KPMG

Consolidated Financial Statements

Intermountain Health Care, Inc. and Affiliated Companies
Years Ended December 31, 2018 and 2017
with Independent Auditors' Report

KPMG LLP
Suite 1500
15 W. South Temple
Salt Lake City, UT 84101

Independent Auditors' Report

Audit and Compliance Committee
Intermountain Health Care, Inc.:

We have audited the accompanying consolidated financial statements of Intermountain Health Care, Inc. and affiliated companies (the Company), which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Intermountain Health Care, Inc. and affiliated companies as of December 31, 2018 and 2017, and the results of their operations and their cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

Emphasis of Matter

As discussed in Note 2 to the consolidated financial statements, in 2018, the Company adopted Financial Accounting Standards Board Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* and ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities (Topic 958).* Our opinion is not modified with respect to these matters.

KPMG LLP

Salt Lake City, Utah
March 18, 2019

Intermountain Health Care, Inc. and Affiliated Companies
Consolidated Balance Sheets
(In Millions)

	December 31 2018	December 31 2017
Assets		
Current assets:		
Cash and equivalents	$ 723.2	$ 204.4
Assets limited as to use	1,015.8	1,031.2
Accounts receivable, less allowances for bad debts of $258.9 in 2017	644.2	661.9
Inventory	176.4	150.4
Due from brokers for securities sold	296.8	351.2
Other current assets	285.4	237.2
Total current assets	3,141.8	2,636.3
Assets limited as to use	6,024.5	6,027.8
Property and equipment, net	3,334.2	3,132.3
Other assets	193.7	212.0
Total assets	$ 12,694.2	$ 12,008.4
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued liabilities	$ 512.2	$ 414.9
Compensation and related liabilities	340.8	353.8
Due to brokers for securities purchased	558.6	624.1
Medical claims payable	161.3	184.3
Other current liabilities	160.2	163.0
Current portion of long-term debt	31.8	30.9
Long-term debt subject to short-term remarketing arrangements	457.2	407.1
Total current liabilities	2,222.1	2,178.1
Pension liability	234.9	332.2
Long-term debt	1,894.6	1,581.1
Other liabilities	465.7	461.0
Net assets:		
Without donor restrictions	7,612.0	7,190.5
With donor restrictions	264.9	265.5
	7,876.9	7,456.0
Total liabilities and net assets	$ 12,694.2	$ 12,008.4

See accompanying notes to consolidated financial statements.

Intermountain Health Care, Inc. and Affiliated Companies
Consolidated Statements of Operations and Changes in Net Assets
(In Millions)

	Year Ended December 31 2018	2017
Revenues		
Patient services		$ 4,226.3
Provision for bad debts		(276.9)
Net patient services	$ 4,264.7	3,949.4
Premiums and administration fees	3,194.1	2,724.7
Other revenues	265.4	265.9
	7,724.2	6,940.0
Expenses		
Employee compensation and benefits	3,037.7	2,968.9
Supplies	1,358.1	1,223.9
Medical claims	1,238.0	1,101.6
Other operating expenses	1,161.7	958.2
	6,795.5	6,252.6
Earnings before interest, depreciation and amortization	928.7	687.4
Depreciation and amortization	319.3	281.4
Interest	62.3	47.0
	381.6	328.4
Net operating income	547.1	359.0
Nonoperating income (loss)		
Investment income	65.1	305.3
Loss from nonoperating affiliates	(13.7)	(9.2)
	51.4	296.1
Excess of revenues over expenses	$ 598.5	$ 655.1

(continued)

Intermountain Health Care, Inc. and Affiliated Companies

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

(In Millions)

	Year Ended December 31 2018	2017
Net assets without donor restrictions		
Excess of revenues over expenses	$ 598.5	$ 655.1
Unrecognized changes in funded status of postretirement benefit plans	89.7	(27.6)
Change in net unrealized investment gains on other-than-trading securities	(294.2)	391.3
Other	27.5	11.3
Increase in net assets without donor restrictions	421.5	1,030.1
Net assets with donor restrictions		
Contributions	38.4	56.6
Investment income (loss)	(2.2)	4.0
Net assets released from restrictions and other	(36.8)	(29.0)
Increase (decrease) in net assets with donor restrictions	(0.6)	31.6
Increase in net assets	420.9	1,061.7
Net assets at beginning of year	7,456.0	6,394.3
Net assets at end of year	$ 7,876.9	$ 7,456.0

See accompanying notes to consolidated financial statements.

Intermountain Health Care, Inc. and Affiliated Companies
Consolidated Statements of Cash Flows
(In Millions)

	Year Ended December 31	
	2018	**2017**
Operating activities		
Cash received from patient services	$ 4,277.9	$ 3,938.0
Cash received from premiums and administration fees	3,141.1	2,763.5
Other receipts from operations	278.2	277.5
Interest and dividends received	82.1	70.5
Cash paid for employee compensation and benefits	(3,036.6)	(2,953.5)
Cash paid for supplies and other operating expenses	(2,444.8)	(2,146.8)
Cash paid for medical claims	(1,261.2)	(1,225.1)
Interest paid	(70.0)	(52.1)
Net cash provided by operating activities	966.7	672.0
Investing activities		
Purchases of property and equipment	(519.9)	(682.4)
Assets limited as to use:		
Net decrease in cash investments	70.2	149.1
Purchases of investments	(1,043.7)	(997.2)
Sales and maturities of investments	890.3	1,048.6
Net purchases of trading securities	(221.1)	(160.9)
Net cash used by nonoperating affiliates	(23.3)	(41.5)
Net cash used in investing activities	(847.5)	(684.3)
Financing activities		
Proceeds from issuance of debt	609.9	—
Repayment of debt	(234.8)	(30.0)
Restricted contributions and other	24.5	22.1
Net cash provided by (used in) financing activities	399.6	(7.9)
Net decrease in cash and equivalents	518.8	(20.2)
Cash and equivalents at beginning of year	204.4	224.6
Cash and equivalents at end of year	$ 723.2	$ 204.4

See accompanying notes to consolidated financial statements.

1. Organization

The mission of Intermountain Health Care, Inc. (Intermountain) is "helping people live the healthiest lives possible." Intermountain is a Utah not-for-profit corporation that has been granted an exemption from federal income tax as a charitable organization under Section 501(c)(3) of the Internal Revenue Code (Code). Intermountain is the sole corporate member or parent company of several not-for-profit companies, the most significant of which is IHC Health Services, Inc. (Health Services). Health Services, which has been granted an exemption from federal income tax as a charitable organization under Section 501(c)(3) of the Code, owns and manages hospitals, clinics and other health-related operations, principally in Utah. Intermountain is also the sole corporate member of SelectHealth, Inc. (SelectHealth), a licensed health maintenance organization and third-party administrator that has been granted an exemption from federal income tax as a social welfare organization under Section 501(c)(4) of the Code.

2. Significant Accounting Policies

Principles of Consolidation
The consolidated financial statements include the operations of Intermountain and its affiliated companies (the Company), which include Health Services and SelectHealth. Intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates
The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires certain estimates that affect the reported amounts of assets, liabilities, revenues, expenses and amounts disclosed in the notes to the consolidated financial statements. Due to uncertainties inherent in these estimation processes, there is at least a reasonable possibility that actual results may differ materially from these estimates in the near term.

Charity Care
Health Services is dedicated to the principle that generally available and medically necessary healthcare services should be accessible to all residents of the communities it serves without regard to race, religion, gender, national origin, physical or mental disability, veteran status or ability to pay. Decisions about medical necessity and the appropriate course of treatment are made by a physician or other licensed medical practitioner. Health Services has established a financial assistance policy for both the uninsured and the underinsured. Health Services offers discounts of up to 100% of charges on a sliding scale, which is based on income as a percentage of the federal poverty level guidelines, available liquid assets and charges for services rendered. Health Services' financial assistance guidelines also have provisions that are responsive to those patients subject to catastrophic healthcare expenses. Charity care services are not reported as revenue because payment is not anticipated. Charity care represents only one component of community benefit provided by Health Services.

2. Significant Accounting Policies (continued)

Cash and Equivalents

Cash and equivalents consist of deposits with banks and highly liquid investments in interest-bearing securities with original maturity dates of three months or less at the date of purchase.

Assets Limited as to Use

Assets limited as to use primarily consist of investments that are classified as trading or other than trading based on management's intent and ability to hold each investment. Other-than-trading securities that experience declines in value are regularly evaluated for other-than-temporary impairment. Impairment losses for declines in the value of other-than-trading securities below cost are evaluated based on relevant facts and circumstances for each investment. Impairment losses are recognized in investment income in the consolidated statements of operations and changes in net assets when deemed to be other than temporary.

The Company accounts for its investments on a trade-date basis. Investment sales and purchases initiated prior to the consolidated balance sheet date that are to be settled subsequent to the consolidated balance sheet date result in amounts due from and to brokers. Changes in these assets and liabilities represent noncash investing activities excluded from the consolidated statements of cash flows. The cost of investments sold is determined in accordance with the average-cost method, and realized gains and losses are included in investment income in the consolidated statements of operations and changes in net assets.

Concentrations of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of accounts receivable. Medicare and Medicaid accounts, including amounts receivable from government-sponsored plans through SelectHealth, represent 52% and 48% of net accounts receivable as of December 31, 2018 and 2017, respectively. Management does not believe there are any other significant concentrations of credit risk as of December 31, 2018 or 2017.

Liquidity and Availability of Financial Resources

The Company regularly monitors liquidity to meet its cash flow requirements and operating needs. The availability of financial assets is primarily affected by management designations, the nature of the underlying assets, external limitations imposed by donors or contracts with others.

2. Significant Accounting Policies (continued)

Inventory

Inventory is carried at the lower of cost, determined on the average-cost method, or net realizable value.

Property and Equipment

Property and equipment are stated on the basis of cost. Expenditures that increase values or extend useful lives are capitalized, and routine maintenance and repairs are charged to expense in the period incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Depreciation begins in the month of acquisition or when constructed assets are ready for their intended use. Useful lives are generally assigned as listed in the American Hospital Association publication, *Estimated Useful Lives of Depreciable Hospital Assets*.

Interest During Construction

Interest capitalized on borrowed funds expended for construction is a component of the cost of property additions to be allocated to future periods through depreciation. Capitalization of interest ceases when the property addition is ready for its intended use.

Long-lived Assets

Long-lived assets are reviewed for impairment when there is evidence that events or changes in circumstances indicate the carrying amount of such assets may not be fully recoverable. Recoverability of an asset or asset group is assessed by comparing the carrying amount to the estimated undiscounted future net cash flows. If impairment is indicated, then the carrying amount of long-lived assets is reduced to the approximate fair value. In addition, remaining estimated useful lives of long-lived assets are reduced based on planned changes in the intended use of the assets.

Medical Claims Payable

Medical claims payable reflects claims payable to healthcare providers other than Health Services and includes both claims reported to SelectHealth as of the consolidated balance sheet date and actuarial estimates of incurred-but-not-reported medical services. The liability for these medical benefits is reviewed on a regular basis and reflects management’s best estimate of claims SelectHealth expects to pay.

2. Significant Accounting Policies (continued)

Net Assets

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. This ASU simplifies the classification of net assets and updates the disclosure of information a not-for-profit entity presents about its liquidity, financial performance and cash flows. The Company adopted this ASU as of December 31, 2018. The retrospective application of this ASU for the Company resulted in reporting net assets in two classes, net assets without donor restrictions and net assets with donor restrictions, and adding disclosures on liquidity, endowment funds and functional expenses. Prior to the adoption of this ASU, as of December 31, 2017, the Company presented unrestricted, temporarily restricted and permanently restricted net assets of $7,190.5, $226.9 and $38.6, respectively, in the consolidated balance sheets. Upon adoption, the Company reclassified these amounts into two net asset classes, net assets without donor restrictions of $7,190.5 and net assets with donor restrictions of $265.5.

Net assets not restricted by donors are reported as net assets without donor restrictions in the consolidated balance sheets.

Net assets restricted by donors for specified purposes or investment in perpetuity are reported as net assets with donor restrictions in the consolidated balance sheets. When donor specified purposes are satisfied, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of operations and changes in net assets as other revenues or other changes in net assets without donor restrictions, depending on the nature of the restriction.

Patient Services Revenues

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, (ASU No. 2014-09), which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. Health Services adopted this new standard using the modified retrospective method of application to all contracts existing on January 1, 2018. Health Services elected to apply the optional exemption provided in FASB Accounting Standards Codification (ASC) paragraph 606-10-65-1(h) and, therefore, has applied the guidance only to contracts that were not completed contracts at January 1, 2018. The adoption of ASU No. 2014-09 did not have a significant impact on the recognition of patient services revenues for any periods prior to adoption, and management also expects the impact of this new standard in future periods will not be significant.

2. Significant Accounting Policies (continued)

Patient Services Revenues (continued)

The adoption of ASU No. 2014-09 resulted in changes to the presentation of consolidated statements of operations and changes in net assets with the provision for bad debts now being considered the provision for unpaid services that are recognized as a direct reduction to patient services revenues. Prior to adopting ASU No. 2014-09, the provision for bad debts was presented as a deduction to arrive at net patient services revenues. For the year ended December 31, 2018, Health Services recorded a provision for unpaid services of $300.4 as a direct reduction to patient services revenues that would have been recorded as a provision for bad debts prior to the adoption of ASU No. 2014-09. The provision for unpaid services is primarily based on historical collection experience for self-pay patients using a portfolio approach as a practical expedient to account for patient contracts as collective groups rather than individual contracts.

Patient services revenues are derived from contracts for healthcare services provided by Health Services to patients. Health Services receives payments directly from patients or on behalf of patients from the federal government under the Medicare program, state governments under their Medicaid programs, private insurance companies and managed care programs. Health Services recognizes patient services revenues from patients and third-party payers at amounts it expects to receive in exchange for providing patient care, including variable consideration (e.g., discounts and contractual adjustments) for estimated retroactive adjustments under payment programs with third-party payers. Estimates of contractual allowances for third-party payers are based on payment terms in the associated contractual agreements and payment history. Patient services revenues are also adjusted in future periods as final settlements and reconciliations with third-party payers are determined. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient services revenues in the period of the change.

Performance obligations for healthcare services provided to patients generally relate to contracts of one year or less. Health Services elected to apply the optional exemption provided in FASB ASC paragraph 606-10-50-14 and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to its performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. Performance obligations for inpatient services are generally completed at the time the patients are discharged. Performance obligations for outpatient services are generally satisfied over a period of less than a day.

2. Significant Accounting Policies (continued)

Patient Services Revenues (continued)
For uninsured patients who do not qualify for charity care, Health Services recognizes patient services revenues for services provided on a discounted basis from its established rates, as provided by policy. Based on historical experience, a significant portion of Health Services' uninsured and underinsured patients are unwilling to pay for the services provided. Accordingly, Health Services records a provision for unpaid services (or provision for bad debts prior to adoption of ASU No. 2014-09) in the period services are rendered.

Management estimates the provision for unpaid services by assessing the collectibility, timing and amount of patient services revenues by considering historical collection rates for each major payer source, general economic trends and other indicators. Management also assesses the adequacy of this provision based on historical write-offs, accounts receivable aging and other factors.

Premiums and Administration Fees
Premium revenues are derived from SelectHealth membership contracts with employer groups, individuals and government entities that are generally written on an annual basis. The associated premiums are recognized as revenue in the period in which enrolled members are entitled to receive healthcare services. Deferred revenue includes amounts received by SelectHealth prior to the period of coverage and is included in other current liabilities in the consolidated balance sheets. Administration fees consist of amounts charged by SelectHealth to self-funded employer groups for services performed in connection with the administration of the health benefit programs. The associated fees are recognized as revenue in the period services are performed.

SelectHealth adopted ASU No. 2014-09 using the modified retrospective method of application to all contracts existing on January 1, 2018. SelectHealth also elected to apply the optional exemption provided in FASB ASC paragraph 606-10-65-1(h). The adoption of ASU 2014-09 did not have a significant impact on the recognition of premium and administration fees revenues for any periods prior to adoption, and management expects the impact of adopting this new standard will not be significant in future periods. Additionally, SelectHealth elected to apply the optional exemption provided in FASB ASC paragraph 606-10-50-14. Performance obligations for premiums and administration fees revenues are generally satisfied over a period of one year.

2. Significant Accounting Policies (continued)

Other Revenues

Other revenues primarily include pharmacy sales, lab services to unaffiliated healthcare providers, net assets released from restrictions, medical office rentals and cafeteria sales. The Company recognizes other revenues at amounts that reflect the consideration it has received, or to which it expects to be entitled, in exchange for providing products or services. Performance obligations for other revenues are generally satisfied over a period of one year or less. The adoption of ASU No. 2014-09 did not have a significant impact on the recognition of other revenues for any periods prior to adoption, and management expects the impact of adopting this new standard will not be significant in future periods.

Operating and Nonoperating Activities

The Company's primary objective is to meet the health needs of individuals through a broad range of general and specialized health services, including inpatient acute care, outpatient services, clinical services, health insurance and other health services. Activities directly associated with the furtherance of this objective are considered to be operating activities. Nonoperating activities are included in nonoperating income (loss) in the consolidated statements of operations and changes in net assets and include investment activities and the financial results of certain affiliates in which Health Services maintains controlling ownership interests.

Excess of Revenues over Expenses

Excess of revenues over expenses includes the Company's operating and nonoperating activities. Changes in net assets without donor restrictions not included in excess of revenues over expenses primarily include unrecognized changes in funded status of postretirement benefit plans and change in net unrealized investment gains on other-than-trading securities.

Fair Value of Financial Instruments

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction among market participants on the measurement date. The carrying amounts of accounts receivable, accounts payable and accrued liabilities approximate fair value due to the short-term nature of these instruments. Cash and equivalents and assets limited as to use are carried at fair value.

2. Significant Accounting Policies (continued)

Pension and Other Postretirement Plans

The Company records amounts related to its pension and other postretirement plans based on estimates that incorporate various actuarial and other assumptions, including discount rates, mortality, rates of return, compensation increases and employee turnover rates. Management reviews these assumptions on an annual basis and modifies them based on current rates and trends, as appropriate. The effect of modifications to the assumptions is recorded as a change in net assets without donor restrictions excluded from excess of revenues over expenses and is amortized to pension cost and other postretirement benefit over future periods using the corridor method. Management believes that the assumptions utilized in recording its obligations under its pension and other postretirement plans are reasonable based on the experience of these plans and market conditions.

Pending Accounting Pronouncements

In January 2016, the FASB issued ASU No. 2016-01, *Financial Instruments – Overall: Recognition and Measurement of Financial Assets and Financial Liabilities*. This ASU, among other things, requires changes in the fair value of equity securities classified as other than trading to be recognized in excess of revenues over expenses and updates certain disclosure requirements related to financial instruments. The provisions of this ASU will be adopted by the Company beginning January 1, 2019. As permitted, the Company early adopted the option to remove the fair value of debt disclosure in these consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases*. This ASU requires lessees to recognize a lease liability and a right-of-use (ROU) asset for all leases longer than 12 months at the commencement date of the lease and disclose key information about leasing arrangements. In July 2018, the FASB issued ASU No. 2018-11, *Leases – Targeted Improvements,* which provides additional transition guidance. The provisions of these ASUs will be adopted by the Company beginning January 1, 2019. When this ASU is adopted, the Company will recognize ROU assets and lease liabilities of approximately $185.0 in the consolidated balance sheets.

3. Charity Care and Community Benefit

The cost of charity care provided by Health Services was $180.1 and $173.1 in 2018 and 2017, respectively. The cost to provide charity care for patients who qualify under Health Services' financial assistance policy was determined by multiplying the charges incurred at established rates for services rendered by Health Services' cost-to-charge ratio. In addition to charity care, the Company also provides significant financial support to improve the health of individuals in the communities it serves.

(Dollars in Millions)

3. Charity Care and Community Benefit (continued)

A summary of estimated costs to provide charity care and other community services is as follows:

	Year Ended December 31 2018	2017
Cost of charity care	$ 180.1	$ 173.1
Other community benefit services and contributions	107.8	91.7
Volunteer services	2.4	2.5
	$ 290.3	$ 267.3

Health Services also incurs shortfalls between its established rates and amounts paid by the Medicare (principally related to elderly patients) and Medicaid (principally related to low-income patients) programs. These shortfalls are not included in charity care or other community services.

The Company provides community benefit activities that address significant health priorities identified by the Company. Activities include community health education and community-based health initiatives focusing on prediabetes prevention, high blood pressure, depression, suicide, and prescription opioid misuse as well as increasing access to health and behavioral health services. Other community benefit activities include community and school-based health clinics, intern and resident training, health professions education and medical research. Health Services owns and operates four community and school-based health clinics to meet the needs of uninsured, low-income and homeless patients in neighborhoods where there are no other healthcare providers. The Company also provides financial and in-kind support to 54 independently owned community safety-net clinics in Utah and Idaho that provide healthcare services to medically underserved patients. In addition, Health Services is committed to providing healthcare services to rural communities, operating nine hospitals in rural locations.

In 2018, Health Services committed $15.0 to the Huntsman Cancer Foundation (HCF) to support research at the Huntsman Cancer Institute (HCI). Neither HCF nor HCI is affiliated with Health Services. As of December 31, 2018, Health Services had paid $3.0 and is scheduled to pay $3.0 annually from 2019 to 2022. Also, in 2018, Health Services committed $10.0 to HCF to improve community health initiatives for the Utah Cancer Outcomes, Outreach, and Policy Center (Utah Cancer Co-Op). Utah Cancer Co-Op is not affiliated with Health Services. As of December 31, 2018, Health Services had paid $2.0 and is scheduled to pay $2.0 annually from 2019 to 2022. In addition, in 2018, Health Services committed $12.0 to United Way of Northern Utah (United Way) to support the Utah Alliance for the Determinants of Health (Alliance). The United Way and the Alliance are not affiliated with Health Services. As of December 31, 2018, Health Services had paid $2.0 and is scheduled to pay $2.0 in 2019 and $4.0 in 2020 and 2021.

3. Charity Care and Community Benefit (continued)

In 2015, Health Services committed $9.0 to the HCF to support research at HCI. In 2017, Health Services paid $3.0 to fulfill this commitment. Also, in 2015, Health Services committed $15.0 to the University of Utah School of Medicine (UUSM) to support the construction of UUSM's new education building. UUSM is not affiliated with Health Services. As of December 31, 2018, Health Services had paid $9.0 and is scheduled to pay $3.0 in 2019 and 2020.

In 2013, Health Services committed $20.0 to HCF to support the construction of HCI's Primary Children's and Families' Cancer Research Center. In 2018, Health Services paid $4.0 to fulfill this commitment.

Health Services provides a number of services that are not financially self-supporting, in that net patient services revenues are less than the costs required to provide the services. Such negative margin services benefit uninsured and low-income patients as well as the broader community. For example, Health Services is the principal or only provider of behavioral health services, certain medical specialties and select primary care services in many of the communities in which it operates.

SelectHealth provides cost-effective insurance programs to underserved markets, including individuals and small employer groups. SelectHealth offers plans in Utah and Idaho in the insurance marketplaces resulting from the Patient Protection and Affordable Care Act (ACA). The communities SelectHealth serves also benefit from a variety of sponsored health and wellness activities, including online and work-site health programs, health fairs and flu shot clinics. In addition, SelectHealth provides annual grants to outside organizations that promote health.

The communities the Company serves also benefit from services provided by volunteers, trustees and medical staff that might otherwise require the use of compensated employees and trustees. Volunteer services are not reported as operating expenses in the consolidated statements of operations and changes in net assets because no payment is made.

4. Premium Stabilization Programs

With the enactment of the ACA in 2010, significant reforms were implemented that impacted new plan offerings in the individual and small employer markets SelectHealth serves. To stabilize financial results, the federal government established permanent and transitional risk sharing programs with insurers of ACA compliant plans. The transitional risk-sharing programs expired on December 31, 2016.

4. Premium Stabilization Programs (continued)

The permanent risk adjustment program redistributes insurer premiums based on market data. Estimated receipts and disbursements related to the risk adjustment program are included in premiums and administration fees in the consolidated statements of operations and changes in net assets. Net receivable balances related to this risk adjustment program are included in other current assets in the consolidated balance sheets and were $15.7 and $20.2 as of December 31, 2018 and 2017, respectively. Payables related to the risk adjustment program are included in accounts payable and accrued liabilities in the consolidated balance sheets and were $59.8 as of December 31, 2018. The Company had no payables for the risk adjustment program as of December 31, 2017.

The transitional risk corridor program, which shared excessive insurer gains or losses with the federal government, resulted in receivable balances of $443.0 and $444.0 as of December 31, 2018 and 2017, respectively. However, due to uncertainty regarding the collectibility of this receivable from the federal government, corresponding allowances of $443.0 and $444.0 were recorded as of December 31, 2018 and 2017, respectively. As of December 31, 2018, the Company has received $18.3 of the amounts owed for 2014 from the risk corridor program. No risk corridor amounts have been received for either 2015 or 2016. Management intends to aggressively pursue all available means to collect risk corridor receivables that it believes are fully valid under existing law. Receivables related to the transitional reinsurance program are not significant as of December 31, 2018 or 2017.

The ACA includes a medical loss ratio (MLR) provision requiring insurers to rebate premium to policyholders if certain minimum expense to premium thresholds are not met. SelectHealth met its MLR requirements and did not issue any rebates related to the years ended December 31, 2018 and 2017.

(Dollars in Millions)

5. Liquidity and Availability of Financial Resources

A summary of financial assets available to meet cash needs for general expenditures within one year as of December 31, 2018 is as follows:

Cash and equivalents	$ 723.2
Assets limited as to use	7,040.3
Due from brokers for securities sold	296.8
Accounts receivable, net	644.2
Other current assets	285.4
Less amounts not available to be used within one year:	
Private debt, private equity, real asset and strategic development funds	(1,043.3)
Donor-restricted funds	(228.4)
Bond funds held in trust	(54.6)
Investments held by a trustee per statutory requirements	(39.2)
Prepaid assets and other	(61.9)
	$ 7,562.5

Donor-restricted funds are available for expenditure upon satisfaction of the restriction, the expected timing of which is not generally determinable in advance. The Company also has a $100.0 line of credit available as of December 31, 2018, as described in Note 11.

6. Fair Value Measurements

The methods used to determine the fair value of financial instruments reflect market participant objectives and are based on the application of a valuation hierarchy that prioritizes observable market inputs over unobservable inputs. The hierarchy is based on the reliability of inputs as follows:

- Level 1 – Valuation is based on quoted prices for identical financial instruments in active markets. Valuation for certain investments is based on the net asset value (NAV) per share provided by fund administrators. The Company does not adjust the quoted price or NAV per share for Level 1 financial instruments.

- Level 2 – Valuation is based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and independent pricing models or other model-based valuation techniques using observable inputs.

(Dollars in Millions)

6. Fair Value Measurements (continued)

- Level 3 – Certain types of financial instruments are classified as Level 3 within the valuation hierarchy because these financial instruments trade infrequently and, therefore, have little or no price transparency.

The following table presents a categorization, based on the foregoing valuation hierarchy, of the Company's financial instruments measured at fair value as of December 31, 2018:

	Level 1	Level 2	Level 3	Fair Value
Cash equivalents	$ 396.7	$ –	$ –	$ 396.7
Assets limited as to use:				
Cash investments	$ 100.3	$ 4.9	$ –	$ 105.2
Equity securities:				
Domestic	1,005.3	–	–	1,005.3
Emerging markets	404.6	–	–	404.6
Energy funds	350.3	–	–	350.3
Global/international	388.8	–	–	388.8
Fixed-income securities:				
Asset-backed	–	136.6	4.0	140.6
Corporate	21.5	492.2	0.8	514.5
Foreign government	–	38.0	–	38.0
Global/international debt funds	117.3	–	–	117.3
Mortgage-backed:				
Commercial	–	29.0	–	29.0
Residential	6.9	512.7	–	519.6
Registered investment company funds	8.7	–	–	8.7
U.S. and state government agencies	8.8	47.3	–	56.1
U.S. government	–	672.0	–	672.0
Asset allocation funds	52.2	–	–	52.2
Investment derivatives	–	(0.7)	–	(0.7)
	$ 2,464.7	$ 1,932.0	$ 4.8	4,401.5
Investments measured using NAV per share or its equivalent				2,638.8
Fair value of assets limited as to use				$ 7,040.3

(Dollars in Millions)

6. Fair Value Measurements (continued)

The following table presents a categorization, based on the foregoing valuation hierarchy, of the Company's financial instruments measured at fair value as of December 31, 2017:

	Level 1	Level 2	Level 3	Fair Value
Cash equivalents	$ 48.4	$ –	$ –	$ 48.4
Assets limited as to use:				
Cash investments	$ 133.8	$ 41.6	$ –	$ 175.4
Equity securities:				
Common/collective trust funds	104.3	–	–	104.3
Domestic	969.6	–	–	969.6
Emerging markets	555.2	–	–	555.2
Energy funds	398.3	–	–	398.3
Global/international	496.9	–	–	496.9
Fixed-income securities:				
Asset-backed	–	84.3	5.3	89.6
Corporate	19.6	315.1	0.8	335.5
Foreign government	–	18.1	–	18.1
Global/international debt funds	124.6	–	–	124.6
Mortgage-backed:				
Commercial	–	25.3	–	25.3
Residential	6.7	408.1	–	414.8
Registered investment company funds	8.9	–	–	8.9
U.S. and state government agencies	10.2	38.6	–	48.8
U.S. government	–	679.9	–	679.9
Asset allocation funds	55.8	–	–	55.8
	$ 2,883.9	$ 1,611.0	$ 6.1	4,501.0
Investments measured using NAV per share or its equivalent				2,558.0
Fair value of assets limited as to use				$ 7,059.0

6. Fair Value Measurements (continued)

There were no transfers of financial instruments between Level 1 and Level 2 classifications during either 2018 or 2017. Changes in Level 3 financial instruments were not significant.

The Company uses a practical expedient for the estimation of the fair value of investments in funds for which the investment does not have a readily determinable fair value. The practical expedient used by the Company for certain financial instruments is the NAV per share. Valuations provided by fund administrators for these financial instruments consider variables such as the financial performance of underlying investments, recent sales prices of underlying investments and other pertinent information. Management reviews the valuations and assumptions provided by fund administrators for reasonableness and believes that the carrying amounts of these financial instruments are reasonable estimates of fair value.

The practical expedient used by the Company for certain financial instruments is the NAV per share equivalent. For these financial instruments, the valuation of the transaction price is initially used as the best estimate of fair value. Accordingly, when a private debt, private equity, real asset or strategic development fund administrator provides a valuation, it is adjusted so the value at inception equals the transaction price. The initial valuation is adjusted when changes to inputs and assumptions are corroborated by evidence, such as transactions of similar financial instruments; completed or pending third-party transactions in the underlying security; offerings in the capital markets; or changes in financial results, data or cash flows. For positions that are not traded in active markets or are subject to notice provisions, valuations are adjusted to reflect such provisions, and the adjustments are generally based on available market evidence.

(Dollars in Millions)

6. Fair Value Measurements (continued)

The Company uses the NAV per share or its equivalent to measure fair value of the following types of investments as of December 31:

	2018	2017	Redemption Frequency	Redemption Notice Period
Asset allocation funds	$ –	$ 55.9	Semi-monthly, monthly	5–30 days
Global/international debt funds	165.5	296.2	Daily, monthly	1–15 days
Commodities funds	147.9	168.5	Monthly	5–30 days
Common/collective trust funds	496.3	525.0	Monthly	6–30 days
Global/international equity fund	89.8	–	Monthly	60 days
Absolute return and hedge funds	696.0	628.9	Semi-monthly, monthly, quarterly	5–92 days
Private debt, private equity, real asset and strategic development funds	1,043.3	883.5	Event-driven	–
	$ 2,638.8	$ 2,558.0		

The fair values of private debt, private equity, real asset and strategic development funds have been estimated using the most current information available, which is as of September 30 of the year listed or later, adjusted for cash flows and other known events impacting fair value since the valuation date. Health Services has committed up to $1,802.4 for investment in these funds through 2024, of which $1,118.4 had been funded as of December 31, 2018.

(Dollars in Millions)

6. Fair Value Measurements (continued)

Health Services has certain interest rate swap agreements related to its long-term debt to manage its exposure to fluctuations in interest rates. These interest rate swap agreements are reported in other liabilities in the consolidated balance sheets. The valuation of these agreements is determined using accepted valuation techniques, including an analysis of the discounted expected cash flows of each interest rate swap. This analysis reflects the contractual terms of the interest rate swaps, including the period to maturity or call, and uses observable market-based inputs, including interest rate curves and implied volatilities. In addition, Health Services has incorporated the risks of its own and the counterparties' nonperformance in the fair value measurements.

Under the provisions of a master netting arrangement, Health Services offsets the fair value of certain investment derivative instruments transacted with the same counterparty. Health Services invests in a variety of investment derivative instruments through a fixed-income manager that has executed a master netting arrangement with the counterparties of each of its contracts for futures and forward currency purchases and sales whereby the financial instruments held by the same counterparty are legally offset as the instruments are settled.

The following table presents gross investment derivative assets and liabilities reported on a net basis included in assets limited as to use in the consolidated balance sheets:

	December 31	
	2018	**2017**
Derivative assets:		
Futures contracts	$ 112.7	$ 1,340.3
Interest rate swap agreements and other contracts	794.1	623.9
	906.8	1,964.2
Derivative liabilities:		
Futures contracts	(112.7)	(1,340.3)
Interest rate swap agreements and other contracts	(794.8)	(623.9)
	(907.5)	(1,964.2)
Net investment derivative liabilities	$ (0.7)	$ —

(Dollars in Millions)

7. Assets Limited as to Use

Assets limited as to use consist of internally and externally designated investments as follows:

	December 31	
	2018	**2017**
Internally designated	$ 6,757.3	$ 6,807.4
Donor-restricted funds	228.4	251.6
Bond funds held in trust	54.6	—
	$ 7,040.3	$ 7,059.0

Assets limited as to use reported as current include certain internally designated investments. These investments are available for the repayment of long-term debt subject to short-term remarketing arrangements should such repayment become necessary and for the payment of amounts due to brokers for securities purchased.

Assets limited as to use reported as noncurrent include certain internally designated investments, bond funds held in trust and donor-restricted funds. These investments are available for the acquisition of property and equipment, repayment of long-term debt, and the payment of professional and general liability and workers' compensation self-insurance claims. Bond funds held in trust include amounts held by a trustee in accordance with bond trust indentures. The use of these funds is primarily restricted to reimbursing Health Services for the costs of certain capital projects. Donor-restricted funds include amounts held by consolidated foundations that will be used for various healthcare programs and services, buildings and equipment, local community needs, or research activities.

The Company classifies its assets limited as to use as follows:

	December 31	
	2018	**2017**
Other-than-trading securities	$ 4,203.3	$ 4,221.4
Trading securities	2,283.4	2,256.7
Investments held by consolidated foundations	364.1	358.2
Equity method investment funds and other	189.5	222.7
	$ 7,040.3	$ 7,059.0

(Dollars in Millions)

7. Assets Limited as to Use (continued)

A summary of other-than-trading securities as of December 31, 2018 is as follows:

	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Cash investments	$ 56.3	$ –	$ –	$ 56.3
Equity securities:				
Domestic	465.2	176.1	(3.0)	638.3
Emerging markets	374.5	4.9	(20.2)	359.2
Energy funds	1.6	–	–	1.6
Global/international	79.7	4.4	(2.5)	81.6
Fixed-income securities:				
Asset-backed	4.0	–	–	4.0
Corporate	63.8	–	(0.1)	63.7
Global/international debt funds	283.6	12.3	(13.1)	282.8
U.S. and state government agencies	17.6	–	(0.1)	17.5
U.S. government	274.7	–	(6.3)	268.4
Asset allocation funds	3.8	–	(0.3)	3.5
Alternative investments:				
Absolute return and hedge funds	649.6	67.6	(21.2)	696.0
Commodities funds	159.7	–	(11.8)	147.9
Common/collective trust funds	326.1	122.2	(3.6)	444.7
Global/international equity fund	100.0	–	(10.2)	89.8
Private debt funds	269.4	48.7	(1.9)	316.2
Private equity funds	291.8	110.6	(4.3)	398.1
Real asset funds	178.2	32.8	(8.8)	202.2
Strategic development funds	105.4	27.3	(1.2)	131.5
	$ 3,705.0	$ 606.9	$ (108.6)	$ 4,203.3

(Dollars in Millions)

7. Assets Limited as to Use (continued)

A summary of other-than-trading securities as of December 31, 2017 is as follows:

	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Cash investments	$ 65.4	$ –	$ –	$ 65.4
Equity securities:				
Common/collective trust funds	350.5	225.1	–	575.6
Domestic	372.2	235.1	–	607.3
Emerging markets	429.1	67.6	–	496.7
Energy funds	1.5	–	–	1.5
Global/international	106.1	27.2	–	133.3
Fixed-income securities:				
Asset-backed	4.0	–	–	4.0
Corporate	4.5	–	–	4.5
Global/international debt funds	392.2	28.6	–	420.8
U.S. and state government agencies	14.7	–	–	14.7
U.S. government	205.2	0.2	(1.0)	204.4
Asset allocation funds	56.7	2.8	–	59.5
Alternative investments:				
Absolute return and hedge funds	572.8	59.8	(3.7)	628.9
Commodities funds	159.7	8.8	–	168.5
Private debt funds	210.1	37.9	(0.5)	247.5
Private equity funds	267.3	82.5	(5.1)	344.7
Real asset funds	171.3	31.5	(5.0)	197.8
Strategic development funds	45.6	3.2	(2.5)	46.3
	$ 3,428.9	$ 810.3	$ (17.8)	$ 4,221.4

(Dollars in Millions)

7. Assets Limited as to Use (continued)

A summary of other-than-trading securities that were in continuous unrealized loss positions but were deemed to be temporarily impaired as of December 31, 2018 is as follows:

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Equity securities:						
Domestic	$ 106.0	$ (3.0)	$ –	$ –	$ 106.0	$ (3.0)
Emerging markets	295.9	(20.2)	–	–	295.9	(20.2)
Global/international	32.8	(2.5)	–	–	32.8	(2.5)
Fixed-income securities:						
Corporate	59.2	(0.1)	0.7	–	59.9	(0.1)
Global/international debt funds	192.5	(13.1)	–	–	192.5	(13.1)
U.S. and state government agencies	6.0	(0.1)	10.3	–	16.3	(0.1)
U.S. government	151.8	(2.7)	109.6	(3.6)	261.4	(6.3)
Asset allocation funds	3.5	(0.3)	–	–	3.5	(0.3)
Alternative investments:						
Absolute return and hedge funds	108.8	(20.9)	15.7	(0.3)	124.5	(21.2)
Commodities funds	147.9	(11.8)	–	–	147.9	(11.8)
Common/collective trust funds	24.2	(3.6)	–	–	24.2	(3.6)
Global/international equity funds	89.8	(10.2)	–	–	89.8	(10.2)
Private debt funds	30.7	(1.9)	–	–	30.7	(1.9)
Private equity funds	4.5	(0.3)	11.4	(4.0)	15.9	(4.3)
Real asset funds	14.6	(0.3)	48.3	(8.5)	62.9	(8.8)
Strategic development funds	1.3	(0.1)	11.4	(1.1)	12.7	(1.2)
Total temporarily impaired securities	$ 1,269.5	$ (91.1)	$ 207.4	$ (17.5)	$ 1,476.9	$ (108.6)

(Dollars in Millions)

7. Assets Limited as to Use (continued)

A summary of other-than-trading securities that were in continuous unrealized loss positions but were deemed to be temporarily impaired as of December 31, 2017 is as follows:

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	**Gross Unrealized Losses**	**Fair Value**	**Gross Unrealized Losses**	**Fair Value**	**Gross Unrealized Losses**
Fixed-income securities:						
U.S. government	$ 80.0	$ (0.3)	$ 82.0	$ (0.7)	$ 162.0	$ (1.0)
Alternative investments:						
Absolute return and hedge funds	98.5	(2.7)	11.0	(1.0)	109.5	(3.7)
Private debt funds	19.3	(0.5)	–	–	19.3	(0.5)
Private equity funds	12.5	(0.8)	21.6	(4.3)	34.1	(5.1)
Real asset funds	9.6	(1.5)	32.9	(3.5)	42.5	(5.0)
Strategic development funds	3.6	(0.5)	10.2	(2.0)	13.8	(2.5)
Total temporarily impaired securities	$ 223.5	$ (6.3)	$ 157.7	$ (11.5)	$ 381.2	$ (17.8)

Gross unrealized losses shown in the preceding tables are considered temporary based on the Company's specific criteria for evaluating these losses. Impairment of other-than-trading securities is evaluated considering numerous factors, including the length of time and extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer of the security, and the Company's intent and ability to hold other-than-trading securities for a period of time sufficient to allow for an anticipated recovery to the cost basis.

For fixed-income securities whose fair values have declined below amortized cost, the Company also evaluates the expected cash flows and the likelihood of receiving all contractual principal and interest payments. For fixed-income securities that are deemed not to be credit impaired, the Company assesses whether it intends or would be required to sell the security before the expected recovery of the amortized cost basis.

If the loss incurred on equity securities or the credit component of the loss incurred on fixed-income securities is determined to be other than temporary based on the Company's evaluation, then the loss is reclassified from a change in net assets without donor restrictions excluded from excess of revenues over expenses to investment income in the consolidated statements of operations and changes in net assets.

(Dollars in Millions)

8. Property and Equipment

A summary of property and equipment is as follows:

	December 31	
	2018	**2017**
Buildings and improvements	$ 3,292.2	$ 2,953.1
Equipment and software	1,589.1	1,508.5
	4,881.3	4,461.6
Less accumulated depreciation	(2,698.5)	(2,531.6)
	2,182.8	1,930.0
Construction in progress	810.2	887.7
Land	341.2	314.6
	$ 3,334.2	$ 3,132.3

The estimated useful life is 10 to 40 years for buildings and improvements, 3 to 15 years for equipment and 3 to 7 years for software. As of December 31, 2018, the Company had remaining contractual obligations of $196.4 for various construction and software development projects.

9. Other Assets

A summary of other noncurrent assets is as follows:

	December 31	
	2018	**2017**
Investments in unconsolidated entities	$ 57.7	$ 67.7
Intangible assets, net	49.1	50.0
Contributions receivable, net	43.0	52.8
Prepaid health and welfare plan benefit	33.9	36.3
Other	10.0	5.2
	$ 193.7	$ 212.0

(Dollars in Millions)

10. Other Current Liabilities

A summary of other current liabilities is as follows:

	December 31	
	2018	**2017**
Medicare and Medicaid settlements	$ 78.0	$ 72.0
Deferred revenue	36.8	53.0
Self-insurance liabilities, current portion	35.2	26.2
Other	10.2	11.8
	$ 160.2	$ 163.0

Medicare and Medicaid settlements represent estimated cost report and other third-party settlements. Laws and regulations governing Medicare and Medicaid change frequently, are complex, and are subject to interpretation. Administrative procedures for both Medicare and Medicaid preclude final settlement until the related cost reports have been audited by the sponsoring agency and settled.

11. Line of Credit

Health Services has a syndicated line of credit of $100.0 with four financial institutions, each providing $25.0 of this line. As of and throughout the years ended December 31, 2018 and 2017, there were no amounts outstanding on the line of credit, which expires October 6, 2022.

12. Self-insurance Liabilities

Self-insurance programs include professional and general liability, workers' compensation, and directors' and officers' liability coverage through self-insurance programs and commercial excess liability insurance. Total undiscounted self-insurance liabilities, including current and noncurrent liabilities, were $152.5 and $144.5 as of December 31, 2018 and 2017, respectively. The noncurrent portion of self-insurance liabilities is included in other liabilities in the consolidated balance sheets. The liabilities for the professional liability and workers' compensation programs are based on actuarial estimates.

(Dollars in Millions)

13. Long-term Debt

Health Services' long-term debt is summarized as follows:

	Annual Interest Rates	December 31 2018	December 31 2017
Revenue bond issues:			
2000, due through 2035	Variable[1]	$ 125.0	$ 125.0
2002B and 2002C, due through 2035	Variable[1]	41.5	41.5
2003, due through 2036	Variable[1]	305.5	308.0
2005, due through 2037	Variable[1]	157.5	163.3
2009, due through 2041	5.00%	—	217.0
2011, due through 2019	5.00%	7.8	15.2
2012A, due through 2039	4.38%	200.0	200.0
2012, due through 2043	2.75% – 5.00%	221.4	221.4
2014A, due through 2045	4.00% – 5.00%	158.1	158.1
2014B and 2014C, due through 2049	Variable[1]	80.0	80.0
2016A, due through 2026	3.00% – 5.00%	50.6	53.4
2016B, due through 2047	3.00% – 5.00%	179.0	181.2
2016C, 2016D and 2016E, due through 2051	Variable[1]	200.0	200.0
2018A, due through 2041	4.00% – 5.00%	200.0	—
2018B, due through 2057	5.00%	100.0	—
2018C, due in 2058	Variable[1]	50.0	—
Taxable bond issue, 2018, due in 2048	4.13%	227.1	—
Other notes payable	4.35%	3.7	4.2
		2,307.2	1,968.3
Add net unamortized premiums, discounts and debt issuance costs		76.4	50.8
Less current portion of long-term debt		(31.8)	(30.9)
Less long-term debt subject to short-term remarketing arrangements		(457.2)	(407.1)
Long-term debt		$ 1,894.6	$ 1,581.1

[1]Variable rates as of December 31, 2018 were 1.58% – 1.80%.

13. Long-term Debt (continued)

As of December 31, 2018, Health Services had certain interest rate swap agreements that effectively convert $497.9 of the principal balances of $959.5 of its variable-rate debt to a fixed-rate basis.

In July 2018, Health Services issued $200.0 of Series 2018A Hospital Revenue Bonds at a premium of $21.1, $100.0 of Series 2018B Hospital Revenue Bonds at a premium of $11.6, $50.0 of Series 2018C Hospital Revenue Bonds at par, and $227.1 of Series 2018 Taxable Bonds at par. Proceeds from the Series 2018A, 2018B, and 2018C Hospital Revenue Bonds were used to fund construction costs for certain of Health Services' healthcare facilities. Proceeds from the Series 2018 Taxable Bonds were used to refund $217.0 of Series 2009 Hospital Revenue Bonds.

Variable-rate revenue bonds, while subject to long-term amortization periods, may be put to Health Services or to contracted liquidity providers by virtue of executed standby bond purchase agreements at the option of the bondholders in the event of a failed bond remarketing. To the extent that bondholders may, under the terms of the debt, put their bonds back to Health Services and the repayment terms under the related liquidity facility could be due within one year, the principal amount of such bonds has been classified as a current liability in the consolidated balance sheets. Management has taken steps to provide various sources of liquidity in the event the bonds fail to remarket, including identifying alternate sources of financing and maintaining internally designated assets as a source of self-liquidity.

Revenue bonds are issued by municipalities or counties on behalf of Health Services and are secured by notes issued by Health Services under a master trust indenture (MTI). Under the terms of the MTI, the requirement to repay long-term debt evidenced by the notes is a general obligation of Health Services as the current sole member of an obligated group established by the MTI, but is not secured by a pledge, grant or mortgage of any assets of Health Services. The MTI and other credit and liquidity facility agreements contain certain financial covenants, including maintaining a minimum debt service coverage ratio and an unrestricted cash and investments to debt ratio.

(Dollars in Millions)

13. Long-term Debt (continued)

Principal maturities of long-term debt for the next five years and thereafter, considering long-term debt subject to short-term remarketing arrangements is due according to the long-term amortization schedules, are as follows:

2019	$ 31.8
2020	34.0
2021	35.2
2022	36.9
2023	39.3
Thereafter	2,130.0
Long-term debt principal payments	$ 2,307.2

14. Interest Rate Swap Agreements

Health Services has interest rate swap agreements that reduce the impact of interest rate changes on future interest expense. Changes in the fair value of these swap agreements are recognized in investment income in the consolidated statements of operations and changes in net assets. Notional amounts of these interest rate swap agreements were $844.7 as of December 31, 2018. None of these interest rate swap agreements were designated as cash flow hedges as of December 31, 2018 and 2017.

Accumulated net losses from interest rate swap agreements previously designated as cash flow hedges that have not been recognized in excess of revenues over expenses in the consolidated statements of operations and changes in net assets were $58.1 as of December 31, 2018. These accumulated net losses will be amortized to investment income in the consolidated statements of operations and changes in net assets through 2037 using the effective interest method.

The fair value of these interest rate swap liabilities, categorized as Level 2 of the valuation hierarchy and recorded in other liabilities in the consolidated balance sheets, was $146.3 and $178.2 as of December 31, 2018 and 2017, respectively.

Health Services has International Swap Dealers Association (ISDA) Master Agreements with four counterparties. Under the provisions of one ISDA agreement, as amended, Health Services is required to deposit collateral with the counterparty when the net liability position to Health Services of all interest rate swap agreements held with the counterparty exceeds $75.0 exclusive of any fair value adjustments to the liability positions for nonperformance risk. As of December 31, 2018 and 2017, no collateral was required to be posted under the provisions of this ISDA agreement. The provisions of the other ISDA agreements do not require collateral deposits.

(Dollars in Millions)

14. Interest Rate Swap Agreements (continued)

Under master netting provisions of each ISDA agreement, Health Services is permitted to settle with the counterparty on a net basis. Due to the right of offset under these master netting provisions, Health Services offsets the fair value of certain interest rate swap agreements and any related collateral deposited with the counterparty.

The effect of interest rate swap agreements in the consolidated statements of operations and changes in net assets is not significant.

15. Net Assets with Donor Restrictions

Net assets with donor restrictions are available for the following purposes:

	December 31	
	2018	**2017**
Subject to expenditure for specified purposes:		
Healthcare programs and services	$ 110.5	$ 115.2
Buildings and equipment	72.4	66.4
Community benefit	22.9	24.1
Research	10.4	10.3
	216.2	216.0
Donor-restricted endowments subject to spending policy and appropriation (including net accumulated earnings of $7.9 in 2018 and $10.4 in 2017):		
Research	23.9	25.4
Healthcare programs and services	20.7	20.0
Mental health initiatives	4.1	4.1
	48.7	49.5
	$ 264.9	$ 265.5

16. Litigation and Other Matters

The healthcare industry is subject to numerous laws, ordinances and regulations enacted or issued by federal, state and local governments. Compliance with these laws and regulations can be subject to future government review and interpretation, as well as regulatory actions unknown or unasserted at this time. Nationally, government activity has continued with respect to investigations and allegations concerning possible violations of laws and regulations within the healthcare industry, which could result in the imposition of significant fines and penalties, and significant repayments of amounts received for patient services previously billed. The Company is subject to such regulatory reviews.

Healthcare companies are subject to numerous investigations by various governmental agencies. Further, under the federal False Claims Act, private parties have the right to bring qui tam, or "whistleblower," suits against companies that submit false claims for payments to, or improperly retain overpayments from, the government. Certain of the Company's facilities have received, and from time to time, other facilities may receive, government inquiries from, and may be subject to investigation by, federal and state agencies. Management believes the resolution of any such inquiries or investigations will not have a material, adverse effect on the Company's results of operations or financial position.

Management is aware of certain asserted and unasserted legal claims and regulatory matters arising in the normal course of business. After consultation with legal counsel, management believes that all asserted and known unasserted claims will be resolved without material adverse effect on the Company's financial condition.

17. Revenues

<u>Patient Services Revenues</u>
Payments received under the Medicare, Medicaid and other programs are generally based on predetermined rates or the allowable cost of services. Overall, Medicare and Medicaid payments are less than Health Services' established rates and corresponding contractual adjustments are recognized in the period services are rendered. Patient services revenues were increased by $7.3 and $5.8 in 2018 and 2017, respectively, to reflect changes in Medicare and Medicaid settlements for prior years.

(Dollars in Millions)

17. Revenues (continued)

Patient Services Revenues (continued)

Patient services revenues, net of contractual adjustments, discounts and provision for unpaid services, by major payer source for the year ended December 31, 2018 are as follows:

Commercial insurance and other	$ 1,732.4
Medicare	1,118.9
Self-pay – after insurance	985.5
Medicaid	363.3
Self-pay – no insurance	64.6
	$ 4,264.7

Patient services revenues, net of contractual adjustments and discounts, by major payer source for the year ended December 31, 2017 are as follows:

Commercial insurance and other	$ 2,593.1
Medicare	1,034.7
Medicaid	473.6
Self-pay	124.9
	$ 4,226.3

The self-pay portion of patient services revenues related to insurance products is reported as revenues from the insurance payer source in 2017.

Premiums and Administration Fees Revenues

Premiums revenues by major product line and administration fees revenues for the year ended December 31, 2018 are as follows:

Premiums	
Individual	$ 1,111.8
Large employer	866.0
Small employer	490.4
Medicaid	359.2
Medicare	318.3
	3,145.7
Administration fees	48.4
	$ 3,194.1

(Dollars in Millions)

18. Functional Expenses

A summary of expenses by both nature and function for the year ended December 31, 2018 is as follows:

	Program Services			Support Services		
	Hospitals	Clinics	Health Insurance	Foundations and Grants	General and Admin-istrative	Total Expenses
Salaries and benefits	$ 2,027.0	$ 575.4	$ 123.6	$ 15.0	$ 296.7	$ 3,037.7
Supplies	919.4	90.1	6.0	1.0	341.6	1,358.1
Equipment and facility	48.3	10.1	2.8	–	29.6	90.8
Purchased services	221.8	53.2	39.6	3.3	436.9	754.8
Medical expenses	–	–	1,238.0	–	–	1,238.0
Administrative	62.7	23.5	157.4	6.3	66.2	316.1
Depreciation and amortization	243.3	36.6	6.2	0.1	33.1	319.3
Interest	54.1	8.2	–	–	–	62.3
	$ 3,576.6	$ 797.1	$ 1,573.6	$ 25.7	$ 1,204.1	$ 7,177.1

A summary of expenses by both nature and function for the year ended December 31, 2017 is as follows:

	Program Services			Support Services		
	Hospitals	Clinics	Health Insurance	Foundations and Grants	General and Admin-istrative	Total Expenses
Salaries and benefits	$ 1,980.1	$ 544.2	$ 114.4	$ 13.9	$ 316.3	$ 2,968.9
Supplies	834.4	80.6	6.1	0.8	302.0	1,223.9
Equipment and facility	80.3	12.9	3.1	0.2	39.6	136.1
Purchased services	185.3	51.1	44.3	2.2	338.2	621.1
Medical expenses	–	–	1,101.6	–	–	1,101.6
Administrative	51.1	22.4	112.4	6.1	9.0	201.0
Depreciation and amortization	200.8	30.2	6.3	0.1	44.0	281.4
Interest	41.4	5.6	–	–	–	47.0
	$ 3,373.4	$ 747.0	$ 1,388.2	$ 23.3	$ 1,049.1	$ 6,581.0

The financial statements report certain categories of expenses that are attributable to one or more programs or supporting activities of the Company. These expenses include those incurred in shared support services. Costs are generally allocated based on the relative size of expenses incurred by these functions.

(Dollars in Millions)

18. Functional Expenses (continued)

Program activities include a broad range of general and specialized healthcare activities and healthcare insurance for patients and members within the various geographic areas supported by the Company's operations. Supporting activities include information systems, revenue cycle, supply chain, accounting, budgeting, decision support, risk management, public relations, human resources, legal, compliance, internal audit, fundraising and other functions.

19. Loss from Nonoperating Affiliates

As described in Note 2, the activities of nonoperating affiliates represent strategic investments of Health Services and are peripheral to the core operations of delivering healthcare services. These nonoperating affiliate activities include the development of commercially available products, technologies and services directed toward improving the delivery of healthcare.

A summary of losses from nonoperating affiliates is as follows:

	Year Ended December 31	
	2018	**2017**
Revenues	$ 82.0	$ 58.9
Expenses		
Employee compensation and benefits	57.0	48.3
General and administrative	33.2	20.7
Depreciation and amortization	9.3	8.8
	99.5	77.8
Margin	(17.5)	(18.9)
Other income, net	3.7	5.7
Net loss before taxes	(13.8)	(13.2)
Income tax benefit	0.1	4.0
Net loss	$ (13.7)	$ (9.2)

(Dollars in Millions)

20. Employee Retirement and Other Postretirement Plans

Intermountain sponsors a 401(k) defined contribution plan for all employees. Employee contributions are matched up to a maximum of 4% of each participant's eligible compensation. The Company contributed $69.8 and $67.4 to the 401(k) plan in 2018 and 2017, respectively. Intermountain also sponsors a 457(b) defined contribution plan. Amounts invested for the 457(b) plan were $105.3 and $103.9 as of December 31, 2018 and 2017, respectively, and are included in noncurrent assets limited as to use and other liabilities in the consolidated balance sheets.

Intermountain also sponsors a noncontributory defined benefit pension plan, covering employees who are at least 21 years of age and have a minimum of one year of qualifying service.

A summary of changes in the benefit obligations, fair value of plan assets, and the pension liability is as follows:

	Year Ended December 31	
	2018	**2017**
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 3,078.8	$ 2,799.6
Service cost	135.4	130.0
Interest cost	115.1	113.4
Curtailment event	(5.5)	–
Benefits paid	(251.6)	(156.8)
Actuarial loss (gain)	(285.0)	192.6
Benefit obligation at end of year	2,787.2	3,078.8
Change in fair value of plan assets:		
Fair value of plan assets at beginning of year	2,746.6	2,498.5
Employer contributions	115.0	119.5
Actual return on plan assets, net of expenses	(57.7)	285.4
Benefits paid	(251.6)	(156.8)
Fair value of plan assets at end of year	2,552.3	2,746.6
Funded status – net liability	$ 234.9	$ 332.2

In 2018, Intermountain offered a lump-sum payout option to participants of the pension plan impacted by a curtailment event resulting in lump-sum payments of $40.4. The accumulated benefit obligation of the pension plan was $2,586.8 and $2,874.5 as of December 31, 2018 and 2017, respectively.

(Dollars in Millions)

20. Employee Retirement and Other Postretirement Plans (continued)

Amounts included in net assets without donor restrictions that will be recognized in pension cost in future periods are as follows:

	December 31	
	2018	**2017**
Unrecognized net actuarial loss	$ (1,005.9)	$ (1,126.0)
Unrecognized net prior service credit	49.1	71.9
Amounts in net assets without donor restrictions	$ (956.8)	$ (1,054.1)

Changes in net assets without donor restrictions for the pension plan are as follows:

	Year Ended December 31	
	2018	**2017**
Amortized during the year:		
Net actuarial loss	$ 60.4	$ 60.9
Net prior service credit	(19.4)	(19.9)
Curtailment gain	(3.4)	–
Occurring during the year:		
Net actuarial gain (loss)	59.7	(72.1)
Increase (decrease) in net assets without donor restrictions	$ 97.3	$ (31.1)

Net actuarial gains and losses incurred in the pension plan during 2018 and 2017 resulted primarily from changes in the discount rate and differences between the actual returns on plan assets and the assumed returns.

Assumptions used to determine the benefit obligation in the pension plan are as follows:

	December 31	
	2018	**2017**
Discount rate	4.46%	3.69%
Rate of compensation increase	4.00	4.00

(Dollars in Millions)

20. Employee Retirement and Other Postretirement Plans (continued)

A summary of pension cost is as follows:

	Year Ended December 31	
	2018	**2017**
Service cost	$ 135.4	$ 130.0
Interest cost	115.1	113.4
Expected return on plan assets	(173.2)	(164.9)
Amortization of net actuarial loss	60.4	60.9
Amortization of net prior service credit	(19.4)	(19.9)
Curtailment gain	(3.4)	–
	$ 114.9	$ 119.5

Amounts in net assets without donor restrictions expected to be recognized as components of net periodic pension cost in 2019 include a net actuarial loss of $50.7 and a net prior service credit of $17.4.

Assumptions used to determine pension cost are as follows:

	Year Ended December 31	
	2018	**2017**
Discount rate	3.69/4.26%	4.15%
Expected return on plan assets	6.50	6.50
Rate of compensation increase	4.00	4.00

The pension plan was remeasured on June 30, 2018 due to a curtailment event. The discount rates used to determine pension cost from January 1, 2018 through June 30, 2018 and from July 1, 2018 through December 31, 2018 were 3.69% and 4.26%, respectively.

The overall rate of return on assets assumption is based on historical returns, adhering to the asset allocations set forth in the investment policies of the pension plan. The expected return on plan assets is 6.50% for determining pension cost for the year ending December 31, 2019.

(Dollars in Millions)

20. Employee Retirement and Other Postretirement Plans (continued)

Methods for determining the fair value of financial instruments held by the pension plan are consistent with those described in Note 6. The following table presents a categorization, based on the valuation hierarchy, of the pension plan's financial instruments measured at fair value as of December 31, 2018:

	Level 1	Level 2	Fair Value
Cash investments	$ 70.6	$ 1.0	$ 71.6
Equity securities:			
Domestic	173.5	–	173.5
Emerging markets	100.4	–	100.4
Energy funds	151.3	–	151.3
Global/international	105.6	–	105.6
Fixed-income securities:			
Asset-backed	6.9	2.0	8.9
Corporate	–	202.4	202.4
Foreign government	–	15.6	15.6
Global/international debt funds	45.9	–	45.9
Mortgage-backed:			
Commercial	–	14.3	14.3
Residential	22.1	153.1	175.2
U.S. and state government agencies	27.9	15.5	43.4
U.S. government	–	138.6	138.6
Investment derivatives	–	1.6	1.6
	$ 704.2	$ 544.1	1,248.3
Investments measured using NAV per share or its equivalent			1,417.9
Accrued income			4.4
Transactions pending settlement, net			(118.3)
Fair value of plan assets			$ 2,552.3

(Dollars in Millions)

20. Employee Retirement and Other Postretirement Plans (continued)

The following table presents a categorization, based on the valuation hierarchy, of the pension plan's financial instruments measured at fair value as of December 31, 2017:

	Level 1	Level 2	Fair Value
Cash investments	$ 60.8	$ 3.4	$ 64.2
Equity securities:			
Domestic	260.4	–	260.4
Emerging markets	189.9	–	189.9
Energy funds	195.4	–	195.4
Global/international	158.4	–	158.4
Fixed-income securities:			
Asset-backed	14.8	2.8	17.6
Corporate	–	132.6	132.6
Foreign government	–	10.6	10.6
Global/international debt funds	42.4	–	42.4
Mortgage-backed:			
Commercial	–	17.6	17.6
Residential	21.5	140.2	161.7
U.S. and state government agencies	6.6	12.1	18.7
U.S. government	–	200.7	200.7
Investment derivatives	–	1.4	1.4
	$ 950.2	$ 521.4	1,471.6
Investments measured using NAV per share or its equivalent			1,437.6
Accrued income			3.7
Transactions pending settlement, net			(166.3)
Fair value of plan assets			$ 2,746.6

There were no transfers of the pension plan's financial instruments between Level 1 or Level 2 classifications during either 2018 or 2017.

(Dollars in Millions)

20. Employee Retirement and Other Postretirement Plans (continued)

The pension plan uses the NAV per share or its equivalent to measure fair value of the following types of financial instruments as of December 31, as described in Note 6:

	2018	2017	Redemption Frequency	Redemption Notice Period
Asset allocation funds	$ –	$ 32.1	Semi-monthly, monthly	5–30 days
Global/international debt funds	81.4	141.5	Daily, monthly	1–15 days
Commodities funds	73.0	88.3	Monthly	5–30 days
Common/collective trust funds	255.1	263.3	Monthly	5–30 days
Global/international equity funds	31.4	–	Monthly	60 days
Absolute return and hedge funds	379.2	372.0	Semi-monthly, monthly, quarterly	5–92 days
Private equity, private debt and real asset funds	597.8	540.4	Event-driven	–
	$ 1,417.9	$ 1,437.6		

Consistent with practices described in Note 6, the pension plan offsets the fair value of various investment derivative instruments when executed with the same counterparty under a master netting arrangement whereby the financial instruments held by the same counterparty are legally offset as the instruments are settled.

(Dollars in Millions)

20. Employee Retirement and Other Postretirement Plans (continued)

The following table presents gross investment derivative assets and liabilities reported on a net basis in pension plan investments:

	December 31	
	2018	**2017**
Derivative assets:		
Futures contracts	$ 111.2	$ 747.9
Forward currency and other contracts	32.7	45.6
	143.9	793.5
Derivative liabilities:		
Futures contracts	(111.2)	(747.9)
Forward currency and other contracts	(31.1)	(44.2)
	(142.3)	(792.1)
Net investment derivative assets	$ 1.6	$ 1.4

Intermountain has not yet determined the amount it will contribute to the pension plan in 2019.

Benefit payments, net of participant contributions, of the pension plan are expected to be paid as follows:

2019	$ 153.5
2020	160.4
2021	169.1
2022	178.5
2023	185.7
2024–2028	1,007.6

Intermountain also sponsors a contributory health and welfare postretirement benefit plan that offers medical benefits to eligible employees who have at least 10 years of qualified service and have attained age 55 while in service with the Company. The health and welfare plan also offers dental, group term life insurance, and short-term and long-term disability benefits to plan participants.

(Dollars in Millions)

20. Employee Retirement and Other Postretirement Plans (continued)

A summary of the benefit obligation, fair value of plan assets and unrecognized net actuarial gain that will be recognized in future periods for the health and welfare postretirement benefit plan is as follows:

	December 31	
	2018	2017
Benefit obligation	$ 27.2	$ 30.3
Fair value of plan assets	61.1	66.6
Unrecognized net actuarial gain	52.4	60.0

Intermountain has frozen certain benefits of the health and welfare postretirement benefit plan; therefore, the effect of future healthcare cost trend rates is not significant.

Methods for determining the fair value of financial instruments held by the health and welfare postretirement benefit plan are consistent with those described in Note 6. All financial instruments as of December 31, 2018 and 2017 were classified as Level 1.

21. Subsequent Events

The Company evaluated subsequent events through March 18, 2019, the date the consolidated financial statements were issued, and determined that no additional disclosures were necessary.