

# Audited Financial Statements

December 31, 2023



20  
23

# Sutter Health and Affiliates

## Consolidated Financial Statements

Years ended December 31, 2023 and 2022

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## Report of Independent Auditors

Sutter Health Board of Directors  
Sutter Health and Affiliates

### **Opinion**

We have audited the consolidated financial statements of Sutter Health and Affiliates (Sutter), which comprise the consolidated balance sheets as of December 31, 2023 and 2022, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes (collectively referred to as the “financial statements”).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Sutter at December 31, 2023 and 2022, and the results of its operations, changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Basis for Opinion**

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

### **Responsibilities of Management for the Financial Statements**

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

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

## **Auditor's Responsibilities for the Audit of the Financial Statements**

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Sutter's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Sutter's ability to continue as a going concern for a reasonable period of time.

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

*Ernst + Young LLP*

March 6, 2024

Sutter Health and Affiliates  
Consolidated Balance Sheets

*(in millions)*

	December 31,	
	2023	2022
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 559	\$ 514
Short-term investments	7,845	6,292
Patient accounts receivable	1,714	1,681
Other	1,285	1,040
Total current assets	11,403	9,527
Non-current assets:		
Non-current investments	1,793	1,546
Property, plant and equipment, net	7,399	7,416
Other	1,280	1,442
Total non-current assets	10,472	10,404
<b>Total assets</b>	<b>\$ 21,875</b>	<b>\$ 19,931</b>
<b>Liabilities and net assets</b>		
Current liabilities:		
Accounts payable	\$ 852	\$ 792
Accrued salaries and employee benefits	824	709
Other accrued expenses	1,200	1,134
Current portion of long-term obligations	47	43
Total current liabilities	2,923	2,678
Non-current liabilities:		
Long-term obligations, less current portion	5,207	4,509
Other	1,370	1,025
Total non-current liabilities	6,577	5,534
Total liabilities	9,500	8,212
Net assets:		
Without donor restrictions:		
Controlling interests	11,735	11,129
Noncontrolling interests	92	88
With donor restrictions	548	502
Total net assets	12,375	11,719
<b>Total liabilities and net assets</b>	<b>\$ 21,875</b>	<b>\$ 19,931</b>

*See accompanying notes to consolidated financial statements.*

## Sutter Health and Affiliates

### Consolidated Statements of Operations and Changes in Net Assets

*(in millions)*

	<b>Year ended December 31,</b>	
	<b>2023</b>	<b>2022</b>
<b>Net assets without donor restrictions:</b>		
Revenues:		
Patient service revenues	\$ 13,865	\$ 12,564
Premium revenues	1,806	1,740
Contributions	182	119
Other	277	350
Total revenues	16,130	14,773
Expenses:		
Salaries and employee benefits	7,156	6,533
Purchased services	4,625	4,193
Supplies	2,018	1,816
Depreciation and amortization	691	688
Interest	162	139
Other	1,158	1,126
Total expenses	15,810	14,495
Income from operations	320	278
Nonoperating income (loss):		
Investment income (loss), net	679	(448)
Gain (loss) on consolidation and deconsolidation	48	(208)
Other components of net periodic postretirement cost	123	209
Total nonoperating income (loss), net	850	(447)
Net income (loss)	1,170	(169)
Less income attributable to noncontrolling interests	(92)	(80)
Income (loss) attributable to controlling interests	1,078	(249)

## Sutter Health and Affiliates

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

*(in millions)*

	<b>Year ended December 31,</b>	
	<b>2023</b>	<b>2022</b>
<b>Net assets without donor restrictions (continued):</b>		
Controlling interests:		
Income (loss) attributable to controlling interests	\$ 1,078	\$ (249)
Change in net unrealized gains and losses on investments classified as other-than-trading	12	(15)
Net assets released from restriction for equipment acquisition	11	21
Postretirement-related changes other than net periodic postretirement cost	(495)	666
Other	–	14
Increase in controlling interests	606	437
Noncontrolling interests:		
Income attributable to noncontrolling interests	92	80
Distributions	(90)	(84)
Other	2	(3)
Increase (decrease) in noncontrolling interests	4	(7)
<b>Net assets with donor restrictions:</b>		
Contributions	61	40
Investment income	6	6
Change in net unrealized gains and losses on investments	17	(21)
Net assets released from restriction	(42)	(43)
Gain (loss) on consolidation and deconsolidation	4	(75)
Other	–	2
Increase (decrease) in net assets with donor restrictions	46	(91)
Increase in net assets	656	339
Net assets at beginning of year	11,719	11,380
Net assets at end of year	\$ 12,375	\$ 11,719

*See accompanying notes to consolidated financial statements.*



## Sutter Health and Affiliates

### Consolidated Statements of Cash Flows

*(in millions)*

	Year ended December 31,	
	2023	2022
<b>Operating activities</b>		
Increase in net assets	\$ 656	\$ 339
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
(Gain) loss on consolidation and deconsolidation	(52)	283
Depreciation and amortization	684	682
Amortization of bond issuance costs, premium and discount, net	(22)	(22)
Net realized gains and losses and change in net unrealized gains and losses on investments	(531)	587
Restricted contributions and related investment income	(67)	(46)
Distributions to noncontrolling interests	90	84
Change in net postretirement benefits	573	(567)
Net changes in operating assets and liabilities:		
Patient accounts receivable	2	(262)
Other assets	(433)	8
Accounts payable and accrued expenses	177	(527)
Other non-current liabilities	190	(9)
Net cash provided by operating activities	1,267	550
<b>Investing activities</b>		
Purchases of property, plant and equipment	(570)	(463)
Proceeds from disposal of property, plant and equipment	10	98
Purchases of investments	(5,889)	(3,947)
Proceeds from sales of investments	4,640	3,716
Consolidation and deconsolidation	1	(129)
Other	(50)	(1)
Net cash used in investing activities	(1,858)	(726)



## Sutter Health and Affiliates

### Consolidated Statements of Cash Flows (continued)

*(in millions)*

	<b>Year ended December 31,</b>	
	<b>2023</b>	<b>2022</b>
<b>Financing activities</b>		
Payment on line of credit	\$ —	\$ (800)
Proceeds from borrowings on line of credit	—	800
Payments of long-term obligations	<b>(103)</b>	(28)
Proceeds from issuance of long-term obligations	<b>766</b>	21
Bond issuance costs	<b>(4)</b>	—
Restricted contributions and related investment income	<b>67</b>	46
Distributions to noncontrolling interests	<b>(90)</b>	(84)
Net cash provided by (used in) financing activities	<b>636</b>	(45)
Net increase (decrease) in cash and cash equivalents	<b>45</b>	(221)
Cash and cash equivalents at beginning of year	<b>514</b>	735
Cash and cash equivalents at end of year	<b>\$ 559</b>	\$ 514

*See accompanying notes to consolidated financial statements.*

# Sutter Health and Affiliates

## Notes to Consolidated Financial Statements

December 31, 2023 and 2022

*(in millions)*

### **1. ORGANIZATION**

Sutter Health is a California not-for-profit corporation that is the parent of a multi-provider integrated health care delivery system headquartered in Sacramento, California, which includes 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.

Effective October 2, 2023, Sutter Health became the sole corporate member of Sansum Clinic, a nonprofit public benefit corporation, which expands outpatient primary and specialty health care to the central coast communities of California, through a non-cash business combination transaction. The business combination was recorded under the acquisition method of accounting. Sutter Health recorded the fair value of assets acquired of \$222 and the liabilities assumed of \$170 as of October 2, 2023. The contributed fair value of net assets of \$52 was recognized in the Consolidated Statements of Operations and Changes in Net Assets for the year ended December 31, 2023 as a nonoperating gain on consolidation of \$48 and a donor restricted gain on consolidation of \$4.

Sutter Bay Hospitals (SBH), an affiliate of Sutter Health, and Samuel Merritt University (SMU), an affiliate of SBH, mutually agreed for SMU to disaffiliate from SBH to allow each

## Sutter Health and Affiliates

### Notes to Consolidated Financial Statements (continued)

*(in millions)*

#### **2. ACCOUNTING POLICIES (continued)**

organization to respond more effectively to the needs of the communities they serve and further their respective missions. As of January 1, 2022, SMU became an independent nonprofit public benefit corporation, which resulted in a nonoperating loss on deconsolidation of affiliate of \$208 for Net assets without donor restrictions and \$75 for Net assets with donor restrictions in the Consolidated Statements of Operations and Changes in Net Assets for the year ended December 31, 2022.

Reclassification: Certain amounts in the 2022 Audited Consolidated Financial Statements have been reclassified to conform to the presentation of the 2023 Audited Consolidated Financial Statements. These reclassifications had no impact on previously reported Net assets, Revenues, Net Income (loss) or Income (loss) attributable to controlling interests.

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States (U.S.) requires management to make estimates, judgements and assumptions that affect the amounts reported and disclosed in the consolidated financial statements. Although estimates are considered to be fairly stated at the time made, actual results could differ materially 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.

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

## Sutter Health and Affiliates

### Notes to Consolidated Financial Statements (continued)

*(in millions)*

#### **2. ACCOUNTING POLICIES (continued)**

Derivative Instruments: Sutter offsets fair value amounts recognized for certain derivative transactions from contracts executed with the same counterparty under a master netting arrangement. As a result, there is no net exposure to counterparties at December 31, 2023 and 2022.

Securities Lending: Sutter participates in securities lending transactions with its investment custodian, whereby Sutter lends a portion of its securities to various brokers in return for securities as collateral for the securities loaned, usually on a short-term basis. Noncash collateral provided by the brokers generally approximates 102% to 105% of the fair value of the securities on loan and is adjusted for daily market fluctuations. Sutter earns a rebate on the loaned securities. Neither Sutter nor its investment custodian has the ability to pledge or sell securities received as collateral unless a borrower defaults; therefore, these transactions are not recorded on the Consolidated Balance Sheets. As of December 31, 2023 and 2022, the fair value of securities on loan is \$581 and \$269, respectively, and the related noncash collateral is \$626 and \$287, respectively. The majority of the securities on loan are U.S. equity and U.S. government securities and are collateralized by U.S. and Foreign equity securities.

Sutter's noncontributory defined benefit plan also participates in a securities lending arrangement (see Note 12).

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.

## Sutter Health and Affiliates

### Notes to Consolidated Financial Statements (continued)

(in millions)

#### 2. ACCOUNTING POLICIES (continued)

Significant concentrations of Patient accounts receivable are as follows:

	December 31,	
	2023	2022
Medicare	\$ 449	\$ 437
Medi-Cal	229	225
Commercial	944	943
Other	92	76
	<u>\$ 1,714</u>	<u>\$ 1,681</u>

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

Property, Plant and Equipment: Property, plant and equipment are stated on the basis of cost or, in the case of donated items, on the basis of fair market value at the date of donation, less depreciation and any impairment write-downs. Equipment includes medical equipment, furniture and fixtures, software, and internally-developed software. Routine maintenance and repairs are charged to expense as incurred. Expenditures that increase values, change capacities, or extend useful lives are capitalized, as is interest on amounts borrowed to finance constructed assets during the construction phase. Sutter capitalized interest costs of \$3 and \$3 and accrued obligations for property, plant and equipment of \$62 and \$50 as of and for the years ended December 31, 2023 and 2022, respectively.

Depreciation is computed by the straight-line method over the estimated useful lives of the assets, which range from 2 to 43 years for buildings and improvements and from 2 to 20 years for equipment. Leasehold improvements are amortized using the straight-line method over the shorter of the useful life or lease term, which range from 2 to 40 years. Amortization of equipment under finance leases is included in depreciation and amortization expense.

# Sutter Health and Affiliates

## Notes to Consolidated Financial Statements (continued)

(in millions)

### 2. ACCOUNTING POLICIES (continued)

Asset Impairment: Sutter considers whether indicators of impairment are present, and if indicators are present, performs the necessary steps to determine if the carrying value of an asset is recoverable. There were no material impairment charges recorded for the years ended December 31, 2023 and 2022.

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

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

	December 31,	
	2023	2022
Goodwill at beginning of year	\$ 127	\$ 128
Impairment and/or disposition	(2)	(1)
Goodwill at end of year	<u>\$ 125</u>	<u>\$ 127</u>

Liquidity Management: As part of its liquidity management, Sutter's strategy is to structure its financial assets to be available to satisfy general expenses, current liabilities, and other obligations as they come due. Sutter invests cash in excess of daily requirements in investments and has a committed syndicated line of credit, as discussed in Note 7, to help manage unanticipated liquidity needs.

## Sutter Health and Affiliates

### Notes to Consolidated Financial Statements (continued)

*(in millions)*

#### 2. ACCOUNTING POLICIES (continued)

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

	<b>December 31,</b>	
	<b>2023</b>	<b>2022</b>
Cash and cash equivalents	\$ 559	\$ 514
Short-term investments	7,845	6,292
Patient accounts receivable	1,714	1,681
Other current assets	938	734
	<b>\$ 11,056</b>	<b>\$ 9,221</b>

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, (iv) hospital fee program liabilities, and (v) certain other liabilities.

General and Professional Liability and Other Liability Risks: Sutter's insurance programs combine various levels of self-insurance with reinsurance, excess commercial insurance coverage, 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. The provisions and reserves 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 \$167 and \$145, discounted at a rate of 4.3% and 4.5%, as of December 31, 2023 and 2022, respectively. Workers' compensation liabilities were \$237 and \$235, discounted at a rate of 4.4% and 4.5%, as of December 31, 2023 and 2022, respectively. Employee health liabilities were \$116 and \$75 as of December 31, 2023 and 2022, respectively, and were recorded on an undiscounted basis. 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.



## Sutter Health and Affiliates

### Notes to Consolidated Financial Statements (continued)

*(in millions)*

#### **2. ACCOUNTING POLICIES (continued)**

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 \$268 and \$277 as of December 31, 2023 and 2022, 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 revenues in the Consolidated Statements of Operations and Changes in Net Assets. Resources restricted by donors for additions to property, plant and equipment are initially reported as Net assets with donor restrictions and are transferred to Net assets without donor restrictions when expended. Donor-imposed restrictions, which stipulate that the resources be maintained permanently, are reported as Net assets with donor restrictions.

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

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

## Sutter Health and Affiliates

### Notes to Consolidated Financial Statements (continued)

*(in millions)*

#### **2. ACCOUNTING POLICIES (continued)**

Research and Development: Research and development costs are expensed as incurred. Research and development expense, included in Expenses, was \$77 and \$59 for the years ended December 31, 2023 and 2022, respectively.

Income Taxes: Sutter Health and certain 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, when it is more likely than not that the tax positions will be sustained upon 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 2020 through 2022 remains open in U.S. tax jurisdictions in which Sutter and its affiliates are subject to taxation. There were no such uncertain tax positions recognized for the years ended December 31, 2023 and 2022.

Investment income (loss), net: Investment income (loss), net includes dividend and interest income reported net of investment fees, which are recorded on an accrual basis. It also includes net realized gains and losses and change in net unrealized gains and losses on trading securities. Purchases and sales of trading securities are recorded on the trade date basis. Dividends are recorded on the ex-dividend dates.

Performance Indicator: Net income (loss) and Income (loss) attributable to controlling interests, as reflected in the Consolidated Statements of Operations and Changes in Net Assets, are performance indicators. The performance indicators include all changes in Net assets without donor restrictions, excluding Net assets released from restriction for equipment acquisition, Change in net unrealized gains and losses on investments

## Sutter Health and Affiliates

### Notes to Consolidated Financial Statements (continued)

(in millions)

#### 2. ACCOUNTING POLICIES (continued)

classified as other-than-trading, Postretirement-related changes other than net periodic postretirement cost, and Other changes.

Adoption of New Accounting Standards: Sutter adopted Financial Accounting Standards Board Accounting Standards Update No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, effective January 1, 2023, which changed how entities account for credit losses for most financial assets and instruments not measured at fair value through net income and requires entities to estimate an expected lifetime credit loss on financial assets. The adoption did not have a material impact on Sutter’s Consolidated Balance Sheets and Consolidated Statements of Operations and Changes in Net Assets.

#### 3. INVESTMENTS AND INVESTMENT INCOME (LOSS)

Investments are held for the following uses:

	December 31,	
	2023	2022
Board-designated	\$ 318	\$ 301
Investments	9,320	7,537
	<u>9,638</u>	<u>7,838</u>
Less short-term investments	(7,845)	(6,292)
Non-current investments	<u>\$ 1,793</u>	<u>\$ 1,546</u>

## Sutter Health and Affiliates

### Notes to Consolidated Financial Statements (continued)

*(in millions)*

#### 3. INVESTMENTS AND INVESTMENT INCOME (LOSS) (continued)

Investment income (loss), net consist of the following:

	<b>Year ended December 31,</b>	
	<b>2023</b>	<b>2022</b>
Fixed income securities	\$ 169	\$ (260)
Equity securities and Investments measured at NAV	<b>389</b>	<b>(354)</b>
	<b>558</b>	<b>(614)</b>
Less change in net unrealized gains and losses on investments classified as other-than-trading in Net assets without donor restrictions	<b>(12)</b>	15
Less change in net unrealized gains and losses on investments in Net assets with donor restrictions	<b>(17)</b>	21
Change in net unrealized gains and losses on investments	<b>529</b>	(578)
Investment income	<b>150</b>	130
Investment income (loss), net	<b>\$ 679</b>	<b>\$ (448)</b>

#### 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.

## Sutter Health and Affiliates

### Notes to Consolidated Financial Statements (continued)

(in millions)

#### 4. FAIR VALUE MEASUREMENTS (continued)

*Level 3:* Pricing inputs are generally unobservable for the assets and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require management's judgment or estimation of assumptions that market participants would use in pricing the assets. The fair values are therefore determined using factors that involve judgment and interpretations, including, but not limited to, private and public comparables, third-party appraisals, discounted cash flow models, fund manager estimates and net asset valuations provided by the underlying private investment companies and/or their administrators. Sutter held no Level 3 financial instruments as of December 31, 2023 and 2022.

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

	December 31, 2023		
	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Total
<b>Liquid investments</b>			
Cash equivalents	\$ 150	\$ –	\$ 150
<b>Equity securities</b>			
U.S. equity	1,256	–	1,256
Foreign equity	422	–	422
<b>Fixed income securities</b>			
U.S. government	722	–	722
U.S. government agencies	–	27	27
U.S. state and local government	–	37	37
U.S. federal agency mortgage-backed	–	701	701
Foreign government	–	278	278
U.S. corporate	16	944	960
Foreign corporate	6	238	244
	\$ 2,572	\$ 2,225	\$ 4,797
<b>Investments measured at net asset value</b>			4,841
			\$ 9,638

## Sutter Health and Affiliates

### Notes to Consolidated Financial Statements (continued)

(in millions)

#### 4. FAIR VALUE MEASUREMENTS (continued)

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

As of December 31, 2023 and 2022, 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.

## Sutter Health and Affiliates

### Notes to Consolidated Financial Statements (continued)

*(in millions)*

#### **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.



## Sutter Health and Affiliates

### Notes to Consolidated Financial Statements (continued)

*(in millions)*

#### 4. FAIR VALUE MEASUREMENTS (continued)

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

	December 31, 2023			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Commingled funds – U.S. equity securities	\$ 576	\$ –	Daily	1 day
Commingled funds – foreign equity securities	735	–	Semi-monthly, Monthly	5–30 days
Commingled funds – debt securities	137	–	Daily	3 days
Commodity-linked funds	364	–	Daily	None, 1 day
Hedge funds	1,925	–	Monthly, Quarterly, Annually	10–120 days
Private equity funds	624	442	None	None
Private equity real estate funds	480	304	None, Quarterly	None, 90 days
	\$ 4,841	\$ 746		

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

## Sutter Health and Affiliates

### Notes to Consolidated Financial Statements (continued)

*(in millions)*

#### **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, 2023, approximately 44% of this class is redeemable daily with a notice period of 1 day, and approximately 14% of this class is redeemable semi-monthly with a notice period of 5 days. The remaining 42% of this class is redeemable monthly with a notice period of 5 to 30 days.

Commingled funds – debt securities: This class includes investments in commingled funds that invest primarily in U.S. debt, of which the majority are traded in over-the-counter markets. As of December 31, 2023, these funds are redeemable daily with a notice period of 3 days.

Commodity-linked funds: This class includes commodity-linked funds that pursue long-only fully collateralized commodity futures strategies to provide diversification and inflation protection. As of December 31, 2023, these funds are redeemable daily with no notice period or a notice period of 1 day.

## Sutter Health and Affiliates

### Notes to Consolidated Financial Statements (continued)

(in millions)

#### 4. FAIR VALUE MEASUREMENTS (continued)

**Hedge funds:** This class includes investments in hedge funds that expand the universe of potential investment approaches available by employing a variety of strategies and techniques within and across various asset classes. The primary objective for these funds is to balance returns, while limiting volatility by allocating capital to external portfolio managers selected for expertise in one or more investment strategies that may include, but are not limited to, equity long/short, event driven, relative value, and directional. The following summarizes the redemption criteria for the hedge fund portfolio as of December 31, 2023:

% of Hedge Funds	Redemption Criteria	Notice Period
51%	Redeemable monthly	10–120 days
9%	Redeemable quarterly	45–120 days
1%	Redeemable within one year, with monthly gates from 25% to 100%	120 days
4%	Redeemable within one year, with quarterly gates from 25% to 100%	45–120 days
9%	Limited to a 25% gate, redeemable quarterly	60–120 days
2%	Redeemable annually	95 days
2%	One-year lock-up expiring by May 2024	75 days
12%	Two-year rolling lock-up expiring by December 2025 and quarterly gate limited to 10% annually	60–120 days
3%	Two-year lock-up expiring by February 2025	60–90 days
2%	Three-year rolling lock-up expiring by January 2026	75 days
5%	Redeemable over five years after a rolling annual election with quarterly payments or limited to a 5% quarterly gate	120 days

**Private equity funds:** This class includes domestic and foreign private equity funds that specialize in providing capital to a variety of investment groups including, but not limited to venture capital, leveraged buyout, mezzanine debt, distressed debt, and other strategies, which may include land, water processing, and alternative energy. There is no provision for redemptions during the life of these funds. These funds are typically held from 8 to 13 years.

## Sutter Health and Affiliates

### Notes to Consolidated Financial Statements (continued)

*(in millions)*

#### 4. FAIR VALUE MEASUREMENTS (continued)

Private equity real estate funds: This class includes domestic and foreign investments in real estate that are held in limited partnership funds, joint ventures, and other investments comprised of retail, office, industrial, and multi-family properties. As of December 31, 2023, 2% of this class is redeemable quarterly, with a notice period of at least 90 days. There is no provision for redemptions during the life of these funds for the remaining 98%. These funds are typically held from 6 to 11 years.

#### 5. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consist of the following:

	<b>December 31,</b>	
	<b>2023</b>	<b>2022</b>
Land improvements	\$ 216	\$ 213
Leasehold improvements	755	659
Buildings and improvements	10,018	9,814
Equipment	4,392	4,363
	15,381	15,049
Less amortization and accumulated depreciation	(8,911)	(8,499)
	6,470	6,550
Land	602	555
Construction-in-progress	327	311
	\$ 7,399	\$ 7,416

## Sutter Health and Affiliates

### Notes to Consolidated Financial Statements (continued)

*(in millions)*

#### 6. OTHER ASSETS

Other current assets consist of the following:

	<b>December 31,</b>	
	<b>2023</b>	<b>2022</b>
Hospital fee program receivable	\$ 442	\$ 377
Inventories	137	131
340B Drug pricing program receivable	94	–
Other	612	532
	<b>\$ 1,285</b>	<b>\$ 1,040</b>

Other non-current assets consist of the following:

	<b>December 31,</b>	
	<b>2023</b>	<b>2022</b>
Right-of-use assets for operating leases	\$ 563	\$ 428
Hospital fee program receivable	320	207
Goodwill, net	125	127
Trust receivable	81	81
Investments in joint ventures	72	21
Prepaid postretirement benefits	10	457
Other	109	121
	<b>\$ 1,280</b>	<b>\$ 1,442</b>

## Sutter Health and Affiliates

### Notes to Consolidated Financial Statements (continued)

*(in millions)*

#### 7. LONG-TERM OBLIGATIONS

Long-term obligations consist of the following:

	<b>December 31,</b>	
	<b>2023</b>	<b>2022</b>
Tax-exempt revenue bonds under the Sutter Health Master Indenture of Trust, fixed interest at 4.0% to 5.0%, through 2048 (includes unamortized premiums of \$88 and \$113 and debt issuance costs of (\$5) and (\$6) at December 31, 2023 and 2022, respectively)	<b>\$ 1,615</b>	<b>\$ 1,669</b>
Taxable bonds under the Sutter Health Master Indenture of Trust, fixed interest at 1.32% to 5.55%, through 2053 (includes unamortized discount of (\$2) and (\$2) and debt issuance costs of (\$13) and (\$11) at December 31, 2023 and 2022, respectively)	<b>3,412</b>	2,664
Various collateralized and unsecured obligations	<b>13</b>	11
Obligations under finance leases	<b>214</b>	208
	<b>5,254</b>	4,552
Less current portion	<b>(47)</b>	(43)
	<b>\$ 5,207</b>	<b>\$ 4,509</b>

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

In June 2023, \$750 of taxable bonds Series 2023A were issued by Sutter Health. The proceeds are to be used for general corporate purposes.

## Sutter Health and Affiliates

### Notes to Consolidated Financial Statements (continued)

(in millions)

#### 7. LONG-TERM OBLIGATIONS (continued)

At December 31, 2023 Sutter Health maintained a syndicated line of credit with banks aggregating to \$900. In March 2022, Sutter Health drew \$800 on its credit facility, which it repaid in late March 2022. The revolving credit facility is used to guarantee letters of credit of \$81. There are currently no draws outstanding under this credit facility.

Aggregate principal payments of long-term obligations, excluding finance leases, various collateralized and unsecured obligations, net unamortized premiums and discounts, and issuance costs as of December 31, 2023, are as follows:

2024	\$	31
2025		332
2026		34
2027		15
2028		357
Thereafter		4,190
	\$	<u>4,959</u>

Sutter paid interest of \$169 and \$162 for the years ended December 31, 2023 and 2022, respectively.

#### 8. LEASES

Sutter leases property and equipment under operating and finance leases. The related assets and obligations are recorded at the present value of lease payments over the term of the agreements. Many of Sutter's leases include rental escalation clauses, renewal options, and/or termination options that are factored into the determination of lease payments. Variable lease payments are non-lease services related to the lease, are excluded from the Right-of-use assets and lease liabilities, and are recognized in the period in which the obligation of those payments is incurred. Generally, Sutter does not include renewal options in the lease terms for calculating the lease liability, as Sutter maintains operational flexibility and is not reasonably certain the renewal options will be exercised. Most of Sutter's leases do not provide a readily determinable implicit rate in the contract; therefore, the incremental borrowing rate is estimated to discount the lease payments based on information available at lease commencement.



## Sutter Health and Affiliates

### Notes to Consolidated Financial Statements (continued)

*(in millions)*

#### 8. LEASES (continued)

Sutter elected the package of practical expedients permitted under the transition guidance which, among other things, allowed the historical lease classification not to be reassessed. Sutter made an accounting policy election not to apply the recognition requirements of the guidance to short-term leases with a term of 12 months or less for equipment and vehicle classes of assets. Sutter also made an accounting policy election not to separate non-lease components from lease components for all classes of assets. Sutter did not elect the hindsight practical expedient, which permits entities to use hindsight in determining the lease term and assessing impairment.

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

	<b>Classification</b>	<b>December 31,</b>	
		<b>2023</b>	<b>2022</b>
<b>Right-of-use Assets</b>			
Operating	Other non-current assets	\$ 563	\$ 428
Finance	Property, plant and equipment, net	<b>178</b>	174
		<b>\$ 741</b>	<b>\$ 602</b>
<b>Current Liabilities</b>			
Operating	Other accrued expenses	\$ 101	\$ 97
Finance	Current portion of long-term obligations	<b>12</b>	10
<b>Non-current Liabilities</b>			
Operating	Other	<b>546</b>	381
Finance	Long-term obligations, less current portion	<b>202</b>	198
		<b>\$ 861</b>	<b>\$ 686</b>

Weighted-average operating leases remaining lease term	10.9 years
Weighted-average finance leases remaining lease term	23.7 years
Weighted-average operating lease discount rate	4.4%
Weighted-average finance lease discount rate	4.6%

Sutter Health and Affiliates

Notes to Consolidated Financial Statements (continued)

(in millions)

**8. LEASES (continued)**

The components of lease costs are as follows:

	<b>Year ended December 31,</b>	
	<b>2023</b>	<b>2022</b>
Operating lease cost	\$ 112	\$ 115
Variable lease cost	\$ 29	\$ 31
Finance lease cost:		
Amortization of leased assets	\$ 18	\$ 6
Interest on lease liabilities	\$ 8	\$ 8

Supplemental cash flow information related to leases is as follows:

	<b>Year ended December 31,</b>	
	<b>2023</b>	<b>2022</b>
<b>Cash paid for amounts included in the measurement of lease liabilities:</b>		
Operating cash outflows for operating leases	\$ 120	\$ 125
Operating cash outflows for finance leases	\$ 8	\$ 8
Financing cash outflows for finance leases	\$ 16	\$ 5
<b>Right-of-use assets obtained in exchange for lease obligations:</b>		
Operating leases	\$ 226	\$ 118
Finance leases	\$ 11	\$ 20

## Sutter Health and Affiliates

### Notes to Consolidated Financial Statements (continued)

*(in millions)*

#### 8. LEASES (continued)

Future lease payments as of December 31, 2023 for operating and finance leases are as follows:

	<b>Operating Leases</b>	<b>Finance Leases</b>
2024	\$ 118	\$ 21
2025	100	17
2026	94	11
2027	81	12
2028	65	17
Thereafter	398	293
	856	371
Less imputed interest	(209)	(157)
	\$ 647	\$ 214

#### 9. NET ASSETS AND CONTRIBUTIONS

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

	<b>December 31,</b>	
	<b>2023</b>	<b>2022</b>
Subject to expenditure for specified purpose:		
Capital projects and medical equipment	\$ 28	\$ 27
Research and education	68	74
Operations and/or capital projects	293	259
	389	360
Subject to passage of time	21	23
Subject to donor restrictions in conjunction with Sutter's spending policy:		
Investment in perpetuity – endowment	138	119
	\$ 548	\$ 502

## Sutter Health and Affiliates

### Notes to Consolidated Financial Statements (continued)

(in millions)

#### 9. NET ASSETS AND CONTRIBUTIONS (continued)

From time to time, Sutter Health's or its not-for-profit affiliate's board of directors 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:

	<b>December 31,</b>	
	<b>2023</b>	<b>2022</b>
Capital projects and medical equipment	\$ 131	\$ 120
Research and education	26	26
Operations and/or capital projects	161	155
	<b>\$ 318</b>	<b>\$ 301</b>

Sutter Health and its not-for-profit affiliates report individuals' and organizations' unconditional promises to give cash or other assets at fair value at the date Sutter Health or its not-for-profit affiliate receives the promises. Sutter Health and its not-for-profit affiliates report conditional promises to give and conditional indications of intentions to give at fair value when the conditions are met. Therefore, Sutter Health and its not-for-profit affiliates do not recognize any revenue or receivable at the time a conditional promise or indication of intent is received. Sutter Health and its not-for-profit affiliates' conditional promises or indications of intent received were \$284 and \$265 for the years ended December 31, 2023 and 2022, respectively. These gifts will support clinical programs and technology.

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

In accordance with UPMIFA, Sutter Health and its not-for-profit affiliates consider the following factors when appropriating or accumulating an endowment fund: (i) general economic conditions, (ii) effects of inflation and deflation, (iii) the purposes of the institution and the endowment fund, (iv) expected total return from income and

## Sutter Health and Affiliates

### Notes to Consolidated Financial Statements (continued)

*(in millions)*

#### 9. NET ASSETS AND CONTRIBUTIONS (continued)

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 Health or its not-for-profit affiliate’s management assesses facts and circumstances to determine whether to suspend appropriation activities until the corpus has recovered or to continue to withdraw funds in compliance with UPMIFA in order to fund critical initiatives. There were no deficiencies of this nature reported in Net assets with donor restriction as a result of unfavorable investment market fluctuations as of December 31, 2023 and 2022.

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

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

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

	<b>December 31, 2023</b>		
	<b>Net Assets without Donor Restrictions</b>	<b>Net Assets with Donor Restrictions</b>	<b>Total</b>
Donor-restricted endowment funds	\$ –	\$ 205	\$ 205
Board-designated funds	145	–	145
	\$ 145	\$ 205	\$ 350

Sutter Health and Affiliates

Notes to Consolidated Financial Statements (continued)

(in millions)

9. NET ASSETS AND CONTRIBUTIONS (continued)

	December 31, 2022		
	Net Assets without Donor Restrictions	Net Assets with Donor Restrictions	Total
Donor-restricted endowment funds	\$ –	\$ 177	\$ 177
Board-designated funds	127	–	127
	<u>\$ 127</u>	<u>\$ 177</u>	<u>\$ 304</u>

The changes in endowment net assets are as follows:

	Net Assets without Donor Restrictions	Net Assets with Donor Restrictions	Total
Balance at December 31, 2021	\$ 158	\$ 245	\$ 403
Investment return, net	(12)	(9)	(21)
Contributions	–	2	2
Appropriation of endowment assets for expenditure	(2)	(2)	(4)
Deconsolidation of affiliate	(1)	(60)	(61)
Other	(16)	1	(15)
Balance at December 31, 2022	<u>127</u>	<u>177</u>	<u>304</u>
Investment return, net	<b>19</b>	<b>17</b>	<b>36</b>
Contributions	–	<b>16</b>	<b>16</b>
Appropriation of endowment assets for expenditure	<b>(2)</b>	<b>(3)</b>	<b>(5)</b>
Consolidation of affiliate	–	<b>1</b>	<b>1</b>
Other	<b>1</b>	<b>(3)</b>	<b>(2)</b>
Balance at December 31, 2023	<u><b>\$ 145</b></u>	<u><b>\$ 205</b></u>	<u><b>\$ 350</b></u>

## Sutter Health and Affiliates

### Notes to Consolidated Financial Statements (continued)

*(in millions)*

#### **10. REVENUES**

Sutter records revenue in four financial statement categories: Patient service revenues, Premium revenues, Contributions, and Other. Performance obligations are identified based on the nature of the services provided.

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

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 patients and third-party payers after services are performed.

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



## Sutter Health and Affiliates

### Notes to Consolidated Financial Statements (continued)

*(in millions)*

#### **10. REVENUES (continued)**

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

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

## Sutter Health and Affiliates

### Notes to Consolidated Financial Statements (continued)

(in millions)

#### 10. REVENUES (continued)

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, 2018. The estimated net settlement balances and adjustments from the finalization of prior-year cost reports were immaterial in 2023 and 2022.

*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, 2019. The estimated net settlement balances and adjustments from the finalization of prior-year cost reports were immaterial in 2023 and 2022.

*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

## Sutter Health and Affiliates

### Notes to Consolidated Financial Statements (continued)

*(in millions)*

#### 10. REVENUES (continued)

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:

	<b>Year ended December 31,</b>	
	<b>2023</b>	<b>2022</b>
Medicare	\$ 3,754	\$ 3,407
Medi-Cal	1,873	1,616
Commercial	8,038	7,375
Other	200	166
	<b>\$ 13,865</b>	<b>\$ 12,564</b>

The composition of Patient service revenues, based on Sutter's lines of business, is as follows:

	<b>Year ended December 31,</b>	
	<b>2023</b>	<b>2022</b>
Acute Care	\$ 8,870	\$ 8,126
Medical Foundation	4,455	3,964
Other	920	838
Eliminations	(380)	(364)
	<b>\$ 13,865</b>	<b>\$ 12,564</b>

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

## Sutter Health and Affiliates

### Notes to Consolidated Financial Statements (continued)

*(in millions)*

#### 10. REVENUES (continued)

patients. There are four approved hospital fee programs that had activity in 2023 and/or 2022: a 30-month hospital fee program covering the period from January 1, 2017 through June 30, 2019, a 30-month hospital fee program covering the period from July 1, 2019 through December 31, 2021, a 12-month hospital fee program covering the period from January 1, 2022 through December 31, 2022 and a 24-month hospital fee program covering the period from January 1, 2023 through December 31, 2024. 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 in 2023 and 2022.

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

	<b>Year ended December 31,</b>	
	<b>2023</b>	<b>2022</b>
Hospital fee program revenue	\$ 618	\$ 427
Hospital fee program expense	<b>(304)</b>	(252)
Income from operations from hospital fee program	<b>\$ 314</b>	<b>\$ 175</b>

Hospital fee program assets and liabilities are recorded on the Consolidated Balance Sheets as follows:

	<b>December 31,</b>	
	<b>2023</b>	<b>2022</b>
Other current assets	\$ 442	\$ 377
Other non-current assets	<b>320</b>	207
	<b>\$ 762</b>	<b>\$ 584</b>
Accounts payable	\$ 292	\$ 231
Other non-current liabilities	<b>129</b>	79
	<b>\$ 421</b>	<b>\$ 310</b>

## Sutter Health and Affiliates

### Notes to Consolidated Financial Statements (continued)

*(in millions)*

#### **10. REVENUES (continued)**

Premium revenues: Sutter has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations, preferred provider organizations, and members of individual and family plans and subscribing employers for small and large cap coverage. The basis for payment to Sutter, under these agreements, includes capitated arrangements, prospectively determined rates per diagnosis, prospectively determined daily rates, rates by demographics, and rates by a number of factors, including experience. The transaction price may be reduced by discounts, reinsurance premiums, and implicit price concessions based on collection history. Other adjustments may include prior year settlements, stop-loss recoveries, ceded premiums and risk adjustment factors. Performance obligations are satisfied over the passage of time by standing ready to provide services.

Settlements with third-party payers for retroactive adjustments are considered variable consideration and are included in the determination of Premium revenues when information becomes available. Adjustments arising from a change in the transaction price and from the finalization of prior-year settlements were immaterial for the years ended December 31, 2023 and 2022, respectively.

As part of its Premium revenues analysis, Sutter examines the fluctuations in geographical area and entity type, as each factor represents a varying degree of uncertainty regarding the nature, timing and extent of payments. Sutter's premium revenue is reported at an amount that reflects the consideration to which Sutter expects to be paid.

## Sutter Health and Affiliates

### Notes to Consolidated Financial Statements (continued)

(in millions)

#### 10. REVENUES (continued)

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

	Year ended December 31,	
	2023	2022
Acute Care	\$ 710	\$ 672
Medical Foundation	789	781
Insurance	702	650
Other	153	163
Eliminations	(548)	(526)
	<u>\$ 1,806</u>	<u>\$ 1,740</u>

Contributions: Sutter receives contributions and grants from donors and government agencies. Sutter reported \$140 as contributions from the Federal Emergency Management Agency and \$87 as contributions from Coronavirus Aid, Relief, and Economic Security Act Relief Funds from the Department of Health & Human Services in 2023 and 2022, respectively.

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

#### 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 \$84 and \$82 for 2023 and 2022, respectively.

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

## Sutter Health and Affiliates

### Notes to Consolidated Financial Statements (continued)

(in millions)

#### 11. COMMUNITY BENEFIT EXPENSE (continued)

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, 2023 (unaudited):

<b>Services for the poor and underserved</b>	
Traditional charity care	\$ 84
Unpaid costs of public programs:	
Medi-Cal	532
Other public programs	53
Other benefits for the poor and underserved	52
	<hr/>
	721
<b>Benefits for the broader community</b>	
Nonbilled services	30
Education and research	59
Cash and in-kind donations	10
Other community benefits	2
	<hr/>
	101
	<hr/>
	\$ 822

#### 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 net postretirement benefits were \$187 and \$208 in 2023 and 2022, respectively.

## Sutter Health and Affiliates

### Notes to Consolidated Financial Statements (continued)

*(in millions)*

#### 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:

	<b>Year ended December 31,</b>	
	<b>2023</b>	<b>2022</b>
Projected benefit obligation at beginning of year	\$ 4,862	\$ 6,312
Service cost	197	298
Interest cost	272	194
Actuarial loss (gain)	548	(1,677)
Benefits paid	(279)	(306)
Plan amendments	-	41
Projected benefit obligation at measurement date	\$ 5,600	\$ 4,862
Fair value of plan assets at beginning of year	\$ 5,303	\$ 6,205
Actual gain (loss) on plan assets	450	(596)
Benefits paid	(279)	(306)
Fair value of plan assets at measurement date	\$ 5,474	\$ 5,303
Funded status at end of year	\$ (126)	\$ 441

The accumulated benefit obligation for the Retirement Plan was \$5,029 and \$4,351 as of December 31, 2023 and 2022, respectively.

The actuarial loss of \$548 for the year ended December 31, 2023, was primarily due to updated increases in cash balance interest crediting rates, the decrease in discount rate of 5.3% in 2023 from 5.6% in 2022, changes in the rate of compensation increases, and changes in census data that differed from expectations. This was offset by updating the retirement rates. The actuarial gain of \$1,677 for the year ended December 31, 2022, was primarily due to the increase in discount rate of 5.6% in 2022 from 3.0% in 2021, actual terminations and retirements, and changes in census data that differed from expectations. This was offset by changes in the rate of compensation increases ranging from 4.5% to 6.5% used in 2022 from 4.5% in 2021, updated increases in cash balance



## Sutter Health and Affiliates

### Notes to Consolidated Financial Statements (continued)

(in millions)

#### 12. POSTRETIREMENT BENEFITS (continued)

interest crediting rates, and the increases in inflation rate ranging from 2.5% to 8.2% used in 2022 from 2.5% used in 2021.

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

Included in Controlling interests net assets without donor restrictions as of December 31, 2023 and 2022, are the following amounts that have not yet been recognized in net periodic benefit cost: unrecognized prior service credits of \$208 and \$230, respectively, and unrecognized actuarial losses of \$607 and \$140, respectively.

The benefits expected to be paid from the Retirement Plan as of December 31, 2023 in each of the next five years, and in the aggregate for the next five years, are as follows:

2024	\$	313
2025		332
2026		343
2027		350
2028		369
2029–2033		2,015
	\$	<u>3,722</u>

## Sutter Health and Affiliates

### Notes to Consolidated Financial Statements (continued)

*(in millions)*

#### 12. POSTRETIREMENT BENEFITS (continued)

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

	<b>December 31,</b>	
	<b>2023</b>	<b>2022</b>
Weighted-average discount rates for calculating pension expense	<b>5.6%</b>	3.0%
Weighted-average discount rates for calculating projected benefit obligation	<b>5.3%</b>	5.6%
Weighted-average rates of compensation increase for calculating pension expense	<b>4.5%–6.5%</b>	4.5%
Weighted-average rates of compensation increase for calculating projected benefit obligation	<b>4.5%–6.5%</b>	4.5%–6.5%
Weighted-average interest crediting rates for calculating projected benefit expense	<b>3.3%–4.0%</b>	3.3%
Weighted-average interest crediting rates for calculating pension obligation	<b>4.0%–4.8%</b>	3.3%–4.0%
Expected long-term rates of return on plan assets for calculating pension expense	<b>7.2%</b>	6.4%

As of December 31, 2023 and 2022, the healthy mortality assumption reflected the Pri-2012 table, and the mortality projection scale reflected the MP-2021 without adjustment.

## Sutter Health and Affiliates

### Notes to Consolidated Financial Statements (continued)

*(in millions)*

#### 12. POSTRETIREMENT BENEFITS (continued)

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

	<b>Year ended December 31,</b>	
	<b>2023</b>	<b>2022</b>
Service cost	\$ 197	\$ 298
Interest cost	272	194
Expected return on plan assets	(368)	(387)
Amortization of actuarial loss	–	20
Amortization of prior service credit	(23)	(27)
	\$ 78	\$ 98

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:

	<b>Year ended December 31,</b>	
	<b>2023</b>	<b>2022</b>
Projected benefit obligation at beginning of year	\$ 265	\$ 326
Service cost	10	15
Interest cost	16	10
Actuarial loss (gain)	8	(71)
Benefits paid	(18)	(18)
Other change in benefit obligation	–	3
Projected benefit obligation at measurement date	\$ 281	\$ 265
Fair value of plan assets at beginning of year	\$ 258	\$ 300
Actual gain (loss) on plan assets	23	(29)
Employer contributions	5	5
Benefits paid	(18)	(18)
Fair value of plan assets at measurement date	\$ 268	\$ 258
Funded status at end of year	\$ (13)	\$ (7)

## Sutter Health and Affiliates

### Notes to Consolidated Financial Statements (continued)

*(in millions)*

#### 12. POSTRETIREMENT BENEFITS (continued)

The actuarial loss of \$8 for the year ended December 31, 2023, was primarily due to discount rate decreases to 5.2% in 2023 from 5.6% in 2022, updated claims experience. This was offset primarily by changes in census data that differed from expectations. The actuarial gain of \$71 for the year ended December 31, 2022, was primarily due to discount rate increases to 5.6% in 2022 from 3.0% in 2021, updated claims experience, and terminations and retirements. This was offset primarily by changes in census data that differed from expectations and updated health care cost trend rates.

Included in Controlling interests net assets without donor restrictions as of December 31, 2023, and 2022, are the following amounts that have not yet been recognized in net periodic benefit cost: unrecognized prior service costs of \$8 for both years and unrecognized actuarial gain of \$52 and \$58, respectively.

The benefits expected to be paid from the Health Plans as of December 31, 2023 in each of the next five years, and in the aggregate for the next five years, are as follows:

2024	\$	24
2025		25
2026		26
2027		26
2028		25
2029–2033		124
	<u>\$</u>	<u>250</u>

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

	<b>December 31,</b>	
	<b>2023</b>	<b>2022</b>
Weighted-average discount rates for calculating retiree medical expense	<b>5.6%</b>	3.0%
Weighted-average discount rates for calculating projected benefit obligation	<b>5.2%</b>	5.6%
Expected long-term rates of return on plan assets for calculating retiree medical expense	<b>7.2%</b>	6.4%

## Sutter Health and Affiliates

### Notes to Consolidated Financial Statements (continued)

*(in millions)*

#### 12. POSTRETIREMENT BENEFITS (continued)

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

	<b>Year ended December 31,</b>	
	<b>2023</b>	<b>2022</b>
Service cost	\$ 10	\$ 15
Interest cost	16	10
Expected return on plan assets	(18)	(19)
Amortization of prior service cost	1	1
Amortization of actuarial gain	(3)	(1)
	\$ 6	\$ 6

Sutter's projected medical cost trend rate related to the Health Plans for 2024 is 6.3%. The assumed medical cost trend rate is expected to gradually decrease in subsequent years to 4.8% in 2031 and thereafter.

The Sutter Health 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.

## Sutter Health and Affiliates

### Notes to Consolidated Financial Statements (continued)

(in millions)

#### 12. POSTRETIREMENT BENEFITS (continued)

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, 2023, by major asset category, is as follows:

	<b>Target Allocation</b>
Equity securities	44%
Fixed income securities	13%
Other investments – alternative	33%
Real estate investments	10%
	<u>100%</u>

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

The expected long-term rate of return assumptions of 7.2% and 6.4% for 2023 and 2022, respectively, are based on capital market assumptions rate of return on comparative market indices for the major asset classes represented in the portfolio, net of administrative expenses.

## Sutter Health and Affiliates

### Notes to Consolidated Financial Statements (continued)

(in millions)

#### 12. POSTRETIREMENT BENEFITS (continued)

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, 2023			
	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Net Asset Value (NAV)	Total
<b>Liquid investments:</b>				
Cash equivalents	\$ 4	\$ -	\$ 75	\$ 79
<b>Equity securities:</b>				
U.S. equity	962	-	-	962
Foreign equity	510	-	-	510
Common collective trusts	-	-	361	361
Commingled funds	-	-	700	700
<b>Fixed income securities:</b>				
U.S. government and agencies	83	3	-	86
U.S. federal agency mortgage-backed	-	189	-	189
Foreign government	-	64	-	64
U.S. corporate	-	198	-	198
Foreign corporate	-	62	-	62
Common collective trusts and commingled funds	-	-	19	19
<b>Other investments:</b>				
Private equity funds	-	-	650	650
Private equity real estate funds	-	-	768	768
Commodity-linked funds	-	-	24	24
Hedge funds	-	-	1,061	1,061
Accrued income	9	-	-	9
	\$ 1,568	\$ 516	\$ 3,658	\$ 5,742

## Sutter Health and Affiliates

### Notes to Consolidated Financial Statements (continued)

(in millions)

#### 12. POSTRETIREMENT BENEFITS (continued)

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

Retirement Plan assets may also be loaned to various brokers in exchange for securities as collateral. As of December 31, 2023 and 2022, the fair value of securities on loan is \$92 for both years, and the related noncash collateral is \$96 and \$94, respectively. The majority of the securities on loan are U.S. equity securities and are collateralized by U.S. government securities.



## Sutter Health and Affiliates

### Notes to Consolidated Financial Statements (continued)

*(in millions)*

#### 12. POSTRETIREMENT BENEFITS (continued)

Certain affiliates participate in multiemployer defined benefit retirement plans. The risks of participating in multiemployer plans are different from single-employer plans in the following aspects: (i) assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers, (ii) if a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers, and (iii) if the affiliates choose to stop participating in the multiemployer plan, the affiliates may be required to pay the plan an amount based on the underfunded status of the plan, referred to as a withdrawal liability. Sutter's contributions to such plans were \$16 and \$19 in 2023 and 2022, respectively.

Sutter also maintains various defined contribution plans for eligible employees. Sutter's contributions to such plans were \$87 and \$85 in 2023 and 2022, 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 expenses, square footage, and other criteria.

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

	Year ended December 31, 2023						
	Program				General and Administrative		Total
	Acute Care	Medical Foundation		Other	Eliminations		
Salaries and employee benefits	\$ 4,343	\$ 1,463	\$ 868	\$ (294)	\$ 776	\$ 7,156	
Purchased services	2,472	2,976	728	(1,984)	433	4,625	
Supplies	1,351	480	204	(24)	7	2,018	
Depreciation and amortization	520	150	106	(93)	8	691	
Interest	110	27	2	-	23	162	
Other	590	176	930	(671)	133	1,158	
	\$ 9,386	\$ 5,272	\$ 2,838	\$ (3,066)	\$ 1,380	\$ 15,810	

## Sutter Health and Affiliates

### Notes to Consolidated Financial Statements (continued)

*(in millions)*

#### 13. FUNCTIONAL CLASSIFICATION OF EXPENSES (continued)

	Year ended December 31, 2022						
	Program				General and Administrative		Total
	Medical						
	Acute Care	Foundation	Other	Eliminations			
Salaries and employee benefits	\$ 3,977	\$ 1,258	\$ 812	\$ (292)	\$ 778	\$	6,533
Purchased services	2,483	2,761	678	(1,977)	248		4,193
Supplies	1,242	399	193	(22)	4		1,816
Depreciation and amortization	515	142	101	(82)	12		688
Interest	118	26	(5)	–	–		139
Other	516	157	881	(540)	112		1,126
	\$ 8,851	\$ 4,743	\$ 2,660	\$ (2,913)	\$ 1,154	\$	14,495

#### 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, environmental regulations, and other regulations by health care providers from federal and state regulatory agencies, including, but not limited to, CMS, the U.S. Department of Justice (DOJ), the California Attorney General, and the California Department of Public Health. Sutter is also involved in litigation such as medical malpractice and contractual disputes, as both plaintiff and defendant, and other routine labor matters, proposed class action complaints, tax examinations, security events resulting in potential privacy incidents, internal compliance activities (including those discussed in Note 10), and regulatory investigations and examinations arising in the ordinary course of business. Based on Sutter's assessment of the matters, the uncertainty of litigation, and the preliminary stages of many of the matters, Sutter cannot estimate the reasonable possible loss or range of loss that may result from these matters, except as stated in the consolidated financial statements, including this note. However, there can be no assurance that the resolution of any of these matters will not have a material adverse effect on Sutter's consolidated financial position or results of operations. Following is a discussion of matters of note.

A plaintiff filed a civil class action lawsuit against Sutter Health and certain affiliates, alleging violations of Federal antitrust law arising out of, among other things, Sutter Health and those certain affiliates' arrangements with health plans. The court certified the class as to injunctive relief and a monetary damages class but excluded plaintiffs'

## Sutter Health and Affiliates

### Notes to Consolidated Financial Statements (continued)

*(in millions)*

#### **14. CONTINGENCIES AND COMMITMENTS (continued)**

damages claims and ultimately granted summary judgment against plaintiffs for the 2008-2010 time period. The trial for this matter began on February 10, 2022. On March 11, 2022, the jury returned a unanimous verdict in favor of Sutter Health and the affiliates. On April 26, 2022, plaintiffs filed a notice of appeal and appellants' opening brief was filed on October 3, 2022. Sutter filed its answering brief on January 3, 2023. Appellants' reply brief was filed on February 23, 2023. Oral argument before the Ninth Circuit Court of Appeals took place on August 24, 2023. The parties are awaiting a decision from the Ninth Circuit.

Two anonymous plaintiffs filed a class action lawsuit against Sutter Health, alleging Sutter Health shared the medical information of plaintiffs and a proposed class of similarly situated individuals with third parties without authorization. After Sutter Health filed several successful challenges to the sufficiency of the plaintiffs' complaint, the plaintiffs' claims are now limited to two causes of action: violation of the California Invasion of Privacy Act and breach of contract. Discovery is ongoing. Plaintiffs filed their class certification motion on November 14, 2023. Sutter Health's opposition brief is due on March 21, 2024, with a hearing on the class certification motion scheduled for May 31, 2024.

Two separate proposed class action complaints were filed against Sutter Health and subsequently consolidated by the courts, alleging that Sutter Health, as fiduciaries of Sutter Health's 403(b) savings plan (Plan), and the Sutter Health Retirement Benefits Investment Committee (RBIC) breached the fiduciary duties of loyalty and prudence that they owed to the Plan, to plaintiffs, and others under the Employee Retirement Income Security Act (ERISA). The complaint asserts claims for: (i) breach of fiduciary duty related to the selection of investment options and failure to monitor other fiduciaries of the Plan, (ii) failure to monitor against Sutter Health for failing to adequately monitor the RBIC and against the RBIC for failing to monitor delegated appointees, and (iii) an alternative claim of liability for knowing breach of trust against all defendants seeking equitable relief in the event any of the defendants are not deemed a fiduciary or co-fiduciary under ERISA. The court denied Sutter Health's motion to dismiss but granted the motion to strike the jury trial. On January 23, 2024, Sutter Health and plaintiffs stipulated to an order granting certification of a class of all participants and beneficiaries in the Plan at any time from July 21, 2014 to the present. On January 26, 2024, the Court entered an order granting

## Sutter Health and Affiliates

### Notes to Consolidated Financial Statements (continued)

*(in millions)*

#### **14. CONTINGENCIES AND COMMITMENTS (continued)**

this stipulation and certifying the class. Fact discovery began on February 1, 2024, and is ongoing.

A plaintiff filed a proposed class action lawsuit against Sutter Health and certain affiliates, premised on the theory that Sutter Health and the related affiliates submitted and received payment from plaintiff for anesthesia services that were either not provided, separately billed by a third-party anesthesiologist, or reimbursed through other charges on the affiliates' bills. The court certified the class and scheduled a bench trial for April 1, 2024, which was later rescheduled to commence on September 30, 2024.

A relator filed a qui tam action alleging Sutter and its affiliates misused chronometric charging for revenue codes associated with nerve blocks and recovery room care. The matter is brought pursuant to the California Insurance Frauds Prevention Act. A bench trial of the case began on September 20, 2023, and lasted seven weeks. Post-trial briefing is ongoing, and closing arguments will be given on March 8, 2024.

As of December 31, 2023, Sutter has approximately 57,000 employees. Approximately 28% of these 57,000 employees are represented by collective bargaining units, and 18% of the agreements have expired or will expire in 2024. Sutter is currently in negotiation or will be in negotiation during 2024 for successor agreements. While working to mitigate any potential work stoppages through successful negotiations, Sutter remains prepared to address the possibility of work stoppages. Should such disruptions occur, they may have a material adverse effect on the operations or on the financial position or results of operations of Sutter. Despite these uncertainties, Sutter remains committed to bargaining in good faith, evaluating positions that remain grounded in the realities of market pay and practices, reflecting business priorities, and acknowledging the needs of the workforce. Additionally, Sutter faces the difficulties of operating in a competitive and complex Northern California labor market and lingering effects of the COVID-19 pandemic.

Commitments: Sutter is currently compliant with pre-2030 seismic deadlines under a State of California law and continues investments to meet 2030 compliance. Sutter remains committed to prioritizing capital investments that strengthen access, affordability and quality of care. Sutter evaluates the timing and scope of capital investments, facility utilization, and resource allocations based on its mission, federal and

## Sutter Health and Affiliates

### Notes to Consolidated Financial Statements (continued)

*(in millions)*

#### **14. CONTINGENCIES AND COMMITMENTS (continued)**

state regulations, and the rapidly evolving health care delivery environment. The current commitments are estimated at \$1,500 (unaudited).

#### **15. SUBSEQUENT EVENTS**

Sutter has evaluated subsequent events and disclosed all material events through March 6, 2024, which is the date these consolidated financial statements were issued.