postretirement benefits	**241**	(32)
Net changes in operating assets and liabilities:		
Patient accounts receivable and other receivables	**97**	(357)
Inventories and other assets	**30**	(28)
Accounts payable and accrued expenses	**(149)**	547
Other non-current liabilities	**(44)**	39
Net cash provided by operating activities	**758**	1,146
Investing activities		
Purchases of property, plant and equipment	**(924)**	(924)
Proceeds from disposal of property, plant and equipment	**34**	19
Purchases of investments	**(3,529)**	(3,185)
Proceeds from sales of investments	**3,056**	3,050
Other	**(2)**	(8)
Net cash used in investing activities	**(1,365)**	(1,048)

Sutter Health and Affiliates

Consolidated Statements of Cash Flows (continued)

(Dollars in millions)

	Year ended December 31, 2018	2017
Financing activities		
Payments of long-term obligations	**$ (152)**	$ (54)
Refund of bonds	**(633)**	(631)
Proceeds from issuance of long-term obligations	**1,314**	438
Bond issuance costs	**(9)**	(4)
Bond issuance premium (discount), net	**77**	62
Restricted contributions and investment income	**51**	60
Distributions to noncontrolling interest	**(74)**	–
Net cash provided by (used in) financing activities	**574**	(129)
Net decrease in cash and cash equivalents	**(33)**	(31)
Cash and cash equivalents at beginning of year	**395**	426
Cash and cash equivalents at end of year	**$ 362**	$ 395

See accompanying notes.

Sutter Health and Affiliates

Notes to Consolidated Financial Statements

December 31, 2018 and 2017

(Dollars in millions)

1. ORGANIZATION

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

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

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.

Use of Estimates: The preparation of financial statements in conformity with United States (U.S.) Generally Accepted Accounting Principles (GAAP) 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.

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.

2. ACCOUNTING POLICIES (continued)

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 designated as either trading or other-than-trading and carried at fair value or Net Asset Value (NAV) as a practical expedient to estimate fair value. Certain investments are held in trust, including assets held by trustees in accordance with the indentures relating to long-term obligations. In addition, certain investments are 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, the net exposure to counterparties is $0 at December 31, 2018 and 2017.

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 gross patient accounts receivable are as follows:

	December 31,	
	2018	**2017**
Medicare	**30%**	31%
Medi-Cal	**26%**	26%

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 $42 and $55 and accrued obligations for property, plant and equipment of $112 and $123 as of December 31, 2018 and 2017, respectively.

2. ACCOUNTING POLICIES (continued)

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 leasehold improvements, and from 3 to 20 years for equipment. Amortization of equipment under capital leases is included in depreciation and amortization expense.

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, which is principally determined based on a qualitative test using the projected net cash flows generated by the underlying tangible assets. 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:

	Year ended December 31,	
	2018	**2017**
Goodwill at beginning of year	**$ 152**	$ 163
Additions	**–**	3
Impairment	**(4)**	(14)
Goodwill at end of year	**$ 148**	$ 152

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.

2. ACCOUNTING POLICIES (continued)

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 short-term investments and has a committed syndicated line of credit, as discussed in Note 7, to help manage unanticipated liquidity needs. Additionally, board-designated funds, as discussed in Note 9, may be utilized if necessary.

Sutter's financial assets available for general operating expenses within one year of December 31, 2018, are as follows:

Cash and cash equivalents	$	362
Short-term investments		4,978
Patient accounts receivable		1,223
Other receivables		835
	$	7,398

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 is also self-insured for workers' compensation and employee health for most affiliates. 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 $112 and $110, discounted at a rate of 2.8% and 2.3%, as of December 31, 2018 and 2017, respectively. Workers' compensation liabilities were $269 and $278, discounted at a rate of 3.1% and 2.7%, as of December 31, 2018 and 2017, respectively. Employee health liabilities were $69 and $57 as of December 31, 2018 and 2017, 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 $293 and $288 as of December 31, 2018 and 2017, 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 Statement 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, and capitated purchased services. Medical group compensation is accrued by Sutter according to professional services agreements between affiliated medical foundations and contracted medical groups.

Research and Development: Sutter expenses research and development costs as incurred. Research and development expense, included in Operating expenses, was $54 and $57 for the years ended December 31, 2018 and 2017, respectively.

2. ACCOUNTING POLICIES (continued)

Income Taxes: Sutter Health, the legal entity, 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 2015 through 2017 remain 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. At December 31, 2018 and 2017, there were no such uncertain tax positions.

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, Changes in net unrealized gains and losses on investments classified as other-than-trading, Pension-related changes other than net periodic pension cost, and Other changes.

Adoption of New Accounting Pronouncements: In August 2018, the FASB issued Accounting Standards Update (ASU) No. 2018-15, *Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40)*: *Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*. The amendments help entities evaluate the accounting for implementation costs paid by a customer in a cloud computing arrangement by providing guidance for determining when the service contract includes a software license. Sutter is evaluating the impact of this guidance, which will be effective in 2021.

2. ACCOUNTING POLICIES (continued)

In July 2018, the FASB issued ASU No. 2018-11, *Leases (Topic 842): Targeted Improvements*, which enhances ASU No. 2016-02, *Leases (Topic 842).* The guidance of these ASUs requires the rights and obligations arising from the lease contracts, including existing and new arrangements, to be recognized as assets and liabilities on the balance sheet and allows for an option to apply the transition provisions of the new standard at its adoption date instead of at the earliest comparative period presented in its financial statements. The ASUs are effective January 1, 2019, and Sutter elected the practical expedient to initially apply the new leasing standard at the adoption date. Sutter is finalizing its analysis of certain key assumptions that will be utilized at the transition date, including the incremental borrowing rate. The primary effect of the new standard will be to record right-of-use assets and obligations for current operating leases which will have a material impact on the Consolidated Balance Sheets and significant incremental disclosures in the Notes to Consolidated Financial Statements. The standard will not have a material adverse effect on Sutter's consolidated results of operations.

In June 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This guidance clarifies and improves the scope and the accounting guidance for contributions received and made with the objective of reducing the existing diversity in practice. Sutter is evaluating the impact of this guidance, which will be effective in 2019.

In August 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities.* The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. Sutter has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which superseded virtually all revenue recognition guidance in U.S. GAAP. This guidance is intended to improve, converge, and replace existing revenue recognition guidance, including industry-specific guidance and requires revenue to be recognized in an amount that reflects the consideration the entity expects to be entitled to in an exchange of goods or services. Sutter adopted this guidance as of the January 1, 2018, effective date, using the full retrospective method of transition. The adoption of the new standard did not have an impact on recognition of Total operating revenues for any periods, but did result in expanded footnote disclosures.

3. INVESTMENTS

Investments are held for the following uses:

	December 31, 2018	December 31, 2017
Principal, interest and other reserves held in trust under bond indentures	**$ 14**	$ 14
Board-designated	**289**	170
Investments	**5,680**	5,641
	5,983	5,825
Less short-term investments	**(5,000)**	(5,052)
Non-current investments	**$ 983**	$ 773

4. 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.

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, 2018 and 2017.

4. FAIR VALUE MEASUREMENTS (continued)

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

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

4. FAIR VALUE MEASUREMENTS (continued)

	December 31, 2017		
	Quoted Prices in Active Markets for Identical Instruments (Level 1)	**Significant Other Observable Inputs (Level 2)**	**Total**
Liquid investments			
Cash equivalents	$ 261	$ –	$ 261
Equity securities			
U.S. equity	1,145	–	1,145
Foreign equity	629	–	629
Fixed income securities			
U.S. government	368	–	368
U.S. government agencies	–	39	39
U.S. state and local government	–	70	70
U.S. federal agency mortgage-backed	–	294	294
Foreign government	–	219	219
U.S. corporate	54	618	672
Foreign corporate	4	188	192
	$ 2,461	$ 1,428	$ 3,889
Investments measured at net asset value			1,936
			$ 5,825

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

As of December 31, 2018 and 2017, 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.

4. 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.

4. FAIR VALUE MEASUREMENTS (continued)

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

	December 31, 2018			
	Fair Value	**Unfunded Commitments**	**Redemption Frequency (if currently eligible)**	**Redemption Notice Period (if currently eligible)**
Commingled funds – U.S. equity securities	**$ 161**	**$ –**	**Daily**	**1 day**
Commingled funds – foreign equity securities	**392**	**–**	**Monthly**	**5–30 days**
Commingled funds – debt securities	**290**	**–**	**Daily, Monthly**	**3–15 days**
Commodity-linked funds	**127**	**–**	**Daily**	**None**
Hedge funds	**999**	**–**	**Monthly, Quarterly**	**5–120 days**
Private equity funds	**217**	**307**	**None**	**None**
Private equity real estate funds	**266**	**237**	**None**	**None**
Total	**$ 2,452**	**$ 544**		

	December 31, 2017			
	Fair Value	**Unfunded Commitments**	**Redemption Frequency (if currently eligible)**	**Redemption Notice Period (if currently eligible)**
Commingled funds – U.S. equity securities	$ 125	$ –	Daily	1 day
Commingled funds – foreign equity securities	374	–	Monthly	5–30 days
Commingled funds – debt securities	265	–	Daily, Monthly	3–15 days
Commodity-linked funds	160	–	Monthly	5 days
Hedge funds	652	–	Monthly, Quarterly	5–197 days
Private equity funds	137	259	None	None
Private equity real estate funds	223	182	None	None
Total	$ 1,936	$ 441		

4. 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, 2018, approximately 29% of this class is redeemable daily with a 1-day notice period. The remaining 71% of this class is redeemable monthly with a notice period of 5 to 30 days.

Commingled funds – debt securities: This class includes investments in commingled funds that invest primarily in foreign debt, of which the majority are traded in over-the-counter markets. As of December 31, 2018, approximately 24% of the value of this class is redeemable daily with a notice period of 3 days. The remaining 76% of this class is redeemable monthly with a 15-day notice period.

Commodity-linked funds: This class includes commodity-linked funds that pursue long-only fully collateralized commodity futures strategies to provide diversification and inflation protection. As of December 31, 2018, these funds are redeemable daily with no notice period.

Hedge funds: This class includes investments in hedge funds that expand the universe of potential investment approaches available by employing a variety of strategies and techniques within and across various asset classes. The primary objective for these funds is to balance returns while limiting volatility by allocating capital to external portfolio managers selected for expertise in one or more investment strategies which may include, but are not limited to, equity long/short, event driven, relative value, and directional. The following summarizes the redemption criteria for the hedge fund portfolio as of December 31, 2018:

% of Hedge Funds	Redemption Criteria	Notice Period
74%	Redeemable monthly	5–75 days
3%	Redeemable quarterly	45–90 days
10%	Limited to a 25% gate, redeemable quarterly	60–90 days
13%	Two-year rolling lock-ups periodically expiring through April 2020	120 days

4. FAIR VALUE MEASUREMENTS (continued)

Private equity funds: This class includes domestic and foreign private equity funds that specialize in providing capital to a variety of investment groups, including but not limited to venture capital, leveraged buyout, mezzanine debt, distressed debt, and other strategies, which may include land, water processing, and alternative energy. There is no provision for redemptions during the life of these funds. Distributions from each fund will be received as the underlying investments of the funds are liquidated, estimated at December 31, 2018, to be over the next 10 to 15 years.

Private equity real estate funds: This class includes domestic and foreign investments in real estate that are held in limited partnership funds, joint ventures, and other investments comprised of retail, office, industrial, and multi-family properties. There is no provision for redemptions during the life of these funds. Distributions from each fund will be received as the underlying investments of the funds are liquidated, estimated at December 31, 2018, to be over the next 2 to 13 years.

5. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

	December 31, 2018	December 31, 2017
Land improvements	**$ 195**	$ 177
Leasehold improvements	**523**	502
Buildings and improvements	**7,228**	6,834
Equipment	**3,899**	3,886
	11,845	11,399
Less amortization and accumulated depreciation	**(6,544)**	(6,248)
	5,301	5,151
Land	**546**	563
Construction-in-progress	**2,346**	2,240
	$ 8,193	$ 7,954

6. OTHER NON-CURRENT ASSETS

Other non-current assets consist of the following:

	December 31, 2018	December 31, 2017
Goodwill, net	**$ 148**	$ 152
Trust receivable	**94**	106
Reinsurance recoveries receivable	**74**	75
Non-current portion of pledges receivable	**22**	24
Other	**63**	77
	$ 401	$ 434

7. LONG-TERM OBLIGATIONS

Long-term obligations consist of the following:

	December 31, 2018	December 31, 2017
Non-taxable revenue bonds under the Sutter Health Master Indenture of Trust, fixed interest at 1.0% to 5.5%, through 2052 (includes net unamortized premiums and discounts of $336 and $297 and debt issuance costs of ($21) and ($22) at December 31, 2018 and 2017, respectively)	**$ 3,864**	$ 3,881
Taxable revenue bonds under the Sutter Health Master Indenture of Trust, fixed interest at 2.29% to 4.09%, through 2048 (includes unamortized discount of ($4) and $0 and debt issuance costs of ($4) and $0 at December 31, 2018 and 2017, respectively)	**779**	200
Various collateralized and unsecured obligations	**32**	33
Obligations under capital leases	**8**	8
	4,683	4,122
Less current portion	**(57)**	(150)
	$ 4,626	$ 3,972

7. LONG-TERM OBLIGATIONS (continued)

The aggregate estimated fair market value of Sutter's revenue bonds at December 31, 2018 and 2017, of $4,625 and $4,220, respectively, was established using discounted cash flow analyses based on (i) the current market yield to maturity for similar types of publicly traded debt issues, and (ii) Sutter's current incremental borrowing rates for all other debt instruments. Based on the inputs and valuation techniques, the fair value of long-term debt is classified as Level 2 within the fair value hierarchy.

The central financing vehicle of credit for Sutter is the Obligated Group. Sutter Health, the legal entity, and certain affiliates are members of the Obligated Group, with their assets being subject to the indebtedness of the Obligated Group. Although the Obligated Group is not a legal entity, members of the Obligated Group are jointly and severally liable for repayment of the tax-exempt obligations issued through the California Health Facilities Financing Authority (CHFFA) and California Statewide Communities Development Authority (CSCDA) and taxable obligations issued by Sutter. The related financing documents and various other debt agreements contain certain restrictive covenants requiring compliance by all Obligated Group members, including a pledge of gross revenue.

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

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

In July 2017, $434 of Series 2017A CHFFA tax-exempt revenue bonds ("Series 2017A Bonds") were issued at a premium of $62 on behalf of Sutter to advance refund $119 of Series 2008A CHFFA tax-exempt revenue bonds, $300 of Series 2008BC CSCDA tax-exempt revenue bonds and $69 of Series 2004CD CSCDA tax-exempt revenue bonds

7. LONG-TERM OBLIGATIONS (continued)

(collectively, the "2017 Refunded Bonds"). The proceeds of Series 2017A Bonds, together with the release of certain funds related to the 2017 Refunded Bonds, were placed in escrow funds pursuant to the related escrow agreements with the related bond trustee. The funds held in each escrow fund were sufficient to pay the regularly scheduled interest payments when due, and 100% of the principal amount of the applicable 2017 Refunded Bonds at the applicable redemption date. The 2017 Refunded Bonds were legally defeased and derecognized at the date of refunding, with redemptions that occurred in May and August 2018. These refunds resulted in a loss on extinguishment of debt of $19.

In August 2016, $749 of Series 2016B CHFFA tax-exempt revenue bonds ("Series 2016B Bonds") were issued on behalf of Sutter to refund certain bonds. The proceeds of the Series 2016B Bonds, together with the release of certain funds related to the refunded bonds were placed in escrow funds pursuant to the related escrow agreements with the related bond trustee. The associated debt of $143 related to the portion of the refunded bonds consisting of the Series 2005BC and the Series 2003AB CSCDA tax-exempt bonds was included in the current portion of long-term obligations as of December 31, 2016, and was legally defeased on the date of the refunding and derecognized at the dates of redemption, which occurred in May and August 2017, respectively.

Aggregate principal payments of long-term obligations, excluding capital leases, various collateralized and unsecured obligations, net unamortized premiums, and issuance costs, as of December 31, 2018, are as follows:

2019	$ 50
2020	49
2021	49
2022	52
2023	54
Thereafter	4,082
	$ 4,336

Sutter paid interest of $156 and $150 for the years ended December 31, 2018 and 2017, respectively.

Sutter has a $400 revolving line of credit with a syndicate of banks, with $400 available for borrowing as of December 31, 2018.

8. LEASES

Sutter leases various 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 were not material as of December 31, 2018 and 2017, or operating leases, based on the terms of the respective agreements.

Future minimum payments, by year and in the aggregate, under noncancellable operating leases with terms of one year or more at inception consist of the following as of December 31, 2018:

	Lease Payments	Sublease Receipts	Net Lease Payments
2019	$ 154	$ 1	$ 153
2020	132	1	131
2021	120	–	120
2022	106	–	106
2023	81	–	81
Thereafter	415	–	415
	$ 1,008	$ 2	$ 1,006

9. NET ASSETS AND CONTRIBUTIONS

Sutter receives 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, 2018	December 31, 2017
Subject to expenditure for specified purpose:		
Capital projects and medical equipment	**$ 44**	$ 52
Research and education	**85**	88
Operations	**28**	30
Operations or capital projects	**154**	138
	311	308
Subject to passage of time	**20**	21
Subject to donor restrictions in conjunction with Sutter spending policy:		
Investment in perpetuity – endowment	**138**	156
	$ 469	$ 485

From time to time, a Sutter 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, 2018	December 31, 2017
Capital projects and medical equipment	**$ 143**	$ 113
Research and education	**27**	2
Operations or capital projects	**119**	55
	$ 289	$ 170

Sutter reports individuals' and organizations' unconditional promises to give cash or other assets at fair value at the date Sutter receives the promises. Sutter reports conditional promises to give and conditional indications of intentions to give at fair value when the conditions are met. Therefore, Sutter does not recognize any revenue or receivable at the time a conditional promise or indication of intent is received. Sutter's conditional promises

9. NET ASSETS AND CONTRIBUTIONS (continued)

or indication of intent received were $153 and $103 for the years ended December 31, 2018 and 2017, respectively. These gifts will support clinical programs and technology such as cardiology and innovation.

As of December 31, 2018, Sutter's pledges receivable, which is included in Other receivables and Other non-current assets, consisted of the following unconditional promises to give:

Pledges due in 2019	$	16
Pledges due 2020–2023		19
Pledges due after 2023		9
Less allowance for uncollectible pledges		(2)
Less discount on pledges receivable		(6)
	$	36

Endowments: Sutter follows 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. California's version of UPMIFA also includes a rebuttable provision that spending greater than 7% of the average fair market value, calculated at least quarterly over a minimal period of three years, is presumed to be imprudent.

In accordance with UPMIFA, Sutter considers 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.

If the fair market value of assets associated with individual endowment funds falls below the corpus, Sutter 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. Deficiencies of this nature reported in Net assets with donor restrictions were a result of unfavorable investment market fluctuations and not material as of December 31, 2018 and 2017.

9. NET ASSETS AND CONTRIBUTIONS (continued)

Following UPMIFA, Sutter's 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 great emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

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

	December 31, 2018		
	Net Assets without Donor Restrictions	**Net Assets with Donor Restrictions**	**Total**
Donor-restricted endowment funds	**$ –**	**$ 193**	**$ 193**
Board-designated funds	**102**	**–**	**102**
Total funds	**$ 102**	**$ 193**	**$ 295**

	December 31, 2017		
	Net Assets without Donor Restrictions	**Net Assets with Donor Restrictions**	**Total**
Donor-restricted endowment funds	$ –	$ 213	$ 213
Board-designated funds	83	–	83
Total funds	$ 83	$ 213	$ 296

9. NET ASSETS AND CONTRIBUTIONS (continued)

The changes in endowment net assets are as follows:

	Net Assets without Donor Restrictions	Net Assets with Donor Restrictions	Total
Balance at December 31, 2016	$ 74	$ 178	$ 252
Investment return, net	11	30	41
Contributions	–	11	11
Appropriation of endowment assets for expenditure	(1)	(5)	(6)
Other	(1)	(1)	(2)
Balance at December 31, 2017	83	213	296
Investment return, net	**(5)**	**5**	**–**
Contributions	**–**	**1**	**1**
Appropriation of endowment assets for expenditure	**(4)**	**(3)**	**(7)**
Other	**28**	**(23)**	**5**
Balance at December 31, 2018	**$ 102**	**$ 193**	**$ 295**

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

10. OPERATING REVENUES (continued)

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

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

Sutter uses a portfolio approach to account for categories of patient contracts as a collective group, rather than recognizing revenue on an individual contract basis. The portfolios consist of major payer classes for inpatient and outpatient revenue. Based on historical collection trends, Sutter believes that revenue recognized by utilizing the portfolio approach approximates the revenue that would have been recognized if an individual contract approach was used.

The health care industry is subject to voluminous and complex laws and regulations of federal, state and local governments. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement laws and regulations, anti-kickback and anti-referral laws and false claims prohibitions, and in the case of tax-exempt hospitals, the requirements of tax exemption. Sutter operates an Ethics and Compliance Program, which reviews compliance with government health care program requirements and investigates allegations of non-compliance received from internal and external sources. From time to time, findings may result in repayment of monies previously received from government and other third-party payers and/or disclosure of such overpayments, including, but not limited to, disclosure to the Centers for Medicare and Medicaid Services

10. OPERATING REVENUES (continued)

(CMS) and its contracted agents, or the Office of Inspector General, Department of Health and Human Services. As a result, there is at least a reasonable possibility that the recorded estimates may change by a material amount in the near term.

The majority of Sutter's services are provided to patients with third-party coverage and Sutter has agreements with third-party payers that provide for payments to Sutter at contractually adjusted amounts. Patient service revenues are estimated based on the terms of the contractual agreement with the payer, Sutter's historical settlement activity and other information. Settlements with third-party payers for retroactive adjustments due to audits, reviews or investigations are considered variable consideration, and are included in the determination of Patient service revenues when information becomes available. Additional revenues arising from a change in the estimate of transaction price concessions for performance obligations satisfied in prior years were $66 and $82 for the years ended December 31, 2018 and 2017, respectively.

Payment arrangements are as follows:

Medicare: Inpatient acute care services and outpatient services provided to Medicare program beneficiaries are paid at prospectively determined rates per diagnosis. Sutter is paid for cost-reimbursable items at a tentative rate. Physician services are paid based upon established fee schedules. Outpatient services are paid using prospectively determined rates. Amounts received from the Medicare programs are subject to audit and final settlement by a Medicare Administrative Contractor after submission of annual cost reports. Sutter's Medicare cost reports have been audited generally through December 31, 2014. The estimated net settlement payables are $26 and $21 and adjustments from the finalization of prior-year cost reports were immaterial at December 31, 2018 and 2017, respectively.

Medi-Cal: Inpatient and outpatient services provided to Medi-Cal program beneficiaries are paid either under contracted rates or cost-reimbursable items at a tentative rate. Services are generally paid at prospectively determined rates per discharge, per occasion of service, or per covered member. Amounts received from Medi-Cal programs are subject to audit and final settlement by the California Department of Health Care Services after submission of annual cost reports. Sutter's Medi-Cal cost reports have been audited generally through December 31, 2014. The estimated net settlement payables and adjustments from the finalization of prior-year cost reports were immaterial in 2018 and 2017.

10. OPERATING REVENUES (continued)

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,	
	2018	**2017**
Medicare	**$ 2,797**	$ 2,630
Medi-Cal	**1,602**	1,713
Commercial	**6,331**	6,298
Other	**227**	187
	$ 10,957	$ 10,828

10. OPERATING REVENUES (continued)

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

	Year ended December 31, 2018			
	Sutter Health Bay Area	**Sutter Health Valley Area**	**Other**	**Total**
Acute care	**$ 3,970**	**$ 3,018**	**$ 112**	**$ 7,100**
Medical foundation	**2,351**	**1,089**	**–**	**3,440**
Other	**117**	**29**	**550**	**696**
Eliminations	**(89)**	**(80)**	**(110)**	**(279)**
	$ 6,349	**$ 4,056**	**$ 552**	**$ 10,957**

	Year ended December 31, 2017			
	Sutter Health Bay Area	**Sutter Health Valley Area**	**Other**	**Total**
Acute care	$ 4,072	$ 3,010	$ 102	$ 7,184
Medical foundation	2,183	1,020	–	3,203
Other	112	28	510	650
Eliminations	(78)	(75)	(56)	(209)
	$ 6,289	$ 3,983	$ 556	$ 10,828

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

10. OPERATING REVENUES (continued)

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

	Year ended December 31, 2018	Year ended December 31, 2017
Hospital fee program revenue	**$ 577**	$ 821
Hospital fee program expense	**(305)**	(389)
Income from operations from hospital fee program	**$ 272**	$ 432

	December 31, 2018	December 31, 2017
Other receivables	**$ 561**	$ 646
Accounts payable	**$ 219**	$ 320

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 from the finalization of prior-year settlements resulted in an increase to Premium revenues of $2 and a decrease of $32 for the years ended December 31, 2018 and 2017, respectively. Adjustments arising from a change in the transaction price were not significant in 2018 and 2017.

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.

10. OPERATING REVENUES (continued)

The composition of Premium revenues based on Sutter's area of operations and entity type is as follows:

	Year ended December 31, 2018			
	Sutter Health Bay Area	**Sutter Health Valley Area**	**Other**	**Total**
Acute care	**$ 191**	**$ 356**	**$ –**	**$ 547**
Medical foundation	**328**	**341**	**–**	**669**
Insurance	**–**	**–**	**429**	**429**
Other	**–**	**29**	**89**	**118**
Eliminations	**(1)**	**(4)**	**(375)**	**(380)**
	$ 518	**$ 722**	**$ 143**	**$ 1,383**

	Year ended December 31, 2017			
	Sutter Health Bay Area	**Sutter Health Valley Area**	**Other**	**Total**
Acute care	$ 179	$ 313	$ 1	$ 493
Medical foundation	309	316	–	625
Insurance	–	–	320	320
Other	–	27	70	97
Eliminations	(1)	(5)	(309)	(315)
	$ 487	$ 651	$ 82	$ 1,220

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

11. 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 $89 and $65 for 2018 and 2017, respectively. Estimated costs are based on a ratio of costs to charges.

11. COMMUNITY BENEFIT EXPENSE (continued)

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, 2018 (unaudited):

Services for the poor and underserved	
Traditional charity care	$ 89
Unpaid costs of public programs:	
Medi-Cal	435
Other public programs	43
Other benefits for the poor and underserved	58
Total services for the poor and underserved	625
Benefits for the broader community	
Nonbilled services	37
Education and research	54
Cash and in-kind donations	15
Other community benefits	3
Total benefits for the broader community	109
	$ 734

12. 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 retirement benefit expense was $291 and $319 in 2018 and 2017, respectively.

12. POSTRETIREMENT BENEFITS (continued)

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, 2018	Year ended December 31, 2017
Projected benefit obligation at beginning of year	**$ 4,493**	$ 3,825
Service cost	**276**	242
Interest cost	**174**	170
Actuarial (gain) loss	**(199)**	400
Benefits paid	**(162)**	(144)
Projected benefit obligation at measurement date	**$ 4,582**	$ 4,493
Fair value of plan assets at beginning of year	**$ 4,134**	$ 3,460
Actual (loss) gain on plan assets	**(239)**	673
Employer contributions	**250**	145
Benefits paid	**(162)**	(144)
Fair value of plan assets at measurement date	**$ 3,983**	$ 4,134
Net accrued benefit cost at end of year	**$ (599)**	$ (359)

The accumulated benefit obligation for the Retirement Plan was $3,990 and $3,880 as of December 31, 2018 and 2017, respectively.

The actuarial gain of $199 for the year ended December 31, 2018, was primarily due to the increase in discount rate of 4.3% in 2018 from 3.7% in 2017. This was offset by the cash balance interest crediting rate increase of 3.4% in 2018 from 2.8% in 2017 and changes in census data that differed from expectations. The actuarial loss of $400 for the year ended December 31, 2017, was primarily due to the decrease in discount rate of 3.7% in 2017 from 4.3% in 2016. This was offset by changes in census data and rate assumptions that differed from expectations.

Unrecognized actuarial losses of $1,263 and $965 are included in Controlling net assets without donor restrictions at December 31, 2018 and 2017, respectively.

12. POSTRETIREMENT BENEFITS (continued)

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

2019	$ 162
2020	178
2021	200
2022	217
2023	236
2024–2028	1,432
	$ 2,425

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

	December 31,	
	2018	**2017**
Weighted-average discount rates for calculating pension expense	**3.7%**	4.3%
Weighted-average discount rates for calculating projected benefit obligation	**4.3%**	3.7%
Weighted-average rates of compensation increase for calculating pension expense	**4.0%**	4.0%
Weighted-average rates of compensation increase for calculating projected benefit obligation	**4.0%**	4.0%
Weighted-average interest crediting rates for calculating projected benefit expense	**2.8%**	2.9%
Weighted-average interest crediting rates for calculating pension obligation	**3.4%**	2.8%
Expected long-term rates of return on plan assets for calculating pension expense	**7.5%**	7.6%

As of December 31, 2018 and 2017, the healthy mortality assumption reflected the RP-2014 table (adjusted back to 2006). As of December 31, 2018, the mortality projection scale was updated to the MP-2018, with adjustments to the long-term rate of improvement at 0.75%, grading down linearly to 0.00% from age 85 to 115 and a 10-year convergence period for age and 20-year for cohort from 2014. In contrast, as of December 31, 2017, the mortality projection scale was MP-2017, with adjustments to the long-term rate of improvement at 0.75%, grading down linearly to 0.00% from age 85 to 95 and a 10-year convergence period for age and 20-year for cohort from 2013.

12. POSTRETIREMENT BENEFITS (continued)

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

	Year ended December 31, 2018	2017
Service cost	**$ 276**	$ 242
Interest cost	**174**	170
Expected return on plan assets	**(303)**	(258)
Amortization of actuarial loss	**45**	66
	$ 192	$ 220

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, 2018	2017
Projected benefit obligation at beginning of year	**$ 279**	$ 253
Service cost	**13**	11
Interest cost	**10**	10
Actuarial (gain) loss	**(28)**	16
Other change in benefit obligation	**3**	–
Benefits paid	**(12)**	(11)
Projected benefit obligation at measurement date	**$ 265**	$ 279
Fair value of plan assets at beginning of year	**$ 227**	$ 175
Actual (loss) gain on plan assets	**(13)**	40
Employer contributions	**10**	23
Benefits paid	**(12)**	(11)
Fair value of plan assets at measurement date	**$ 212**	$ 227
Net accrued benefit cost at end of year	**$ (53)**	$ (52)

12. POSTRETIREMENT BENEFITS (continued)

The actuarial gain of $28 for the year ended December 31, 2018 was primarily due to discount rate increases in ranges of 4.2% to 4.3% in 2018 from ranges of 3.6% to 3.7% in 2017 and updated drawdown assumptions. The actuarial loss of $16 for the year ended December 31, 2017 was primarily due to decreases in discount rate ranges of 3.6% to 3.7% in 2017 from ranges of 3.9% to 4.2% in 2016 and by changes in termination rate assumptions.

Included in Controlling net assets without donor restrictions at December 31, 2018 and 2017, are the following amounts that have not yet been recognized in net periodic benefit cost: unrecognized prior service costs of $6 and $5, respectively, and unrecognized actuarial loss of $9 and $7, respectively.

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

2019	$ 14
2020	17
2021	19
2022	21
2023	22
2024–2028	121
	$ 214

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

	December 31,	
	2018	**2017**
Weighted-average discount rates for calculating retiree medical expense	**3.6%–3.7%**	3.9%–4.2%
Weighted-average discount rates for calculating projected benefit obligation	**4.2%–4.3%**	3.6%–3.7%
Expected long-term rates of return on plan assets for calculating retiree medical expense	**7.5%**	7.6%

12. POSTRETIREMENT BENEFITS (continued)

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

	Year ended December 31, 2018	2017
Service cost	**$ 13**	$ 11
Interest cost	**10**	10
Expected return on plan assets	**(17)**	(14)
Amortization of prior service cost	**1**	1
	$ 7	$ 8

Sutter's projected medical cost trend rate related to the Health Plans for 2019 is 6.0%. The assumed medical cost trend rate is expected to gradually decrease in subsequent years to 4.8% in 2026 and thereafter.

The Retirement Benefits Investment Committee 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, 2018, by major asset category, is as follows:

Major Asset Category	Target Allocation
Equity securities	50%
Fixed income securities	15%
Other investments – alternative	25%
Real estate investments	10%
Total	100%

12. POSTRETIREMENT BENEFITS (continued)

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 50% is further comprised of 20% domestic large capitalization, 5% domestic small capitalization and 25% international/global.

The portfolio return assumption of 7.5% and 7.6% for 2018 and 2017, respectively, was based on the weighted-average return of comparative market indices for the major asset classes represented in the portfolio, net of administrative expenses.

A fair value hierarchy has been established, with three levels that prioritize the valuation inputs into each level (see Note 4). 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, 2018			
	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	$ 6	$ –	$ 87	$ 93
Equity securities:				
U.S. equity	873	–	–	873
Foreign equity	517	–	–	517
Common collective trusts	–	–	365	365
Commingled funds	–	–	422	422
Fixed income securities:				
U.S. government and agencies	88	3	–	91
U.S. federal agency mortgage-backed	–	115	–	115
Foreign government	–	113	–	113
U.S. corporate	–	137	–	137
Foreign corporate	–	50	–	50
Common collective trusts and commingled funds	–	–	103	103
Other investments:				
Private equity funds	–	–	264	264
Private equity real estate funds	–	–	335	335
Commodity-linked funds	–	–	96	96
Commingled funds	–	–	10	10
Hedge funds	–	–	605	605
Accrued income	6	–	–	6
Total Retirement Plan and Health Plan assets	$ 1,490	$ 418	$ 2,287	$ 4,195

12. POSTRETIREMENT BENEFITS (continued)

	December 31, 2017			
	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	$ 26	$ –	$ 51	$ 77
Equity securities:				
U.S. equity	1,004	–	–	1,004
Foreign equity	660	–	–	660
Common collective trusts	–	–	465	465
Commingled funds	–	–	383	383
Fixed income securities:				
U.S. government and agencies	100	11	–	111
U.S. federal agency mortgage-backed	–	109	–	109
Foreign government	–	128	–	128
U.S. corporate	–	123	–	123
Foreign corporate	–	40	–	40
Common collective trusts and commingled funds	–	–	113	113
Other investments:				
Private equity funds	–	–	261	261
Private equity real estate funds	–	–	313	313
Commodity-linked funds	17	–	158	175
Commingled funds	–	–	10	10
Hedge funds	–	–	384	384
Accrued income	5	–	–	5
Total Retirement Plan and Health Plan assets	$ 1,812	$ 411	$ 2,138	$ 4,361

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

12. POSTRETIREMENT BENEFITS (continued)

The multiemployer defined benefit retirement plans are described below:

Plan	Pension Plan Employer Identification Number/Plan Number	Pension Protection Act Zone Status As of January 1, 2018	Pension Protection Act Zone Status As of January 1, 2017	Funding Improvement/ Rehabilitation Plan
Retirement Plan for Hospital Employees	94-2995676/001	**Green**	Green	N/A
I.U.O.E. Stationary Engineers Local 39 Pension Plan	94-6118939/001	**Green**	Green	Implemented

Pension Protection Act Zone Status (from worst to best):

Critical Status	Red
Seriously Endangered	Orange
Endangered	Yellow
None of the above	Green

Plan	Contributions 2019 (expected)	Contributions 2018	Contributions 2017	Surcharge Imposed (during 2018)	Collective Bargaining Agreement Expiration Date	Contributions to Plan Exceeded More Than 5% of Total Contributions
Retirement Plan for Hospital Employees	$ 13	**$ 13**	$ 16	No	July 15, 2021, or prior	2018 and 2017
I.U.O.E. Stationary Engineers Local 39 Pension Plan	Not Available	**4**	4	No	January 31, 2022, or prior	2018 and 2017
Total contributions		**$ 17**	$ 20			

For the two participating affiliates in the Retirement Plan for Hospital Employees, participant benefits were frozen for the non-contractual employees on January 1, 2011, and for the contractual employees on January 1, 2014. Both affiliates will continue to make periodic contributions as needed for eligible participants.

12. POSTRETIREMENT BENEFITS (continued)

There are no minimum contributions required for future periods by the collective bargaining agreements, statutory obligations, or other contractual obligations for both plans.

The risks of participating in multiemployer plans are different from single-employer plans in the following aspects: (i) assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers, (ii) if a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers, and (iii) if the affiliates choose to stop participating in the multiemployer plan, the affiliates may be required to pay the plan an amount based on the underfunded status of the plan, referred to as a withdrawal liability. See Note 14 for additional information regarding the Retirement Plan for Hospital Employees.

Sutter also maintains various defined contribution plans for eligible employees. Sutter's contributions to such plans were $75 and $71 in 2018 and 2017, respectively.

13. 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 expenses:

	Year ended December 31, 2018					
	Program				**General and Administrative**	**Total**
	Acute care	**Medical Foundation**	**Other**	**Eliminations**		
Salaries and employee benefits	**$ 3,472**	**$ 1,068**	**$ 865**	**$ (274)**	**$ 721**	**$ 5,852**
Purchased services	**1,813**	**2,374**	**490**	**(1,620)**	**315**	**3,372**
Supplies	**998**	**344**	**152**	**(20)**	**18**	**1,492**
Depreciation and amortization	**473**	**146**	**105**	**(109)**	**66**	**681**
Rentals and leases	**52**	**95**	**52**	**(35)**	**12**	**176**
Interest	**97**	**27**	**1**	**(10)**	**–**	**115**
Insurance	**56**	**8**	**13**	**(65)**	**3**	**15**
Other	**439**	**59**	**617**	**(371)**	**49**	**793**
Total operating expenses	**$ 7,400**	**$ 4,121**	**$ 2,295**	**$ (2,504)**	**$ 1,184**	**$ 12,496**

	Year ended December 31, 2017					
	Program				**General and Administrative**	**Total**
	Acute care	**Medical Foundation**	**Other**	**Eliminations**		
Salaries and employee benefits	$ 3,305	$ 971	$ 912	$ (252)	$ 691	$ 5,627
Purchased services	1,813	2,229	407	(1,492)	289	3,246
Supplies	949	304	143	(17)	12	1,391
Depreciation and amortization	442	157	97	(99)	58	655
Rentals and leases	55	90	53	(35)	13	176
Interest	76	30	1	(2)	–	105
Insurance	46	6	10	(50)	3	15
Other	537	75	510	(263)	44	903
Total operating expenses	$ 7,223	$ 3,862	$ 2,133	$ (2,210)	$ 1,110	$ 12,118

14. CONTINGENCIES AND COMMITMENTS

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

As a part of its compliance activities, Sutter performed an internal compliance audit related to certain physician arrangements of certain affiliates. Sutter elected to make voluntary self-disclosures to the federal government (in accordance with federal self-disclosure guidelines) related to certain physician financial arrangements that may constitute potential violations of federal regulatory standards. These disclosures were made in October and November 2010, November 2011, January 2014, and October 2014. A supplement to the disclosure was later submitted in October 2016. The resolution of the voluntary self-disclosures was placed on hold in February 2015 when Sutter received notification of a regulatory investigation regarding certain physician financial arrangements, spanning a timeframe beginning in January 2006 through 2018. Due to the overlapping nature of the voluntary self-disclosures and investigation, discussions of these matters were consolidated. These matters could result in payments to the government and/or the imposition of additional compliance requirements. At this time, management cannot estimate the amounts of any payments or settlements that may result, or whether additional, related matters may arise. There can be no assurance that the resolution of these matters will not have a material adverse effect on Sutter's consolidated financial position or results of operations.

14. CONTINGENCIES AND COMMITMENTS (continued)

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

In April 2014, UFCW & Employers Benefit Trust, a self-funded labor union trust fund which accesses the Sutter network through Sutter's contract with Blue Shield, filed a civil class action lawsuit against Sutter Health and certain affiliates. This lawsuit alleges that Sutter Health and those certain affiliates' contracting practices led to high prices and reduced competition for health care services in violation of state antitrust and unfair competition laws. In August 2017, the court certified the class, allowing the lawsuit to proceed as a class action lawsuit. The certification of the class is a procedural decision and no decision has been made on the substantive allegations of the lawsuit. In March 2018, the California Attorney General filed a complaint against Sutter Health and certain affiliates that mirrors UFCW & Employers Benefit Trust's class action lawsuit. The court ordered the California Attorney General's lawsuit consolidated with UFCW & Employers Benefit Trust's class action lawsuit. Trial is scheduled for August 12, 2019. The consolidated lawsuits presently seek monetary damages in addition to certain injunctive relief, which would proceed to trial in the event that the court awards any monetary damages. Sutter Health and the related affiliates believe their contracting practices are in compliance with industry standards and with all applicable laws and regulations and will continue to vigorously defend the consolidated lawsuits. However, there can be no assurance that the resolution of these matters will not have a material adverse effect on Sutter's consolidated financial position or results of operations.

14. CONTINGENCIES AND COMMITMENTS (continued)

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

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

In June 2016, Sutter Health received notice from the DOJ that it is investigating Sutter Health and certain affiliates for potential False Claims Act violations in connection with the provision of diagnostic and other data submitted to Medicare Advantage (MA) organizations or MA plans related to MA enrollees who have received medical services from those affiliates. Sutter Health and the related affiliates provided responses to the DOJ's document requests through rolling productions and, following extended negotiations, has agreed in principle to settle the matter on an overpayment basis as to all related affiliates except one. Management accrued an amount for potential liabilities related to this settlement. It is management's opinion that the liability accrued will be adequate for the settlement and that the settlement will not have a material adverse effect on Sutter's future consolidated financial position or results of operations. As to the single remaining related affiliate involved in the investigation, in March 2019, the government intervened in the lawsuit that prompted the investigation. The lawsuit, a previously sealed False Claims Act qui tam complaint that is now public, was brought by a former employee. There can be no assurance that the resolution of the lawsuit will not have a material adverse effect on Sutter's consolidated financial position or results of operations.

14. CONTINGENCIES AND COMMITMENTS (continued)

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

As of December 31, 2018, Sutter has approximately 53,000 employees of which approximately 25% are represented by collective bargaining units.

Commitments: Sutter is required to remediate certain of its health care facilities to comply with earthquake retrofit requirements under a State of California law. Most of Sutter's facilities are compliant or have received extensions, making the facilities compliant until 2030, and Sutter is evaluating its facilities and is considering all options.

Sutter's capital allocation plan, which includes amounts for seismic retrofits, replacement facilities and equipment, relocations and expansion, and technology investments is approximately $4,558 (unaudited) from January 1, 2019 to December 31, 2023. Management and the Board of Directors evaluate Sutter's capital needs on an ongoing basis.

15. SUBSEQUENT EVENTS

Sutter has evaluated subsequent events and disclosed all material events through March 6, 2019, which is the date these consolidated financial statements were issued.