Consolidated Financial Statements

Banner Health and Subsidiaries
Years Ended December 31, 2017 and 2016
With Report of Independent Auditors

Ernst & Young LLP

Building a better
working world

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Years Ended December 31, 2017 and 2016

Contents

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Report of Independent Auditors

The Board of Directors
Banner Health

We have audited the accompanying consolidated financial statements of Banner Health and subsidiaries, which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the related consolidated statements of income, changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Banner Health and subsidiaries at December 31, 2017 and 2016, and the consolidated results of their operations and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Ernst & Young LLP

March 16, 2018

Banner Health and Subsidiaries

Consolidated Balance Sheets

	December 31 2017	December 31 2016
	(In Thousands)	
Assets		
Current assets:		
Cash and cash equivalents	**$ 292,911**	$ 175,798
Short-term investments	**59,114**	142,198
Collateral held under securities lending program and repurchase agreements	**452,770**	354,044
Assets limited as to use	**120,567**	124,927
Patient receivables, net of allowance for doubtful accounts of $214,189 and $191,512 in 2017 and 2016, respectively	**907,212**	792,372
Inventories	**192,877**	189,414
Other receivables	**264,295**	260,464
Other, primarily prepaid expenses	**64,590**	74,453
Total current assets	**2,354,336**	2,113,670
Assets limited as to use:		
Funds designated by:		
Board of Directors	**2,101,134**	1,814,987
Lease agreements	**1,901**	2,998
Funds held by trustees under:		
Self-insurance funding arrangements	**119,952**	132,511
Project fund	**44,957**	–
Other funds	**222,155**	186,890
Total assets limited as to use, less current portion	**2,490,099**	2,137,386
Assets held for sale	**2,140**	2,140
Property and equipment, net	**3,493,785**	3,223,479
Leased hospital assets	**226,907**	300,471
Other assets:		
Long-term investments	**2,374,808**	2,070,757
Other	**727,993**	627,241
Total other assets	**3,102,801**	2,697,998
Total assets	**$ 11,670,068**	$ 10,475,144

	December 31	
	2017	**2016**
	(In Thousands)	
Liabilities and net assets		
Current liabilities:		
Trade accounts payable	**$ 222,269**	$ 240,938
Current portion of long-term debt	**187,970**	55,949
Debt subject to self liquidity	**200,000**	100,000
Current portion of hospital lease obligation	**22,907**	23,785
Payable under securities lending program and repurchase agreements	**452,770**	354,044
Estimated current portion of third-party payor settlements	**10,313**	1,935
Accrued expenses:		
Salaries and benefits	**424,527**	422,676
Medical claims payable	**162,843**	99,280
Other	**268,004**	288,806
Total current liabilities	**1,951,603**	1,587,413
Long-term debt, less current portion	**3,004,176**	2,794,910
Hospital lease obligation	**223,061**	290,181
Estimated self-insurance liabilities, less current portion	**178,014**	169,901
Estimated third-party payor settlements, less current portion	**32,434**	28,922
Interest rate swaps	**311,004**	332,838
Other	**185,296**	214,499
Total liabilities	**5,885,588**	5,418,664
Net assets:		
Unrestricted	**5,569,307**	4,847,452
Temporarily restricted	**183,361**	178,444
Total Banner Health net assets	**5,752,668**	5,025,896
Non-controlling interests – unrestricted	**31,812**	30,584
Total net assets	**5,784,480**	5,056,480
Total liabilities and net assets	**$ 11,670,068**	$ 10,475,144

See accompanying notes.

Banner Health and Subsidiaries

Consolidated Statements of Income

	Year Ended December 31 2017	2016
	(In Thousands)	
Revenues:		
Net patient service	**$ 6,611,476**	$ 6,465,309
Provision for doubtful accounts	**323,405**	290,661
Net patient service revenue, less provision for doubtful accounts	**6,288,071**	6,174,648
Medical insurance premiums	**1,197,928**	1,081,124
Other revenue	**349,267**	377,433
Total other operating revenue	**1,547,195**	1,458,557
Total revenues	**7,835,266**	7,633,205
Expenses:		
Salaries and benefits	**3,798,982**	3,716,655
Supplies	**1,278,375**	1,263,295
Physician and professional fees	**180,616**	173,440
Medical claims cost, net of Banner claims of $409,541 and and $405,122 in 2017 and 2016, respectively	**838,840**	743,978
Depreciation and amortization	**412,428**	404,083
Goodwill impairment	**–**	20,722
Interest	**112,328**	139,043
Other	**944,841**	1,014,935
Total expenses	**7,566,410**	7,476,151
Operating income	**268,856**	157,054
Other income (loss):		
Investment income – realized	**130,649**	66,073
Investment gain – unrealized	**238,277**	60,893
Income from alternative investments	**85,484**	39,450
Investment income	**454,410**	166,416
Unrealized gain on interest rate swaps	**21,607**	27,965
Loss on extinguishment of debt	**–**	(51,634)
Other	**(9,757)**	(3,059)
	466,260	139,688
Excess of revenues over expenses	**735,116**	296,742
Less excess of revenues over expenses attributable to non-controlling interest	**25,720**	27,919
Excess of revenues over expenses attributable to Banner Health	**709,396**	268,823
Amortization of cumulative loss on interest rate swaps	**227**	227
Decrease in unfunded pension liability	**3,307**	391
Contributions for property and equipment acquisitions	**8,925**	4,715
Increase in unrestricted net assets	**$ 721,855**	$ 274,156

See accompanying notes.

Banner Health and Subsidiaries

Consolidated Statements of Changes in Net Assets

	Year Ended December 31	
	2017	**2016**
	(In Thousands)	
Unrestricted net assets:		
Excess of revenues over expenses	**$ 709,396**	$ 268,823
Amortization of cumulative loss on interest rate swaps	**227**	227
Decrease in unfunded pension liability	**3,307**	391
Contributions for property and equipment acquisitions	**8,925**	4,715
Increase in unrestricted net assets	**721,855**	274,156
Temporarily restricted net assets:		
Contributions	**27,015**	51,993
Net unrealized gain on investments	**1,898**	728
Net assets released from restrictions for property and equipment additions	**(6,311)**	(4,691)
Net assets released from restrictions for operations	**(17,685)**	(12,403)
Increase in temporarily restricted net assets	**4,917**	35,627
Non-controlling interests:		
Excess of revenue over expenses attributable to non-controlling interests	**25,720**	27,919
Other changes, primarily distributions of earnings to non-controlling interests	**(24,492)**	(28,418)
Increase (decrease) in non-controlling interests	**1,228**	(499)
Increase in net assets	**728,000**	309,284
Net assets, beginning of year	**5,056,480**	4,747,196
Net assets, end of year	**$ 5,784,480**	$ 5,056,480

See accompanying notes.

Banner Health and Subsidiaries

Consolidated Statements of Cash Flows

	Year Ended December 31	
	2017	**2016**
	(In Thousands)	
Operating activities		
Increase in net assets	**$ 728,000**	$ 309,284
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Depreciation and amortization	**412,428**	404,083
Goodwill impairment	**–**	20,722
(Increase) decrease in investments designated as trading	**(524,363)**	89,891
Net unrealized gain on interest rate swaps	**(21,834)**	(28,192)
Decrease in unfunded pension liability	**(3,307)**	(391)
Loss on extinguishment of debt	**–**	51,634
Gain on sale of assets, net	**162**	(265)
Contributions for purchase of property and equipment and other	**(8,925)**	(4,715)
Temporarily restricted contributions	**(27,015)**	(51,993)
Changes in operating elements, net of acquisitions and dispositions:		
Patient receivables	**(154,460)**	(22,756)
Inventories and other current assets	**(5,761)**	(98,360)
Accounts payable and accrued expenses	**72,815**	162,510
Estimated third-party payor settlements	**11,890**	3,379
Estimated self-insurance liabilities	**8,113**	4,348
Other liabilities	**(23,480)**	(20,275)
Net cash provided by operating activities	**464,263**	818,904
Investing activities		
Net purchases of property and equipment	**(639,331)**	(477,760)
Increase in project fund	**(44,957)**	–
Acquisitions, net of cash acquired of $947 in 2016	**–**	(73,730)
Increase in other assets	**(107,975)**	(40,334)
Net cash used in investing activities	**(792,263)**	(591,824)
Financing activities		
Proceeds from temporarily restricted contributions	**27,015**	51,993
Proceeds from issuance of debt	**505,305**	925,328
Payments of hospital lease obligations	**(24,482)**	(15,324)
Payments of long-term debt	**(62,725)**	(1,180,357)
Net cash provided by (used in) financing activities	**445,113**	(218,360)
Net increase in cash and cash equivalents	**117,113**	8,720
Cash and cash equivalents at beginning of year	**175,798**	167,078
Cash and cash equivalents at end of year	**$ 292,911**	$ 175,798
Supplemental disclosure of cash flow information		
Interest paid, including amounts capitalized	**$ 109,835**	$ 167,132
Taxes paid	**$ 9,239**	$ 9,931
Non-cash activities		
Decrease in receivable from Sun Health and related obligation for retirement plan	**$ (3,289)**	$ (1,111)
Capital lease obligation	**$ 22,069**	$ 83,848

See accompanying notes.

1. Description of Business

Banner Health is a nonprofit corporation exempt from income taxes under Internal Revenue Code Section 501(c)(3) and applicable state income tax codes. Banner Health and its subsidiaries (collectively, Banner) own, control, or lease hospitals, clinics, nursing homes, clinical laboratories, ambulatory surgery centers, urgent care centers, home health agencies, a captive insurance company, a foundation, an accountable health care organization (see Note 6), a Medicaid managed care health plan and related Medicare Advantage health plan, and other health care-related organizations in six western states. Banner also holds an interest in several health care-related organizations, including a 51% controlling interest in Sonora Quest Laboratories (SQL); the financial results of SQL have been included in Banner's consolidated financial statements as of and for the years ended December 31, 2017 and 2016. Banner also holds non-controlling interests in several entities that are accounted for under the equity method of accounting (see Note 7).

BHSM Rehabilitation, LLC

In December, 2017, Banner Health entered into a joint venture with Select Medical that will own and operate Banner's and Select's Arizona inpatient and outpatient rehabilitation services. The joint venture, BHSM Rehabilitation, LLC, is expected to begin operations on or around May 1, 2018. Banner made an initial working capital contribution of $1,361,000 to the joint venture late in 2017. Banner will contribute outpatient rehabilitation centers valued at $3,360,000 to the joint venture when operations begin. Immediately prior to the contribution of the outpatient centers, Select shall sell a 51% interest in the Select Arizona outpatient rehabilitation centers being contributed to the joint venture to Banner, in exchange for a 49% interest in the Banner centers plus $4,315,000 in cash.

The agreement provides for the construction of three new inpatient rehabilitation hospitals. As these hospitals are completed, Banner will sell 49% of its inpatient rehabilitation assets to Select for a total of approximately $11,027,000 and those assets will be contributed to the joint venture. Additional working capital contributions of $61,395,000 are expected to facilitate the construction of the three new inpatient rehabilitation hospitals and growth of the outpatient rehabilitation business.

1. Description of Business (continued)

Acquisition of Urgent Care Centers

On November 1, 2016, Banner acquired all of the assets of Arizona urgent care centers operated by UCXtra Umbrella, LLC and UCXtra Services, LLC, under the name "Urgent Care Extra" (UCE). Under the terms of the transaction, Banner acquired 32 urgent care centers operating in the Phoenix and Tucson metropolitan areas, as well as 12 centers that were opened in 2017. The base purchase price of approximately $62,654,000 was paid at closing. An additional "Earn-Out Purchase Price" up to $37,000,000 will be due if certain revenue targets are achieved during the "Earn-Out Determination Period", January 1, 2017 – December 31, 2019. Management has estimated that the revenue targets will not be met and no amounts have been recognized.

Acquisition of HCP AZ LLC

On June 1, 2016, Banner acquired Health Care Partnership Arizona, LLC (HCP AZ LLC) and Healthcare Partners Arizona Medical Group, LLC, which held membership interests in Arizona Integrated Physicians, Inc. (AIP) and operated two small medical clinics. Banner paid approximately $15,024,000. AIP sustained significant financial losses, and the legal entity HCP AZ LLC was merged into a new entity, Neighborhood Physician Alliance, LLC on January 1, 2017. The medical clinics were closed in December, 2016. All of the goodwill, amounting to $14,621,000, associated with the HCP AZ LLC acquisition was written off in December 2016, as it was considered impaired due to the combination of operating losses and the dissolution of the legal entities HCP AZ LLC and Healthcare Partners Arizona Medical Group, LLC.

2. Significant Accounting Policies

Basis of Consolidation

The accompanying consolidated financial statements reflect the consolidated operations of all owned and leased operating units of Banner and its wholly owned subsidiaries. Banner also holds controlling interests in several business ventures; the business venture financial results are included within Banner's consolidated financial statements. Banner records the unrelated investor's ownership share of these business ventures as non-controlling interest. The non-controlling interest balance as of December 31, 2017 and 2016, primarily relates to the minority interest owner's investment in SQL.

All significant intercompany accounts and transactions have been eliminated in consolidation.

2. Significant Accounting Policies (continued)

Subsequent Events

Subsequent events have been evaluated through March 16, 2018, the date of issuance of the accompanying consolidated financial statements. There were no subsequent events requiring recognition in the consolidated financial statements.

In March 2013, Banner's Medicaid managed care health plan, University Family Care (UFC) was awarded a new five-year contract with Arizona Health Care Cost Containment System (AHCCCS) through September 30, 2018. On October 1, 2017, UFC began operations for the AHCCCS long-term care program which was awarded in March 2017. In March 2018, UFC was awarded a new AHCCCS Complete Care Contract that will be effective October 1, 2018, which will enable UFC to continue to coordinate health care services for Medicaid members in southern Arizona and also expands the geographic service area covered by UFC to included Maricopa County. All other non-recognized subsequent events have been disclosed in the notes herein.

Fair Values

The carrying values of financial instruments classified as current assets and current liabilities approximate fair value. The fair values of other financial instruments are disclosed in their respective notes.

Cash and Cash Equivalents

Cash and cash equivalents consist primarily of cash and highly liquid marketable securities with an original maturity of three months or less when purchased by Banner.

Short-Term Investments

Short-term investments include debt securities with maturity dates of one year or less from the balance sheet date and actively traded equity securities that are expected to be used on a short-term basis for working capital needs. These investments are stated at fair value, based on quoted market prices in active markets.

2. Significant Accounting Policies (continued)

Investments

Investment income, including interest and dividends, realized gains and losses on investments, unrealized gains and losses on investments, and income on alternative investments, is included in excess of revenues over expenses unless the income or loss is restricted by donor or law.

Banner invests in various investment securities that are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the consolidated financial statements.

Banner uses derivative financial instruments in its investment portfolio to moderate changes in value due to fluctuations in the financial markets. Banner has not designated its derivatives related to marketable securities as hedged financial instruments. Accordingly, the change in the fair value of derivatives is recognized as a component of investment income as described above.

Banner invests in alternative investments, mainly hedge funds, through limited partnerships. As of December 31, 2017 and 2016, Banner has recorded approximately $1,015,320,000 and $1,249,608,000, respectively, in alternative investments primarily within other long-term investments. Banner accounts for its ownership interests in these alternative investments under the equity method of accounting based on the net asset value per share of the fund held by Banner. The hedge fund net asset value is provided to Banner by each of the hedge fund managers. The net asset value is determined based on the estimated fair value of each of the underlying investments held in the hedge fund. However, the hedge fund investment holdings may include investments in private investment funds whose values have been estimated by the hedge fund managers in the absence of readily ascertainable fair values. Due to the inherent uncertainty of these estimates, these values may differ from the values that would have been used had a ready market for these investments existed. The investment income recorded is based on Banner's proportionate share of the hedge fund portfolio net asset value. The alternative investment income is primarily recorded within income from alternative investments on the consolidated statement of income, with the remainder recorded as a change to restricted net assets for those funds that have been restricted by the donor. Banner has recorded approximately $85,484,000 and $39,450,000 of alternative investment unrestricted realized and unrealized gains for the years ended December 31, 2017 and 2016, respectively. The restricted share of alternative investment realized and unrealized income

2. Significant Accounting Policies (continued)

is approximately $1,222,000 and $1,109,000 for the years ended December 31, 2017 and 2016, respectively. As of December 31, 2017, approximately $74,331,000 was subject to a two-year redemption lockup period. In addition, certain of Banner's alternative investment agreements follow a capital call structure, of which Banner has committed up to $227,500,000. Of that total, Banner has made capital contributions of $60,811,000 as of December 31, 2017, resulting in up to $166,689,000 in uncalled commitments. Banner also holds alternative investments in its retirement plan investment portfolio that are reported at fair value (see Note 11).

Banner offsets the fair value for various derivative instruments, such as forwards, interest rate swaps, currency swaps, options, and other conditional or exchange contracts, if they are executed with the same counterparty, under a master netting arrangement. Banner invests in a variety of derivative instruments through a fixed-income manager that has executed a master netting arrangement with each of its forward and future purchase and sale contracts, interest and credit swap agreements, and options whereby the financial instruments are held by the same counterparty and are legally offset as the instrument is settled. Banner's derivative contracts in a net loss position were reported on a net basis on the accompanying consolidated balance sheets as of December 31, 2017 and 2016. As of December 31, 2017, the gross derivative assets and liabilities held and netted together within the investment accounts amounted to assets of approximately $1,380,750,000 and liabilities of approximately $1,374,913,000. As of December 31, 2016, the gross derivative assets and liabilities held and netted together within the investment accounts amounted to assets of approximately $638,069,000 and liabilities of approximately $624,109,000 (see Note 4).

Banner has entered into several repurchase agreements amounting to approximately $163,931,000 and $95,412,000 as of December 31, 2017 and 2016, respectively, which are included in long-term investments on the accompanying consolidated balance sheets. In connection with the repurchase agreements, Banner has loaned cash to certain financial institutions in exchange for collateral. Collateral provided by these financial institutions amounted to approximately $164,777,000 and $98,033,000 as of December 31, 2017 and 2016, respectively.

Assets Limited as to Use

Assets limited as to use include marketable securities that have been designated for use as determined by the Banner Board of Directors, such as for property and equipment replacement and expansion, payments under lease and loan agreements, assets held by trustees under self-insurance funding and indenture agreements, and assets held as collateral by counterparties under interest rate swap agreements.

2. Significant Accounting Policies (continued)

Securities Lending Program

Banner participates in securities lending transactions through its custodian whereby Banner lends a portion of its investments to various brokers in exchange for collateral for the securities loaned, usually on a short-term basis. Collateral provided by the brokers consists of cash and securities and is maintained at levels approximating 103% of the fair value of the securities on loan, adjusted for market fluctuations. Banner maintains effective control of the loaned securities through its custodian during the term of the arrangement in that the securities may be recalled at any time. Under the terms of the agreement, the borrower must return the same, or substantially the same, investments that were borrowed. The value of collateral held for loaned securities is reported in current assets as collateral held under securities lending program, and a corresponding obligation is reported in current liabilities as a payable under securities lending program in the accompanying consolidated balance sheets. At December 31, 2017 and 2016, the fair value of the collateral provided on behalf of Banner was approximately $287,993,000 and $256,011,000, respectively. At December 31, 2017 and 2016, the fair market value of securities on loan was approximately $279,360,000 and $248,081,000, respectively, and is included in assets limited as to use in the accompanying consolidated balance sheets.

Net Patient Accounts Receivable

Net patient accounts receivable and net patient service revenues have been adjusted to the estimated amounts expected to be received based on contractual rates for services rendered. These estimated amounts are subject to further adjustments upon review by third-party payors. Management estimates the provision for doubtful accounts and the allowance for doubtful accounts for each major payor based upon the historical collection experience of each facility. Banner evaluates a patient's ability to pay for services based on an entity-wide assessment, and as part of this assessment has determined that management does not assess the patient's ability to pay for the majority of self-pay patients. Accordingly, any patient account write-off is recorded within the provision for doubtful accounts as a reduction of patient service revenue. Management regularly reviews payment data for each major payor in evaluating the sufficiency of the allowance for doubtful accounts.

Inventories

Inventories, consisting principally of supplies, are stated at the lower of cost or market, determined on a first-in, first-out basis.

2. Significant Accounting Policies (continued)

Property and Equipment

Property and equipment are stated at cost, if purchased, or at fair value on the date received, if donated, less accumulated depreciation and amortization.

Amortization is provided on a straight-line basis over the shorter of the lease period or the estimated useful lives for leasehold improvements. Depreciation is provided on a straight-line basis over the estimated useful lives of the property and equipment, which range from 2 to 20 years for major moveable equipment and from 5 to 40 years for buildings and fixed equipment.

Long-Lived Asset Impairment

Banner reviews long-lived assets, other than goodwill, for impairment when events or changes in business conditions indicate that their carrying values may not be recoverable. Banner considers assets to be impaired and writes them down to fair value if expected undiscounted cash flows are less than the carrying amounts. Fair value is the present value of the associated discounted cash flows.

Goodwill

Purchases of acquired businesses are allocated to the assets and liabilities assumed based on the estimated fair values on the respective acquisition dates. Based on these values, the excess purchase price over the fair value of the net assets acquired is allocated to goodwill.

Banner evaluates goodwill for impairment at least annually and more frequently if certain indicators are encountered. Goodwill is tested at the reporting unit level, defined as an operating segment or one level below an operating segment, with the fair value of the reporting unit being compared to its carrying amount, including goodwill. If the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is not considered to be impaired.

Banner completes its annual impairment test during the fourth quarter to determine whether there are events or circumstances that indicate it is more likely than not that the reporting units' fair values are less than their carrying amounts. Banner determined that there was no goodwill impairment for 2017. In the fourth quarter of 2016, Banner completed a quantitative goodwill impairment analysis and recorded a goodwill impairment charge of $20,722,000.

2. Significant Accounting Policies (continued)

Costs of Borrowing

Debt issuance costs are deferred and amortized over the terms of Banner's bonds using the straight-line method, which approximates the effective interest method.

Interest incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

Self-Insurance Programs

In connection with self-insurance programs, accounts have been established for the purpose of accumulating assets based on actuarial determinations. These assets can be used only for the payment of professional liability, general liability, workers' compensation, employment liability, employee group life insurance claims, and related expenses. It is Banner's policy to record the expense and related liability for professional liability, general liability, workers' compensation, employment liability, and employee group life insurance losses based upon undiscounted actuarial estimates.

Contributions

Banner records contributions upon receipt of an unconditional promise to give, less an allowance for doubtful accounts. Gifts, bequests, and other promises or receipts restricted by donors as to use or time period are recorded as temporarily restricted net assets until used in the manner designated or upon expiration of the time period restriction. Donated property and equipment are recorded at fair value at the date received. Unrestricted contributions received are recorded as other income.

In December, 2016, Banner and Sun Health Services entered into an Amended and Restated Support and Maintenance Agreement. As part of that Agreement, the 2008 Sun Health Services commitment to future capital and program funding was reduced, and Sun Health Services agreed to pay Banner $60,000,000 as a Grant Buy-Down, to be used in support of its programs, services and facilities in Maricopa County. Sun Health Services transferred $40,000,000 to Banner in December, 2016, and paid the remaining $20,000,000 in June 30, 2017. Banner recorded the $60,000,000 grant as other revenue in 2016.

2. Significant Accounting Policies (continued)

Temporarily Restricted Net Assets

Temporarily restricted net assets are those whose use by Banner has been limited by donors to a specific-time period or purpose.

Performance Indicator

Banner's performance indicator is the excess of revenues over expenses, which includes all changes in unrestricted net assets other than changes in the amortization of cumulative loss on interest rate swaps, contributions for property and equipment acquisitions, and changes to unfunded pension liability.

Net Patient Service Revenue

Banner has agreements with third-party payors that provide for payments at amounts different from its established rates. Net patient service revenue is reported at estimated net realizable amounts from patients, third-party payors, and others for services rendered. Contractual adjustments resulting from agreements with various organizations to provide services for amounts that differ from billed charges, including services under the Medicare, Medicaid, and certain managed care programs, are recorded as deductions within net patient service revenue. Banner recognizes that revenue from government agencies and managed care organizations is significant to Banner's operations, but management does not believe that there are any significant credit risks associated with these payors. A summary of the payment arrangements with major third-party payors follows.

Medicare

Approximately 23.0% and 23.1% in 2017 and 2016, respectively of Banner's net patient service revenue was derived from the Medicare program. Most inpatient acute care and outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical and diagnostic factors. Teaching facility programs related to Medicare beneficiaries and services provided at critical access hospitals to Medicare beneficiaries are paid based on a cost reimbursement methodology. Banner is reimbursed for cost reimbursable items at a tentative rate, with final settlement determined after submission of annual cost reports and audits thereof by the Medicare fiscal intermediary. Medicare cost reports have been audited and settled with the

2. Significant Accounting Policies (continued)

Medicare fiscal intermediary through December 31, 2013. The estimated settlement for Medicare cost report years 2014 through 2017 has been recorded as estimated third-party payor settlements on the accompanying consolidated balance sheets.

Laws and regulations governing the Medicare program are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded third-party payor settlement estimates will change by a material amount in the near term as cost report adjustments become known or as cost report years are no longer subject to such audit.

Medicaid

Approximately 13.9% and 14.7% in 2017 and 2016, respectively, of Banner's net patient service revenue was derived from various state Medicaid programs. Inpatient and outpatient services rendered to Medicaid program beneficiaries are paid according to the terms of the state program under which services are provided, which may allow for reimbursement based on per diem rates, percentage of eligible charges, or cost reimbursement, or prospectively determined based on clinical and diagnostic factors. Certain Medicaid payments are subject to final settlement after audit by fiscal intermediaries.

During 2012, the Centers for Medicare & Medicaid Services (CMS) approved direct and indirect graduate medical education payments to Banner pursuant to a Medicaid state plan amendment submitted by AHCCCS. In connection with this plan amendment, Banner recorded approximately $112,304,000 and $97,761,000 in 2017 and 2016, respectively, which has been recorded as an increase to net patient service revenue.

Effective in 2014, AHCCCS, Arizona's version of Medicaid, was expanded to cover individuals with incomes up to 133% of the federal poverty level. In order to fund Arizona's share of the cost of this expansion, certain hospitals within the state of Arizona were required to pay a hospital assessment fee to assist with the funding of the increased Medicaid costs. For the years ended December 31, 2017 and 2016, Banner paid approximately $100,205,000 and $93,300,000, respectively, in AHCCCS hospital assessment fees, which is recorded within other expenses.

2. Significant Accounting Policies (continued)

Other Third-Party Payors

Banner has also entered into payment agreements with certain commercial insurance carriers and health maintenance organizations. The bases for payment under these agreements include prospectively determined rates per discharge, discounts from established charges, and prospectively determined per diem and capitated rates. Approximately 59.9% and 59.7% in 2017 and 2016, respectively, of Banner's net patient service revenue was derived from other third-party payors.

Self-Pay

Approximately 3.2% and 2.5% in 2017 and 2016, respectively, of Banner's net patient service revenue was derived from self-pay patients. Self-pay includes patients without insurance and patients with deductibles and coinsurance associated with third-party payor coverage. For self-pay patients who do not qualify for charity care, Banner recognizes revenue on the basis of uninsured discounted or standard rates. Banner records a provision for doubtful accounts related to self-pay patients at the time services are provided, based on historical collection experience.

Medical Insurance Premiums and Medical Claim Costs

Banner Health Network (BHN) has entered into contracts with insurance companies whereby BHN receives a monthly capitation fee, and is responsible for the payment of the enrolled members' claims. For the years ended December 31, 2017 and 2016, BHN recorded premium revenue from insurance companies and CMS of approximately $558,309,000 and $542,134,000, respectively. BHN paid health care claims for services rendered to enrolled members of approximately $663,026,000 and $634,236,000 as of December 31, 2017 and 2016, respectively.

The Banner-University Health Plans (BUHP) include University Care Advantage and University Family Care. The Banner-University Health Plans have entered into contracts with AHCCCS and CMS to provide health insurance services for enrolled members. Included in medical insurance premium revenue for 2017 and 2016 is $639,619,000 and $538,990,000, respectively, for the Banner University Health Plans. Medical claims costs for 2017 and 2016 are $585,355,000 and $514,862,000, respectively.

2. Significant Accounting Policies (continued)

Included in medical claims cost is a premium deficiency reserve (PDR) which represents the accrual of anticipated future losses under existing contracts, through the end of the contract term. The accrued PDR is amortized in future periods to offset the losses incurred. Included in BHN claims cost is PDR expense of $10,027,000 and $0 in 2017 and 2016, respectively. Included in BUHP claims cost is PDR expense of $0 and $4,850,000 in 2017 and 2016, respectively.

The medical claims costs of BHN, BUHP, and other plans owned by Banner Health reported on the consolidated statements of income are net of intercompany eliminations for services rendered at Banner facilities and providers. Net premium revenue and medical claim costs are as follows (in thousands):

	Year Ended December 31	
	2017	**2016**
Net premium revenue	**$ 1,197,928**	$ 1,081,124
Net claims cost	**838,840**	743,978
Plus owned health plans elimination	**409,541**	405,122
Less premium deficiency reserve	**10,027**	4,850
Gross claims cost excluding PDR, including claims paid to Banner facilities and providers	**$ 1,238,354**	$ 1,144,250
Claims cost percentage of premium	**103.4%**	105.8%

Electronic Health Records Incentive Payments

Beginning in 2011, the Medicare and state Medicaid programs provide incentive payments to eligible hospitals and professionals if meaningful use certified electronic health care (EHR) technology is adopted and utilized. The incentive payments are recognized when management is reasonably assured that Banner has complied with the conditions set forth by Medicare and Medicaid and has demonstrated meaningful use of its EHR technology for the applicable attestation period. Approximately $7,063,000 and $17,126,000 of Medicare and Medicaid incentive payments was recognized in other revenue for the years ended December 31, 2017 and 2016, respectively. Banner's attestation of compliance with the meaningful use criteria is subject

2. Significant Accounting Policies (continued)

to audit by the federal government or its designee. Additionally, EHR incentive payments are subject to retrospective adjustment upon final settlement of the applicable cost report from which payments were initially calculated.

Charity Care and Services That Benefit the Community

In furtherance of its charitable purpose, Banner provides a broad range of benefits to the communities it serves, including offering various community-based social service programs and a number of health-related educational programs. These services are designed and provided to improve the general standards of health for the communities.

Included in services to the communities are programs directed at the poor and persons who cannot afford health care due to inadequate resources and/or who are uninsured or underinsured. Non-elective, medically necessary care provided by Banner is rendered regardless of the patient's ability to pay, and Banner's charity care policy offers various discounts from billed charges based on the patient's family's income. Because Banner does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

In addition to providing traditional charity care, Banner assumes the unpaid costs of Medicaid and other indigent public programs; provides services for the community through health promotion and education, health clinics, and screenings, all of which cannot be billed or can be operated only on a deficit basis; assumes the unpaid costs of training health professionals, such as medical residents, nursing students, and students in allied health professions; provides community health research; and provides cash and in-kind donations of equipment, supplies, or staff time made on behalf of the community.

Banner's cost accounting system is used to quantify the estimated charity care costs, which include both direct and indirect costs, for providing patient care at each facility. During 2017 and 2016, costs incurred by Banner in the provision of charity care, the unpaid costs of programs directed at the poor, the education of health professionals, research activities, and the costs of supporting other community programs were approximately $647,585,000 and $632,767,000, respectively. Charity care is recorded based on the cost of services provided for which charges are written off in accordance with Banner's charity care policy, but does not include the amount, if any, for which the patient remains responsible.

2. Significant Accounting Policies (continued)

The following summary of Banner's net community benefit for the years ended December 31 represents services to both the poor and broader community:

	2017	% of Total Expense	2016	% of Total Expense
	(In Thousands)		*(In Thousands)*	
Traditional charity care, at cost	**$ 73,436**	**1.0%**	$ 64,366	0.9%
Unpaid cost of public programs, Medicaid, and other indigent care programs	**482,319**	**6.4**	485,204	6.5
Health professional education	**45,151**	**0.6**	35,134	0.5
Community health services	**8,373**	**0.1**	7,453	0.1
Research activities	**11,008**	**0.1**	11,512	0.2
Community-building activities	**298**	**–**	853	–
Subsidized health services	**23,481**	**0.3**	24,470	0.3
Contributions and in-kind donations	**3,479**	**0.1**	3,679	–
Community benefit operations	**40**	**–**	96	–
Total cost of community benefit	**647,585**	**8.6**	632,767	8.5
Unpaid cost of Medicare	**63,798**	**0.8**	120,704	1.6
Total cost of community benefit and unpaid cost of Medicare	**$ 711,383**	**9.4%**	$ 753,471	10.1%

Traditional Charity Care is the cost of services for which reimbursement is not pursued, in accordance with Banner's policy to provide health care services free of charge or on a discounted fee schedule to those who cannot afford health care due to inadequate resources and/or who are uninsured or underinsured.

Unpaid Cost of Public Programs is the shortfall created when Banner receives payments below the cost for patients enrolled in publicly supported programs such as Medicaid.

Health Professional Education includes the unpaid costs of training health professionals, such as medical residents, nursing students, and students in allied health professions.

2. Significant Accounting Policies (continued)

Community Health Services include costs for health education and related activities designed to improve the health of the community. Community health education programs, community-based clinical services, and health care support services are included. No patient bills are generated for these services.

Research Activities include clinical and community health research, as well as studies on health care delivery.

Community-Building Activities include the costs of programs that develop the community through physical improvements, economic development, support system enhancements, environmental improvements, leadership development, coalition building, community health improvement advocacy, and workforce enhancement.

Subsidized Health Services include costs for billed services that are subsidized by Banner. These include services offered despite a financial loss, because they are needed in the community and either other providers are unwilling to provide the services or the services would, otherwise, be unable to meet patient demand.

Contributions and In-Kind Donations include cash donations, grants, and in-kind donations to the community at large and other tax-exempt organizations.

Community Benefit Operations include costs of directly planning, evaluating, and managing community benefit activities.

Use of Estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. Significant Accounting Policies (continued)

Net patient service revenue increased in 2017 and 2016 by approximately $14,000,000 and $25,000,000, respectively, for changes in estimates related to third-party payor settlements. Revenue increased in 2017 and 2016 by approximately $22,000,000 and $25,000,000, respectively, for certain BHN contract settlements (see Note 6) and by approximately $15,000,000 and $19,000,000 in 2017 and 2016 relating to additional state medical education reimbursement. Other expense decreased by $17,000,000 and $27,000,000 in 2017 and 2016, respectively, related to professional and general liability favorable claim experience and reduction to legal accruals.

Pending Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued a new revenue accounting standard, together along with subsequent amendments, updates and an extension of the effective date, (collectively the New Revenue Standard), which supersedes most existing revenue recognition guidance, including industry-specific health care guidance. The New Revenue Standard provides for a single comprehensive principles-based standard for the recognition of revenue across all industries through the application of the following five-step process:

Step 1: Identify the contract(s) with a customer.

Step 2: Identify the performance obligations in the contract.

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price to the performance obligations in the contract.

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

2. Significant Accounting Policies (continued)

Under the New Revenue Standard, recognition of revenue occurs when a customer obtains control of promised goods or services in an amount that reflects the consideration which the entity expects to receive in exchange for those goods or services. Banner performed an evaluation over each of its major revenue streams under the New Revenue Standard. In particular, as part of the net patient service revenue stream evaluation, Banner used the portfolio approach as a practical expedient to group payor contracts with similar characteristics, such that revenue for a given portfolio would not be materially different than if it were evaluated on a contract-by-contract basis. Banner also evaluated whether any of the revenue streams included variable consideration as well as any potential constraints to the estimate of the variable consideration. Banner anticipates that for periods subsequent to adoption, the amounts currently classified as the provision for doubtful accounts on the consolidated statement of income, will be treated as an implicit price concession factored into patient service revenue on the consolidated statements of income, consistent with the intent of the standard. The New Revenue Standard also requires enhanced disclosures related to the disaggregation of revenue and other disclosures about contracts with customers, including revenue recognition policies to identify performance obligations and significant judgments in measurement and recognition.

Banner adopted the new revenue standard on January 1, 2018 and has elected to use the modified retrospective adoption method. The modified retrospective adoption method requires a company to record the transition adjustment for the New Revenue Standard, if any, as a cumulative effect adjustment to the beginning unrestricted net assets recorded as of the date of adoption. Banner has determined that the transition adjustment is not material to the consolidated financial statements. In addition, a provision for doubtful accounts under the New Revenue Standard is expected to be immaterial.

In August 2016, the FASB issued a new financial statement accounting standard for not-for-profit entities. This accounting standard will change the presentation of net assets into two categories, net assets with donor restrictions and net assets without donor restrictions. This accounting standard will also allow companies to elect to use either the direct or indirect cash flow method, and requires additional disclosures and presentation of expenses by both natural and functional classification. This accounting standard is effective for fiscal years beginning after December 15, 2017. Banner has adopted the new financial statement accounting standard on January 1, 2018 in which the standard primarily revised the presentation of Banner's net assets between net assets with and without donor restrictions and also added additional disclosure surrounding liquidity and functional expenditures. Banner elected to continue to use the indirect cash flow method.

2. Significant Accounting Policies (continued)

In February 2016, the FASB issued a new lease accounting standard. This accounting standard requires companies that lease assets to recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, in its balance sheet. Lessor accounting remains largely unchanged as it is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. This accounting standard will also require additional disclosures about the amount, timing and uncertainty of cash flows arising from leases. This accounting standard is effective for fiscal years beginning after December 15, 2018. Management is currently evaluating the impact of adopting this accounting standard.

In January 2017, the FASB issued a new intangibles-goodwill accounting standard. The accounting standard simplified the test used to evaluate goodwill and other intangibles for impairment. Under the new accounting standard, a company will perform its annual goodwill impairment test by comparing the fair value of the reporting unit with its carrying amount. An impairment charge will be recognized for the amount by which the carrying amount exceeds the reporting unit's fair value, however, the impairment loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. A company will still have the option to perform the qualitative assessment for a reporting unit. This accounting standard is effective for fiscal year beginning after December 15, 2020. Management is currently evaluating the impact of adopting this accounting standard.

Reclassifications

The 2016 consolidated financial statements have been reclassified to conform to the 2017 presentation, primarily relating to the reclassification of a money market account from short-term investments to cash and cash equivalents, amounting to $75,381,000 and reclassification of commercial paper debt from current portion debt to debt subject to self-liquidity for $100,000,000.

3. Concentrations of Credit Risk

Banner grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors as of December 31 was as follows:

	2017	2016
Commercial, HMO, PPO and other third-party payors	**39.7%**	43.4%
Medicare	**34.6**	31.3
Medicaid and AHCCCS	**19.2**	18.0
Self-pay	**6.5**	7.3
	100.0%	100.0%

4. Fair Value Measurements

Fair value is defined as an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, Banner utilizes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

- *Level 1* – Pricing inputs into the determination of fair value are generally observable inputs such as quoted prices for identical instruments in active markets. Financial assets in Level 1 primarily include listed equities.

- *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 or liabilities. Financial assets and liabilities in Level 2 include asset-backed securities, mortgage-backed securities, collateralized mortgage obligations, U.S. Treasury securities, corporate bonds and loans, forward contracts, interest and credit swap agreements, options, and interest rate swap obligations.

4. Fair Value Measurements (continued)

- *Level 3* – Pricing inputs are generally unobservable 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 or liabilities. The fair values are therefore determined using factors that involve considerable judgment and interpretation, including, but not limited to, private and public comparables, third-party appraisals, discounted cash flow models, and fund manager estimates.

Assets and liabilities measured at fair value are based on one or more of the three valuation techniques identified in the tables below. The valuation techniques are as follows:

(a) *Market approach* – Prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities

(b) *Cost approach* – Amount that would be required to replace the service capacity of an asset or liability (replacement cost)

(c) *Income approach* – Techniques to convert future amounts to a single present amount based on market expectations (including present value techniques, option pricing, and excess earnings models)

Banner's investment in alternative investments, amounting to approximately $1,015,320,000 and $1,249,608,000 as of December 31, 2017 and 2016, respectively, is accounted for using the equity method of accounting. Accordingly, the alternative investments are omitted from the following schedule of financial instruments measured at fair value. Also included in assets limited as to use are premium payments to be received from Banner's split-dollar life insurance policies amounting to approximately $6,114,000 and $8,784,000 as of December 31, 2017 and 2016, respectively, which are not measured at fair value. There have not been any changes in any of the investments' fair value level classification, between Level 1 and Level 2, in 2017 or 2016. Banner has no Level 3 investments.

4. Fair Value Measurements (continued)

	December 31, 2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Valuation Technique (a, b, c)
Cash and cash equivalents	$ 445,490	$ 396,314	$ 49,176	$ –	a
Collateral held under securities lending and repurchase agreement (primarily cash and debt securities)	452,770	337,931	114,839	–	a
Mutual funds:					
Mutual funds – U.S. funds	1,337,830	1,337,830	–	–	a
Mutual funds – International	641,160	641,160	–	–	a
Total mutual funds	1,978,990	1,978,990	–	–	
Debt securities:					
U.S. Treasury/government obligations	293,005	–	293,005	–	a
Corporate bonds/non-U.S. government bonds	288,847	–	288,847	–	a
Asset-backed securities	160,792	–	160,792	–	a
Commercial mortgage-backed securities	13,888	–	13,888	–	a
Non-government-backed collateralized mortgages	21,567	–	21,567	–	a
Government mortgage-backed securities	392,670	–	392,670	–	a
Government commercial-backed	11,598	–	11,598	–	a
Total debt securities	1,182,367	–	1,182,367	–	
Repurchase agreements	163,931	–	163,931	–	a
Equity securities:					
U.S. equity securities	113,611	113,611	–	–	a
International equity securities	219,698	219,698	–	–	a
Total equity securities	333,309	333,309	–	–	
Derivative securities:					
Future contracts	344,681	344,681	–	–	a
Forward contracts	996,920	–	996,920	–	a
Interest rate swap agreements	18,183	–	18,183	–	a
Option agreements	19	–	19	–	a
Net credit swaps	20,947	–	20,947	–	a
Subtotal derivative assets	1,380,750	344,681	1,036,069	–	
Future contracts	(344,681)	(344,681)	–	–	a
Forward contracts	(999,429)	–	(999,429)	–	a
Interest rate swap agreements	(15,044)	–	(15,044)	–	a
Option agreements	(151)	–	(151)	–	a
Net credit swaps	(15,608)	–	(15,608)	–	a
Subtotal derivative liabilities	(1,374,913)	(344,681)	(1,030,232)	–	
Total fair value investments	$ 4,562,694	$ 3,046,544	$ 1,516,150	$ –	
Short-term investments	$ 59,114				
Collateral held under securities lending and repurchase agreements	452,770				
Assets limited as to use	2,610,666				
Long-term investments	2,374,808				
Other assets – Banner Foundation restricted funds	86,770				
Less alternative investments	1,015,320				
Less split-dollar life insurance	6,114				
Total fair value investments	$ 4,562,694				
Interest rate swaps included in other long-term liabilities	$ (311,004)	$ –	$ (311,004)	$ –	

4. Fair Value Measurements (continued)

	December 31, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Valuation Technique (a, b, c)
Cash and cash equivalents	$ 283,637	$ 240,009	$ 43,628	$ –	a
Collateral held under securities lending and repurchase agreement (primarily cash and debt securities)	354,044	234,952	119,092	–	a
Mutual funds:					
Mutual funds – U.S. funds	1,084,201	1,084,201	–	–	a
Mutual funds – International	497,317	497,317	–	–	a
Total mutual funds	1,581,518	1,581,518	–	–	
Debt securities:					
U.S. Treasury/government obligations	240,478	–	240,478	–	a
Corporate bonds/non-U.S. government bonds	180,414	–	180,414	–	a
Asset-backed securities	81,841	–	81,841	–	a
Commercial mortgage-backed securities	12,332	–	12,332	–	a
Non-government-backed collateralized mortgages	17,178	–	17,178	–	a
Government mortgage-backed securities	332,432	–	332,432	–	a
Government commercial-backed	5,730	–	5,730	–	a
Total debt securities	870,405	–	870,405	–	
Repurchase agreements	95,412	–	95,412	–	a
Equity securities:					
U.S. equity securities	196,642	196,642	–	–	a
International equity securities	252,338	252,338	–	–	a
Total equity securities	448,980	448,980	–	–	
Derivative securities:					
Future contracts	284,420	284,420	–	–	a
Forward contracts	345,218	–	345,218	–	a
Interest rate swap agreements	4,703	–	4,703	–	a
Net credit swaps	3,728	–	3,728	–	a
Subtotal derivative assets	638,069	284,420	353,649	–	
Future contracts	(284,420)	(284,420)	–	–	a
Forward contracts	(337,144)	–	(337,144)	–	a
Interest rate swap agreements	(1,971)	–	(1,971)	–	a
Option agreements	(41)	–	(41)	–	a
Net credit swaps	(533)	–	(533)	–	a
Subtotal derivative liabilities	(624,109)	(284,420)	(339,689)	–	
Total fair value investments	$ 3,647,956	$ 2,505,459	$ 1,142,497	$ –	
Short-term investments	$ 142,198				
Collateral held under securities lending and repurchase agreements	354,044				
Assets limited as to use	2,262,313				
Long-term investments	2,070,757				
Other assets – Banner Foundation restricted funds	77,036				
Less alternative investments	1,249,608				
Less split-dollar life insurance	8,784				
Total fair value investments	$ 3,647,956				
Interest rate swaps included in other long-term liabilities	$ (332,838)	$ –	$ (332,838)	$ –	c

4. Fair Value Measurements (continued)

Banner received restricted pledges and contributions amounting to $27,015,000 and $51,994,000 for the years ended December 31, 2017 and 2016, respectively, which were subject to fair value measurement on a non-recurring basis. The restricted contributions were measured based on the actual cash received or for pledges receivable, using discounted cash flow projections. Approximately $8,853,000 and $3,414,000 of the restricted contributions was recorded as pledges receivable as of December 31, 2017 and 2016, respectively.

Investment income consisted of the following for the years ended December 31:

	2017	2016
	(In Thousands)	
Interest and dividend income	**$ 55,679**	$ 49,283
Net realized gain on sales of marketable securities	**82,013**	22,283
Realized and unrealized gain from alternative investments, including amount recorded in restricted equity	**86,706**	40,559
Net realized gain (loss) on sales of future contracts	**738**	(5,383)
Net realized (loss) gain on sales of interest rate swap agreements	**(3,531)**	791
Net realized gain on sales of option agreements	**858**	630
Net realized (loss) gain on sales of net credit swaps	**(1,108)**	1,882
Net unrealized gain on marketable securities	**234,380**	59,628
Net unrealized gain (loss) on interest rate swap agreements	**1,949**	(6)
Net unrealized (loss) gain on option agreements	**(55)**	79
Net unrealized gain on net credit swaps	**3,528**	1,944
	461,157	171,690
Less investment gain credited to other revenue, restricted equity, and capitalized bond project funds	**6,747**	5,274
Investment income, net	**$ 454,410**	$ 166,416

5. Property and Equipment

Property and equipment consisted of the following as of December 31:

	2017	2016
	(In Thousands)	
Land and land improvements	**$ 333,210**	$ 324,041
Buildings and fixed equipment	**3,808,905**	3,566,386
Major movable equipment	**2,789,044**	2,631,624
Construction-in-progress	**522,671**	294,764
	7,453,830	6,816,815
Less accumulated depreciation and amortization	**3,960,045**	3,593,336
Property and equipment, net	**$ 3,493,785**	$ 3,223,479

6. BHN Accountable Care Organization

BHN is a corporation that has Banner, Banner Medical Group (a wholly owned subsidiary of Banner), and Neighborhood Physicians Alliance (NPA, a wholly owned subsidiary of Banner) as its members. During 2017, NPA was formed and is primarily comprised of the physicians of AIP that were acquired by Banner in 2016, and Banner Physician Hospital Organization (BPHO), acquired in 2017. BHN has established a provider network that primarily consists of Banner facilities, Banner Medical Group, and the physicians in the NPA network. BHN has executed contracts with each of the provider network members that outline the payment fee schedule that each of the providers will receive for services rendered to the enrolled members of BHN.

BHN ended its contract with CMS as a Pioneer Accountable Care Organization (Pioneer ACO) and began a new Medicare Shared Savings Plan (MSSP) ACO plan. The Pioneer contract was initially awarded January 1, 2012 and ended December 31, 2016. The Pioneer ACO was a shared-savings model in which participating organizations were eligible for additional payments from CMS if they were able to achieve medical cost savings as compared to certain benchmarks while providing high-quality, coordinated patient care for an assigned group of Medicare beneficiaries. Participants also shared risk with CMS for any increase in medical cost and were required to pay CMS for a portion of any cost increases over certain benchmarks. The risk share for both the medical cost savings and medical cost increases was measured based on a predetermined

6. BHN Accountable Care Organization (continued)

benchmark for the assigned beneficiary population. Also, medical cost savings under the Pioneer ACO were earned only if certain quality and administrative measures were met. The MSSP structure closely mirrors the Pioneer ACO.

In 2017, BHN received approximately $11,590,000 from CMS as its share of the 2016 plan year savings under the Pioneer plan. In 2016, BHN received approximately $25,510,000 from CMS as its share of the 2015 plan year savings. BHN records the CMS Pioneer Savings in the year received, because management is not certain that BHN will meet all of the compliance and quality measures to record the risk share savings prior to receiving the settlement from CMS. No MSSP savings have been recognized for the 2017 plan year.

BHN also operates a narrow provider network that contracted with multiple commercial insurance companies during 2017 and 2016. For two of the insurance company contracts, BHN has been delegated claim responsibility. Accordingly, BHN receives a monthly capitation payment directly from the insurance company and is responsible for the claim payments owed to the provider and physician care network. As of December 31, 2017 and 2016, BHN has recorded claims payable, associated with claims incurred but not yet paid of approximately $66,171,000 and $35,100,000, respectively. The increase in claims payable is the result of the acquisition of the AIP network in 2016 and BPHO network in 2017, the PDR, and the growth of membership for which BHN is at risk. For the remaining insurance company contracts, the claim payments are the responsibility of the contracting insurance company. For these plans, BHN receives a care management fee on a per-member-per-month basis and/or shares in the overall financial performance of the plan with the insurance company. In 2017, BHN recorded a change in estimate of approximately $11 million, as an increase to other revenue, relating to a 2016 risk settlement with one of its narrow provider network contracts.

7. Other Non-Current Assets

Non-current assets consisted of the following as of December 31:

	2017	2016
	(In Thousands)	
Donor-restricted assets	**$ 186,676**	$ 183,354
Goodwill, net of accumulated amortization of $19,573 in 2017 and 2016	**251,979**	250,563
Investments in unconsolidated affiliates	**210,119**	109,833
Due from Sun Health Services	**30,601**	33,890
Intangible assets, net of accumulated amortization of $10,794,000 in 2017 and $6,972,000 in 2016	**11,919**	15,628
Other	**36,699**	33,973
Total other noncurrent assets	**$ 727,993**	$ 627,241

Goodwill

The following summarizes the changes in goodwill for the years ended December 31, 2017 and 2016 (in thousands):

January 1, 2016 balance	$ 156,166
Acquisitions	112,405
Other, primarily purchase accounting adjustments	2,714
Impairment	(20,722)
December 31, 2016 balance	250,563
Acquisition	**1,416**
December 31, 2017 balance	**$ 251,979**

7. Other Non-Current Assets (continued)

Investments in Unconsolidated Affiliates

Investments in unconsolidated affiliates are primarily comprised of the following investments that are accounted for under the equity method or cost method of accounting, as described herein:

Veritage

Effective September 1, 2012, Banner and Blue Cross and Blue Shield of Arizona (BlueCross) formed Veritage, an Arizona limited liability company, which is equally owned by Banner and BlueCross. Veritage owns MediSun, a Medicare Advantage plan. Banner's 50% investment in Veritage was approximately $34,664,000 and $28,645,000 as of December 31, 2017 and 2016, respectively, and is accounted for using the equity method of accounting.

Banner/CORE Orthopedic Program, LLC (BCOP)

Banner/CORE Orthopedic Program, LLC (BCOP) was formed in December 2010 to provide high quality musculoskeletal patient care services to hospitals owned, operated, or managed by Banner. In June 2016, the Operating Agreement was modified to include the additional purpose of developing and marketing an integrated care delivery network of hospitals, physicians, and other health care providers that provide care to patients in need of musculoskeletal medical services. As of January 1, 2017, BCOP took on full risk of the orthopedic service line of BHN's two Medicare Advantage plans and Banner's employee health plan. Banner's 50% investment in BCOP was approximately $8,652,000 and $584,000 as of December 31, 2017 and 2016, respectively, and is accounted for using the equity method of accounting.

Banner Health and Aetna Health Insurance Holding Company LLC

In October 2016, Banner entered into an agreement with Aetna ACO Holdings, Inc. (Aetna), a subsidiary of Aetna, Inc., pursuant to which Banner and Aetna agreed to form an insurance holding company, Banner Health and Aetna Health Insurance Holding Company LLC (HoldCo), to be owned 49% by Banner and 51% by Aetna and to be the parent of two Arizona insurance companies (collectively, NewCo). HoldCo was formed in 2017. NewCo became licensed as an Arizona insurance company in 2017 and began issuing insurance policies in 2018. In addition, commencing upon the licensure of NewCo as an insurance company in 2017, NewCo assumed risk prospectively through reinsurance arrangements, and shared in profits and losses retroactively

7. Other Non-Current Assets (continued)

to January 1, 2017 through a contractual arrangement, for certain insurance arrangements, and self-insurance administrator activities conducted by Aetna or its affiliates in the Phoenix metropolitan area. Banner, through its subsidiary Banner Plan Administration, Inc., and Aetna, through certain affiliates, provides various administrative services to NewCo.

Under the agreement, Banner is obligated to contribute capital to HoldCo of approximately $85,000,000, subject to adjustment based on a number of factors including the successful renewal of existing Aetna insurance and self-insurance administrator business in Arizona or the migration of such business into NewCo. During 2017, Banner funded $60,384,000; an additional $10,152,000 is expected to be funded in 2018 along with an $16,224,000 intangible contribution of the membership of Banner's employee medical plans. Banner may be required to make additional capital contributions in part based upon the successful renewal or migration of existing Aetna business within the scope of the joint venture. Additional capital contributions may be necessary in order to fund adequate working capital for NewCo and HoldCo, and to maintain the total adjusted capital of NewCo at 550% of NewCo's National Association of Insurance Commissioners authorized Control Level Risk Based Capital. Banner's 49% investment in HoldCo was approximately $70,788,000 as of December 31, 2017 and is accounted for using the equity method of accounting.

Cenpatico of Arizona, Inc.

Banner acquired a 20% interest in Cenpatico of Arizona, Inc. (Cenpatico), which holds a contract with the state of Arizona to provide behavioral and medical health services for the indigent mentally ill population in certain central and southern Arizona counties, through its wholly-owned subsidiary BUHP. BUHP is obligated to fund 20% of 300% of the statutorily required risk-based capital of Cenpatico. Banner's investment in Cenpatico was $12,865,000 and $13,793,000 as of December 31, 2017 and 2016, respectively, and is accounted for using the equity method of accounting.

7. Other Non-Current Assets (continued)

Banner records its share of earnings in non-controlled affiliates in other revenue. Summarized financial information (unaudited) for significant unconsolidated joint ventures is as follows:

2017 (in thousands)	Veritage	BCOP	HoldCo	Cenpatico
Current assets	**$ 87,655**	**$ 27,108**	**$ 137,664**	**$ 60,588**
Non-current assets	**22,779**	**–**	**80,826**	**70,087**
Total assets	**$ 110,434**	**$ 27,108**	**$ 218,490**	**$ 130,675**
Current liabilities	**$ 40,641**	**$ 9,805**	**$ 33,921**	**$ 66,134**
Non-current liabilities	**–**	**–**	**20,212**	**474**
Capital	**69,793**	**17,303**	**164,357**	**64,067**
Total liabilities and capital	**$ 110,434**	**$ 27,108**	**$ 218,490**	**$ 130,675**
Excess (deficit) of revenues over expenses	**$ 12,425**	**$ 18,927**	**$ 20,808**	**$ (5,306)**

2016 (in thousands)	Veritage	BCOP	HoldCo	Cenpatico
Current assets	$ 74,879	$ 168	$ –	$ 76,502
Non-current assets	22,264	–	–	36,598
Total assets	$ 97,143	$ 168	$ –	$ 113,100
Current liabilities	$ 39,636	$ 1,791	$ –	$ 43,690
Non-current liabilities	139	–	–	35
Capital (deficit)	57,367	(1,623)	–	69,375
Total liabilities and capital	$ 97,142	$ 168	$ –	$ 113,100
Excess (deficit) of revenues over expenses	$ 1,396	$ (1,597)	$ –	$ 8,419

7. Other Non-Current Assets (continued)

ExceleraRx Corp.

Banner holds a 19.7% investment in ExceleraRx Corp. a corporation that provides healthcare systems with access to specialty pharmacy and expertise to provide specialty pharmacy services. Banner's investment in ExceleraRx was $5,875,000 and $5,500,000 as of December 31, 2017 and 2016, respectively, and is accounted for using the cost method of accounting.

Premier Inc.

Banner is a member of the group purchasing organization of Premier Inc. (Premier) and in connection with this membership, Banner holds a non-controlling interest in Premier that is accounted for under the equity method of accounting. Banner's equity investment in Premier was approximately $29,236,000 and $24,385,000 and Banner's cumulative vendor incentive was approximately $43,434,000 and $33,137,000 as of December 31, 2017 and 2016, respectively. Banner's share of Premier's net income recorded under the equity method of accounting and Class B units vendor incentive was approximately $14,803,000 and $13,865,000 in 2017 and 2016, respectively, and is recorded as a reduction to supply expense.

Due from Sun Health Services

In a prior year, Sun Health Services; Sun Health Foundation; Sun Health Properties, Inc., and their controlled affiliates (collectively, Sun Health Services) entered into an agreement to provide an annual contribution, calculated under the terms of the agreement and, subject to certain contractual limitations and conditions, to support projects at the facilities acquired from Sun Health Corporation (the predecessor of Sun Health Services) in 2008, or at other future Banner projects in the northwestern section of the Phoenix metropolitan area.

As described above, the Sun Health Support and Maintenance Agreement was significantly modified in 2016 to reduce the annual Baseline Amount, to limit the duration of the Agreement, to remove certain conditions and restrictions in the original Agreement, and to fund the $5,900,000 remaining on its commitment to fund construction at Banner Del E. Webb Medical Center. Sun Health Services also reaffirmed its commitment to fund capital projects previously approved under the original agreement, for which Banner has recorded a restricted receivable of approximately $33,900,000 as of December 31, 2017 and 2016, (Capital Project receivable). During 2016, Banner recognized a restricted receivable and an addition to restricted net assets of approximately $29,000,000 for future Baseline Support contributions for approved capital expenditures. The

7. Other Non-Current Assets (continued)

Baseline Support receivable recorded as of December 31, 2017 and 2016, amounted to $23,700,000 and $28,900,000, respectively. Both the Capital Project receivable and Baseline Support receivable are recorded as donor-restricted assets, within other assets. Under the Amended and Restated Agreement, Sun Health Services agreed to a $60,000,000 Grant Buy-Down, to be used to support Banner's operations in Maricopa County. Banner recorded this grant within other revenue in 2016. Due from Sun Health Services relates to monies to fund a defined benefit pension obligation (see Note 11) in accordance with the terms outlined in the acquisition agreement.

8. Long-Term Debt

Long-term debt consisted of the following as of December 31:

	2017	2016
	(In Thousands)	
Revenue Bonds, Series 2017A, interest 4.00% to 5.00%, due through 2041	**$ 188,985**	$ –
Revenue Bonds, Series 2017B, interest 5.00%, due through 2048	**85,945**	–
Revenue Bonds, Series 2017C, interest 5.00%, due through 2048	**85,945**	–
Weekly Rate Securities Revenue Bonds, Series 2017D, interest determined weekly, due through 2048	**100,000**	–
Revenue Bonds, Series 2016A, interest 3.13% to 5.00%, due through 2038	**803,500**	803,500
Revenue Bonds, Series 2015A, interest 5.00%, due through 2025	**94,100**	94,100
Daily Rate Securities Revenue Bonds, Series 2015B, interest due through 2046	**100,630**	100,630
Daily Rate Securities Revenue Bonds, Series 2015C, interest due through 2046	**100,630**	100,630
Direct Purchase Rate Securities Revenue Bonds, Series 2015D, interest determined monthly, due through 2025	**100,290**	100,290
Taxable loan, interest determined monthly, due through 2022	**100,556**	100,556
Commercial paper, interest determined by dealer at time of issue	**100,000**	100,000
Revenue Bonds, Series 2014A, interest 4.00% to 5.00%, due through 2044	**200,600**	200,600
Revenue Bonds, Series 2012A, interest 3.75% to 5.00%, due through 2043	**179,090**	179,090
Taxable Revenue Bonds, Series 2012B, interest 4.16%, due 2030	**67,840**	67,840
Series 2012 Bank of America obligation, interest 1.91%, due through 2019	**5,345**	9,665
Revenue Bonds, Series 2008A, interest 5.00%, due 2018	**2,800**	5,735
Direct Purchase Rate Securities Revenue Bonds, Series 2008B, interest determined monthly, due through 2035	**82,500**	84,475
Direct Purchase Rate Securities Revenue Bonds, Series 2008C, interest determined monthly, due through 2035	**82,500**	84,475
Revenue Bonds, Series 2008D, interest 5.00% to 5.25%, due through 2018	**16,930**	36,150
Weekly Rate Securities Revenue Bonds, Series 2008E, interest determined weekly, due through 2029	**101,120**	105,060
Weekly Rate Securities Revenue Bonds, Series 2008F, interest determined weekly, due through 2029	**82,970**	86,185
Weekly Rate Securities Revenue Bonds, Series 2008G, interest determined weekly, due through 2029	**78,295**	81,325
Weekly Rate Securities Revenue Bonds, Series 2008H, interest determined weekly, due through 2029	**61,185**	63,550
Revenue Bonds, Series 2007A, interest 5.00%, due through 2017	**–**	11,110
Index Rate Bonds, Series 2007B, interest determined quarterly, due through 2037	**400,000**	400,000
Other, primarily net bond premium	**170,390**	135,893
	3,392,146	2,950,859
Less current portion, including debt subject to self-liquidity	**387,970**	155,949
Total long-term debt, less current portion, including debt subject to self-liquidity	**$ 3,004,176**	$ 2,794,910

8. Long-Term Debt (continued)

Scheduled maturities of debt for the years ending December 31 and thereafter are as follows (in thousands):

2018	$ 387,970
2019	60,011
2020	62,514
2021	65,134
2022	67,027
Thereafter	2,749,490
	$ 3,392,146

Total interest incurred was approximately $127,212,000 and $145,323,000 in 2017 and 2016, respectively, of which $14,884,000 and $6,280,000 was capitalized in 2017 and 2016, respectively. Included within interest costs is approximately $13,725,000 and $14,771,000 of interest expense related to the NCMC, Inc. lease obligation in 2017 and 2016, respectively (see Note 13).

Master Indenture and Bond Indentures

Substantially all of Banner's indebtedness, including its obligations on interest rate swaps, is secured by obligations issued under a master indenture, as supplemented from time to time (the Master Indenture). The Master Indenture provides that all indebtedness secured by obligations issued thereunder is on equal parity with all other such indebtedness. The Master Indenture contains covenants that, among other matters, restrict the transfer of assets and require the maintenance of specified levels of cash on hand and compliance with certain other financial ratios. Pursuant to the Master Indenture, as supplemented, Banner has pledged its gross revenues, including all accounts receivable, to secure all indebtedness and other obligations governed by the Master Indenture. Banner was in compliance with these covenants as of December 31, 2017. Banner Health and its two wholly owned subsidiaries, Banner – University Medical Center Tucson Campus, LLC and Banner – University Medical Center South Campus, LLC, are the only members of the Obligated Group responsible for payment of obligations issued under the Master Indenture.

Under the terms of the bond indentures governing each of the bond issues described below, periodic deposits are made to a trustee-held fund to meet interest and principal payments. Trustee-held funds are included as assets limited as to use on the accompanying consolidated balance sheets. Security for the payment of principal and interest of certain series of bonds is provided for with direct pay letters of credit issued by third-party banks, as disclosed below.

8. Long-Term Debt (continued)

Interim Debt Arrangements

On February 26, 2015, in order to finance its payment obligations with respect to the UAHN acquisition, Banner entered into a $700,000,000 taxable term loan (interim loan) with Mizuho Bank, Ltd., acting through its New York branch. The interim loan matured on February 25, 2016, and bore interest at a variable rate based on the London Interbank Offered Rate (LIBOR) or the prime rate. The average interest rate for the year ended December 31, 2016 was approximately 0.62%. In November 2015, a portion of the loan amounting to $500,000,000 was paid using proceeds received from the Series 2015 Bonds. On December 31, 2015, $200,000,000 was outstanding, which was paid in full in January 2016, and the interim loan was terminated.

The interim loan and revolving credit loan were secured by the Master Indenture.

Series 2017 Bonds (Series A Through D)

On October 18, 2017, Banner issued $460,875,000 Series 2017A-D tax-exempt bonds. The proceeds of the bonds will be used together with other funds for the purpose of (i) financing and reimbursing the acquisition, construction, renovation, improvement, furnishing, and equipping of certain capital improvements on the campuses of certain of the health facilities and related facilities (including two patient towers at Banner–University Medical Center Phoenix (B-UMCP) and Banner–University Medical Center Tucson (B-UMCT).

Banner issued $188,985,000 of Series 2017A fixed-rate tax-exempt bonds. The Series 2017A bonds are fixed-rate securities, bearing interest at annual interest rates of between 4.00% and 5.00%, and are due in annual installments from 2039 to 2041. The average interest rate for the year ended December 31, 2017 was approximately 4.34%.

Banner issued $85,945,000 of Series 2017B five-year put bonds and $85,945,000 of Series 2017C seven-year put bonds. The Series 2017B-C bonds are fixed-rate securities, bearing interest at annual interest rate of 5.00%, and are due in annual installments from 2047 to 2048. The average interest rate for the year ended December 31, 2017 was approximately 5.00%.

8. Long-Term Debt (continued)

Banner issued $100,000,000 of Series 2017D variable rate demand bonds. The Series 2017D bonds bear interest based on successive interest rate periods of seven days at an interest rate determined by the remarketing agent and due in annual installments from 2047 to 2048. The average interest rate for the year ended December 31, 2017, was approximately 1.07%. Holders of the Series 2017D bonds have the right to tender their bonds for repurchase at the end of each interest rate period; if the bonds are not resold to a new purchaser. Banner is obligated to purchase the tendered bonds with its own funds. There were no purchases of Series 2017D bonds by Banner outstanding as of December 31, 2107.

The Series 2017 A through D bonds are secured by the Master Indenture.

Series 2016A Bonds

On November 17, 2016, Banner issued its $803,500,000 Series 2016A fixed-rate tax-exempt bonds. The proceeds were used to advance refund and legally defease a certain portion of the Banner Health Series 2008A and Series 2008D Bonds maturing in 2019 through 2038. The Series 2016A bonds are fixed-rate securities, bearing interest at annual interest rates of between 3.13% and 5.00%, and are due in annual installments from 2019 to 2038. The average interest rate for the year ended December 31, 2017 was approximately 4.74%.

Series 2015 Bonds (Series A Through D)

In November 2015:

- Banner issued $94,100,000 of Series 2015A tax-exempt revenue refunding bonds. The proceeds of the bonds were used to legally defease a portion of the Series 2007A bonds amounting to $103,555,000. The Series 2015A bonds are fixed-rate securities, bearing interest at annual interest rates of 5.00%, and are due in annual installments from 2018 to 2025. The average interest rate for the years ended December 31, 2017 and 2016 was 5.00%.

8. Long-Term Debt (continued)

Series 2015 Bonds (Series A Through D) (continued)

- Banner issued $201,260,000 of Series 2015B-C tax-exempt revenue bonds. The proceeds of the Series 2015B-C bonds were used to partially repay the interim loan with Mizuho Bank, Ltd. and the revolving credit loan with Bank of America, N.A., and to fund the construction of a parking garage at B-UMCP. The Series 2015B-C bonds are variable-rate demand securities and bear interest based on successive interest rate periods of seven days at an interest rate determined by a remarketing agent. On November 1, 2017, the Series 2015B-C bonds were converted to successive daily interest rates at an interest rate determined by a remarketing agent. The Series 2015B-C bonds are due in annual installments from 2039 to 2046. The average interest rate for the years ended December 31, 2017 and 2016 was approximately 1.67% and 0.43%, respectively. Security for payment of the Series 2015B-C Bonds is provided for with direct pay letters of credit with the following banks: Bank of Tokyo – Mitsubishi UFJ, Ltd. for the Series 2015B Bonds and Bank of America, N.A. for the Series 2015C Bonds. The direct pay letters of credit for the Series 2015B and Series 2015C bonds terminate in 2021 and 2020, respectively. There were no advances outstanding as of December 31, 2017. The direct pay letters maintains the debt's long term debt classification.

- Banner issued $100,290,000 of Series 2015D tax-exempt revenue bonds. The proceeds of the Series 2015D bonds were used to partially repay the interim loan with Mizuho Bank, Ltd. and the revolving credit loan with Bank of America, N.A., and to fund the construction of a parking garage at B-UMCP. The Series 2015D bonds were issued in direct-purchase index mode and bear interest based on an index plus a spread. Banner entered into a Direct Purchase Agreement for the 2015D Bonds with DNT Asset Trust, a subsidiary of J.P. Morgan International Holdings Limited. The Direct Purchase Agreement maintains the debt's long term classification. The Direct Purchase Agreement expires in 2025. The average interest rate for the years ended December 31, 2017 and 2016 was approximately 1.30% and 0.90%, respectively.

The Series 2015 A-D bonds are secured by the Master Indenture.

8. Long-Term Debt (continued)

2015 Taxable Loan and Commercial Paper Notes

In November 2015:

- Banner entered into a Taxable Loan with The Northern Trust Company in the amount of $100,556,000. The proceeds of the Taxable Loan were used to partially repay the interim loan with Mizuho Bank, Ltd. The Taxable Loan bears interest based on an index plus a spread and matures in 2022. The average interest rate for the years ended December 31, 2017 and 2016 was approximately 1.63% and 1.03%, respectively.

- Banner issued $100,000,000 of taxable 2015 Commercial Paper Notes. The proceeds of the Commercial Paper Notes were used to partially repay the interim loan with Mizuho Bank, Ltd. The 2015 Commercial Paper Notes were issued initially with four $25,000,000 maturities ranging from approximately one to four months. The 2015 Commercial Paper Notes pay interest at maturity and bear interest based on a rate determined by the dealer of the 2015 Commercial Paper Notes at the time of issuance. The average interest rate for the years ended December 31, 2017 and 2016 was approximately 1.11% and 0.53%, respectively. The 2015 Commercial Paper Notes are expected to be remarketed at the time of their respective maturities.

The Taxable Loan and the Commercial Paper Notes are secured by the Master Indenture.

Series 2014A Bonds

In October 2014, Banner issued $200,600,000 of Series 2014A tax-exempt revenue bonds. The proceeds of the bonds were used to fund construction of Banner Fort Collins Medical Center, repay interim financing for the acquisition of Banner Casa Grande Medical Center, and fund construction projects at Banner MD Anderson Cancer Center and Banner Casa Grande Medical Center. The Series 2014A bonds are fixed-rate securities, bearing interest at an annual rate ranging from 4.00% to 5.00%, and are due in annual installments beginning in 2039 through 2044. The average interest rate for the years ended December 31, 2017 and 2016 was approximately 4.50%.

The Series 2014A bonds are secured by the Master Indenture.

8. Long-Term Debt (continued)

Series 2012 Bonds (Series A and B)

In November 2012, Banner issued $179,090,000 of Series 2012A tax-exempt revenue bonds. The proceeds of the bonds were used to fund construction projects at Banner Estrella Medical Center and Banner Baywood Medical Center. The Series 2012A bonds are fixed-rate securities, bearing interest at an annual rate ranging from 3.75% to 5.00%, and are due in annual installments beginning in 2039 through 2043. The average interest rate for the years ended December 31, 2017 and 2016 was approximately 4.09%.

In December 2012, Banner issued $67,840,000 of Series 2012B taxable revenue bonds. The proceeds of the bonds were used to legally defease a portion of the Series 2008D bonds amounting to $67,190,000. The Series 2012B bonds are fixed-rate securities, bearing interest at an annual rate of 4.16%, and are due in one annual installment in 2030. The average interest rate for the years ended December 31, 2017 and 2016 was approximately 4.16%.

The Series 2012 bonds are secured by the Master Indenture.

Series 2008 Bonds (Series A Through H)

In April 2008, Banner issued $227,160,000 of Series 2008A tax-exempt revenue bonds. The proceeds of these bonds were used to refund debt. The Series 2008A bonds are fixed-rate securities, bearing interest at an annual rate ranging from 3.25% to 5.25%, and are due in annual installments through 2035. The average interest rate for the years ended December 31, 2017 and 2016 was approximately 5.00% and 5.07%, respectively. In November 2016, Banner legally defeased a certain portion of the Series 2008A bonds maturing in 2019 through 2035, amounting to $198,705,000.

In June 2008, Banner issued $197,500,000 of Series 2008B-C tax-exempt revenue bonds. The proceeds of these bonds were used to refund debt. The Series 2008B-C bonds were issued as variable-rate demand securities bearing interest based on successive interest rate periods of seven days at an interest rate determined by the remarketing agent. Until August 28, 2012, security for the payment of the Series 2008B-C bonds was provided for with a direct pay letter of credit with The Bank of Nova Scotia.

8. Long-Term Debt (continued)

On August 29, 2012, Banner converted the Series 2008B-C bonds to a direct purchase index mode. To effect this conversion, Banner called the bonds effective August 29, 2012, and simultaneously entered into a $91,950,000 Direct Purchase Agreement for the Series 2008B bonds with JP Morgan Chase, N.A. and a $91,950,000 Direct Purchase Agreement for the Series 2008C bonds with Union Bank, N.A. The Direct Purchase Agreement maintains the original payment amortization schedules and will not be assigned a separate rating by any rating agency, or be registered with The Depository Trust Company or any other securities depository. The Direct Purchase Agreement expires on August 29, 2022. The average interest rate for the years ended December 31, 2017 and 2016 was approximately 1.67% and 1.25%, respectively. The Series 2008B-C bonds are due in annual installments through 2035.

In August 2008, Banner issued $917,860,000 of Series 2008D tax-exempt revenue bonds. The proceeds of these bonds were used to acquire certain assets of Sun Health Corporation (the predecessor of Sun Health Services), finance capital projects, and refund debt. The Series 2008D bonds are fixed-rate securities, bearing interest at an annual rate ranging from 5.00% to 6.00%, and are due in annual installments through 2038. The average interest rate for the years ended December 31, 2017 and 2016 was approximately 5.25% and 5.39%, respectively. In November 2016, Banner legally defeased a certain portion of the Series 2008D bonds maturing from 2019 through 2038, amounting to $681,785,000.

In September 2008, Banner issued $397,085,000 of Series 2008E-H tax-exempt revenue bonds. The proceeds of these bonds were used to refund debt. The Series 2008E-H bonds are variable-rate demand securities and bear interest based on successive interest rate periods of seven days at an interest rate determined by a remarketing agent. The Series 2008E-H bonds are due in annual installments through 2029. The average interest rate for the years ended December 31, 2017 and 2016 was approximately 0.85% and 0.49%, respectively. Security for the payment of the Series 2008E-H bonds is provided for with direct pay letters of credit with the following banks: Bank of America, N.A. provides credit for the Series 2008E; JPMorgan Chase, N.A. provides credit for the Series 2008F; Wells Fargo, N.A. provides credit for the Series 2008G credit; and The Northern Trust Company provides credit for the Series 2008H. The direct pay letters of credit maintain the debt's long term classification for the Series 2008E and Series 2008F bonds. The Series 2008G and Series 2008H bonds have been classified as current debt as described below. All of the direct pay letters of credit terminate between September 2018 and September 2021. There were no advances outstanding as of December 31, 2017.

8. Long-Term Debt (continued)

Series 2008H Bonds

In September 2017, Banner reclassified the entire portion of Series 2008H long-term debt, amounting to $57,940,000, to current debt. Security for the payment of the Series 2008H is provided for with a direct pay letter of credit with The Northern Trust Company. The direct letter of credit expires on September 28, 2018. Banner has not currently renewed the direct pay letter of credit. The debt has been reclassified to current debt, because the expiration date is within one year.

Series 2008G Bonds

In November 2017, Banner reclassified the entire portion of Series 2008G long-term debt, amounting to $74,140,000, to current debt. Security for the payment of the Series 2008G is provided for with a direct pay letter of credit with Wells Fargo, N.A. The direct letter of credit expires on November 12, 2018. Banner has not currently renewed the direct pay letter of credit. The debt has been reclassified to current debt, because the expiration date is within one year.

The Series 2008 bonds are secured by the Master Indenture.

Series 2007 Bonds (Series A and B)

In May 2007, Banner issued $590,920,000 of Series 2007A-B tax-exempt revenue bonds. The proceeds of these bonds were used to finance capital projects.

The Series 2007A bonds are fixed-rate securities due in annual installments through 2025. The bonds bear interest at an annual fixed rate of 5.00%. In November 2015, Banner legally defeased the Series 2007A bonds maturing from 2018 through 2025, amounting to $103,555,000.

The Series 2007B bonds are index-rate bonds due in annual installments beginning in 2025 through 2037. The bonds bear interest computed quarterly based on three-month LIBOR as determined by the index agent. The average interest rate for the years ended December 31, 2017 and 2016 was approximately 1.61% and 1.27%, respectively.

The Series 2007 bonds are secured by the Master Indenture.

8. Long-Term Debt (continued)

Series 2012 Bank of America Term Loan

On June 6, 2012, Banner entered into a $27,780,000 taxable fixed-rate loan with Bank of America, N.A. term loan, the proceeds of which were used to redeem the bonds still remaining outstanding from the Series 1998A bonds issued by Banner in 1998. The term loan has the same payment amortization schedule as the Series 1998A bonds that were redeemed with the proceeds of the term loan, with a final maturity date of January 1, 2019. The average interest rate for 2017 and 2016 was 1.91%.

The term loan is secured by the Master Indenture.

Interest Rate Swap Agreements

2005 Swaps

In March 2005, Banner entered into multiple interest rate swap contracts that effectively converted the variable rate of certain bonds into fixed rates of 3.661% or 3.690%, depending upon the stated maturity of the swaps (the 2005 Swaps). The original notional amount of the 2005 Swaps was $601,230,000. Banner restructured the 2005 Swaps in 2008, removing the insurance and increasing the fixed rate to 3.676% or 3.705%. On May 22, 2015, partial novation of the 2005 Swaps contract was completed from Morgan Stanley to MUFG Union Bank, N.A., increasing the fixed rate to 3.70% or 3.71%. The MUFG Union Bank, N.A. partial novation expires January 6, 2021.

The interest rate swaps did not qualify for hedge accounting treatment under accounting standards for derivative instruments and hedging activities. The derivative mark-to-market adjustments resulted in an unrealized gain of approximately $11,653,000 and $12,443,000 in 2017 and 2016, respectively, recorded in excess of revenues over expenses. The net realized portion of the interest rate swaps, recorded as an increase to interest expense, in 2017 and 2016 was approximately $14,127,000 and $16,662,000, respectively.

Banner's obligations under the 2005 Swaps agreements are secured by the Master Indenture.

8. Long-Term Debt (continued)

2006 Swaps

In March 2006, Banner entered into two forward swap agreements (the 2006 Swaps) with an initial notional amount of $425,000,000. The 2006 Swaps were amended and extended in May 2007 to be used with any of Banner's future debt offerings. In May 2011, Banner began paying interest at a fixed rate of 3.71% against a floating rate of 61.8% of one-month LIBOR plus 31 basis points. On May 22, 2015, partial novations of the 2006 Swaps contracts were completed from Morgan Stanley to MUFG Union Bank, N.A. and from Merrill Lynch Capital Services, Inc. to U.S. Bank, N.A., increasing the fixed rate to 3.78%. The MUFG Union Bank, N.A. partial novation expires January 6, 2021, and the U.S. Bank, N.A. partial novation expires July 1, 2021.

The interest rate swaps did not qualify for hedge accounting treatment under accounting standards for derivative instruments and hedging activities. The derivative mark-to-market adjustments resulted in an unrealized gain of approximately $3,798,000 and of approximately $8,731,000 in 2017 and 2016, respectively, recorded in excess of revenues over expenses. The net realized portion of the interest rate swaps in 2017 and 2016, recorded as an increase to interest expense, was approximately $11,750,000 and $13,337,000, respectively.

Banner's obligations under the 2006 Swaps agreements are secured by the Master Indenture.

2007 Swaps

In May 2007, Banner entered into two interest rate swaps (the 2007 Swaps) that effectively convert the $400,000,000 LIBOR-based index rate Series 2007B bonds to a fixed rate of 4.413% against a floating rate of 67% of three-month LIBOR plus 81 basis points. The agreements hedged initial notional amounts of $400,000,000 and are reduced over the term of the agreements. On May 22, 2015, partial novations of the 2007 Swaps interest rate swap agreements were completed from Morgan Stanley to MUFG Union Bank, N.A. and from Merrill Lynch Capital Services, Inc. to U.S. Bank, N.A., keeping the fixed rate at 4.413%, but changing the floating rate to 67% of one-month LIBOR plus 81 basis points. The MUFG Union Bank, N.A. partial novation expires January 6, 2021, and the U.S. Bank, N.A. partial novation expires July 1, 2021.

8. Long-Term Debt (continued)

The interest rate swaps did not qualify for hedge accounting treatment under accounting standards for derivative instruments and hedging activities. The derivative mark-to-market adjustments resulted in an unrealized gain of approximately $6,156,000 and $6,791,000 for 2017 and 2016, respectively, recorded in excess of revenue over expenses. The net realized portion of the interest rate swaps in 2017 and 2016, recorded as an increase to interest expense, was approximately $11,407,000 and $12,985,000, respectively.

Banner's obligations under the 2007 Swaps agreements are secured by the Master Indenture.

Each of the interest rate swap agreements has collateral posting thresholds based on the counterparties' bond ratings. At the AA- rating level, Banner and its counterparty must post collateral when the mark-to-market exceeds between $35,000,000 and $75,000,000, depending on the counterparty. At December 31, 2017 and 2016, Banner had $120,045,000 and $101,726,000 of collateral outstanding with its counterparties, respectively. The fair value of the collateral is reported as assets limited as to use – other funds on the accompanying consolidated balance sheets.

Revolving Line of Credit

On September 1, 2009, Banner entered into a $75,000,000 revolving line of credit with JPMorgan Chase, N.A. The line of credit was extended on June 5, 2014, and expires on September 30, 2019. As of December 31, 2017, there were no draws on the line of credit.

Banner's obligations with respect to this revolving line of credit are secured by the Master Indenture.

Letters of Credit

Banner has the following letters of credit outstanding: The Travelers Indemnity Company of Illinois in the amount of $810,000, expiring January 16, 2019; Sentry Insurance in the amount of $4,000,000, expiring January 1, 2019; Humana Insurance Company in the amount of $1,663,000, expiring November 19, 2018; City of Fort Collins in the amount of $207,000, expiring October 31, 2018; Liberty Mutual Insurance Company in the amount of $190,000, expiring April 30, 2018; State of Arizona in the amount of $5,000,000, expiring June 3, 2018; Safety National Casualty in the amount of $700,000 expiring December 31, 2018; Zurich America Insurance Company in the amount of $3,300,000, expiring October 31, 2018; Southwest Gas Corporation in the amount of

8. Long-Term Debt (continued)

$1,442,000, expiring June 14, 2018; and Centers for Medicare and Medicaid in the amount of $595,000, expiring July 31, 2020. No amounts were drawn upon the letters of credit as of December 31, 2017.

Fair Value of Debt and Interest Rate Swaps

As of December 31, 2017 and 2016, the estimated fair value of Banner's debt, excluding unamortized net premiums, was $3,397,436,000 and 2,876,076,000, respectively. The estimated fair value is based on quoted market prices for these issues or, where such prices are not available, on current interest rates for debt with similar remaining maturities.

As of December 31, 2017 and 2016, the estimated fair value of the 2005 Swaps resulted in an imputed obligation of $71,634,000 and $83,483,000, respectively, which is recorded in other long-term liabilities on the accompanying consolidated balance sheets. The fair value of the 2005 Swaps is based on the forward LIBOR curve with a blended average duration of approximately 8 years.

As of December 31, 2017 and 2016, the estimated fair value of the 2006 Swaps resulted in an imputed obligation of $136,924,000 and $140,754,000, respectively, which is recorded in other long-term liabilities on the accompanying consolidated balance sheets. The fair value of the 2006 Swaps is based on the forward LIBOR curve with a blended average duration of approximately 22 years.

As of December 31, 2017 and 2016, the estimated fair value of the 2007 Swaps resulted in an imputed obligation of $102,446,000 and $108,602,000, respectively, which is recorded in other long-term liabilities on the accompanying consolidated balance sheets. The fair value of the interest rate swaps is based on the forward LIBOR curve with a blended average duration of approximately 16 years.

9. Estimated Self-Insurance Liabilities

Banner has obtained insurance through a combination of purchased and self-insurance programs for professional and general liability claims, workers' compensation claims, and several other insurance programs to address claims incurred as part of Banner's ongoing business operations, including directors and officers, auto, environmental, aviation, cybersecurity, property, employee life insurance, and certain physicians' prior acts coverage. Banner is self-insured for several of its insurance programs through its wholly owned captive, Banner Indemnity, Ltd. (BIL).

9. Estimated Self-Insurance Liabilities (continued)

Banner's professional and general liability is self-insured through BIL to which Banner contributes actuarially determined amounts to fund estimated ultimate losses. Starting on July 1, 2015, Banner was self-insured, on a claims-made basis, for the first $15,000,000 of each professional liability claim and the first $10,000,000 in aggregate of general liability claims. BIL also provides an integrated excess liability policy with a single limit of $200,000,000 per occurrence and $200,000,000 aggregate for the three-year term expiring July 1, 2018. Included in this integrated excess policy is a basket aggregate in which amounts paid under the self-insured retentions of the scheduled underlying policies and the separate property, workers' compensation, and environmental policies contribute to the basket aggregate, which is capped at $85,000,000 for the annual period July 1, 2016 to June 30, 2017 and $103,000,000 for the annual period July 1, 2017 to June 30, 2018. This policy is fully reinsured by A.M. Best carriers with a minimum rating of A-. Prior to July 1, 2015, Banner was self-insured on an occurrence basis for the first $10,000,000 of professional liability claims, per claim, and the first $10,000,000 of general liability claims, in aggregate, with excess insurance coverage to insure claims made in excess of $10,000,000. The first $25,000,000 of the excess coverage was also self-insured through BIL with the remainder of the excess coverage provided through reinsurance policies issued by unaffiliated third-party insurers. These policies, together with the self-insured components, were in force with aggregate coverage of $225,000,000 for professional and general liability claims.

Banner's workers' compensation coverage is self-insured for the first $1,000,000 per occurrence with BIL providing self-insurance coverage for $500,000 of the $1,000,000 self-insurance coverage for the states of Arizona and Colorado for claims occurring in 2012 through 2015; all other facilities have a deductible of $500,000 per occurrence. Banner has purchased commercial insurance for claims in excess of these retained amounts. Banner is also required to contribute to certain states' mandated workers' compensation programs.

Under its self-insured professional and general liability and employee group term life insurance programs, Banner contributes actuarially determined amounts to BIL to fund estimated ultimate losses. In connection with the professional and general liability and workers' compensation self-insurance programs, Banner has accrued estimates for asserted and incurred but not reported claims. The actuarially determined claim liabilities amount to $207,380,000 and $193,315,000, of which $49,554,000 and $43,999,000 has been recorded as current liabilities on the accompanying consolidated balance sheets as of December 31, 2017 and 2016, respectively. Self-insurance liabilities are undiscounted at December 31, 2017 and 2016.

10. Non-current Liabilities

Other non-current liabilities consisted of the following as of December 31:

	2017	2016
	(In Thousands)	
Non-current employee benefit liabilities	**$ 96,640**	$ 76,630
Banner Health retirement income plan	**17,159**	20,536
Sun Health Services pension plan	**30,601**	33,890
Asset retirement obligation	**15,008**	14,422
Other	**25,888**	69,021
Total other non-current liabilities	**$ 185,296**	$ 214,499

11. Retirement Plans

Defined Contribution Plan

Substantially all of Banner's eligible employees may elect to participate in Banner's defined contribution plan. Employees may contribute up to 21% of eligible compensation, subject to plan restrictions. Banner may provide a matching contribution equal to the first 4% of eligible compensation contributed for each participant, as defined under the defined contribution plan. Contribution expense was $71,414,000 and $69,790,000 for the years ended December 31, 2017 and 2016, respectively.

Defined Benefit Plan

Banner Health Retirement Income Plan

Banner has a non-contributory defined benefit plan (the Plan) that provides certain eligible employees with retirement and death benefits. Banner annually contributes amounts to the Plan as necessary to meet the Employee Retirement Income Security Act of 1974 minimum funding requirements. Benefits are based on years of service and the employee's compensation during the last five years of employment. Benefit accruals under the Plan have been frozen since 2002.

11. Retirement Plans (continued)

The following table sets forth the benefit obligation and assets of the Plan at December 31 (using measurement dates as of December 31, 2017 and 2016, respectively) and components of net periodic benefit costs for the years then ended:

	2017	2016
	(In Thousands)	
Change in projected benefit obligation		
Projected benefit obligation at beginning of year	**$ 72,178**	$ 76,365
Interest cost	**2,805**	3,042
Actuarial loss (gain)	**1,412**	(982)
Benefits paid	**(5,695)**	(6,247)
Projected benefit obligation at end of year	**70,700**	72,178
Change in plan assets		
Fair value of plan assets at beginning of year	**51,642**	57,388
Actual return on plan assets	**5,724**	501
Employer contributions	**1,870**	–
Benefits paid	**(5,695)**	(6,247)
Fair value of plan assets at end of year	**53,541**	51,642
Funded status – accrued benefit recorded	**$ (17,159)**	$ (20,536)
Unrecognized net loss recorded in net assets	**$ 48,983**	$ 52,290

11. Retirement Plans (continued)

The underfunded status of the Plan of $17,159,000 and $20,536,000 at December 31, 2017 and 2016, respectively, is included in other long-term liabilities in the accompanying consolidated balance sheets. No plan assets are expected to be returned to Banner during the year ended December 31, 2017.

	2017	2016
	(In Thousands)	
Components of net periodic benefit cost		
Interest cost	**$ 2,805**	$ 3,042
Expected return on plan assets	**(3,939)**	(4,104)
Amortization of actuarial loss	**2,238**	2,264
Recognized settlement loss	**696**	749
Net periodic benefit cost	**$ 1,800**	$ 1,951

The assumptions used to determine the projected benefit obligation for the Plan as of December 31 are set forth below.

	2017	2016
Weighted average discount rate	**3.63%**	4.04%
Weighted average expected long-term rate of return on plan assets	**7.00**	7.00

The assumptions used to determine the net periodic benefit cost for the Plan for the years ended December 31 are set forth below.

	2017	2016
Weighted average discount rate	**4.04%**	4.14%
Weighted average expected long-term rate of return on plan assets	**7.00**	7.00

11. Retirement Plans (continued)

The expected long-term rate of return on plan assets is based on historical and projected rates of return for current and planned asset categories in the Plan's investment portfolio. Assumed projected rates of return for each asset category were selected after analyzing historical experience and future expectations of the returns and volatility for assets of that category using benchmark rates. Based on the target asset allocation among the asset categories, the overall expected rate of return for the portfolio was developed and adjusted for historical and expected experience of active portfolio management results compared to benchmark returns and for the effect of expenses paid from plan assets.

The Plan's asset allocation and investment strategies are designed to earn returns on plan assets consistent with a reasonable and prudent level of risk. Investments are diversified across classes, sectors, and manager style to minimize the risk of large losses. Derivatives may be used to bridge specific exposure, reduce transaction costs, or modify the portfolio's duration or yield. Banner uses investment managers specializing in each asset category and, where appropriate, provides the investment manager with specific guidelines that include allowable and/or prohibited investment types. Banner regularly monitors manager performance and compliance with investment guidelines.

Banner's overall investment strategy is to achieve a mix of approximately 60% of investments for long-term growth and 40% for near-term benefit payments with a wide diversification of asset types, fund strategies, and fund managers. The target allocations for plan assets are 55% equity securities, 35% fixed-income securities, and 10% alternative investments. Equity securities include U.S. and international investments and range from large-cap to small-cap companies. Fixed-income securities include corporate bonds of companies from diversified industries, mortgage-backed securities, and U.S. Treasuries. Alternative investments include mainly hedge funds that invest in several different strategies.

11. Retirement Plans (continued)

The fair value of the Plan's assets at December 31, 2017, by asset category, is as follows:

	December 31, 2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Valuation Technique (a, b, c)
	(In Thousands)				
Asset category					
Registered investment company funds:					
U.S. funds	**$ 18,657**	**$ 18,657**	**$ –**	**$ –**	**a**
International funds	**18,993**	**18,993**	**–**	**–**	**a**
Common/collective trust funds	**10,469**	**–**	**10,469**	**–**	**a**
Total assets in the fair value hierarchy	**$ 48,119**	**$ 37,650**	**$ 10,469**	**$ –**	
Investments measured at net asset value:					
Alternative investments	**$ 5,422**				
	$ 53,541				

The fair value of the Plan's assets at December 31, 2016, by asset category, is as follows:

	December 31, 2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Valuation Technique (a, b, c)
	(In Thousands)				
Asset category					
Registered investment company funds:					
U.S. funds	$ 24,534	$ 24,534	$ –	$ –	a
International funds	12,383	12,383	–	–	a
Common/collective trust funds	9,740	–	9,740	–	a
Total assets in the fair value hierarchy	$ 46,657	$ 36,917	$ 9,740	$ –	
Investments measured at net asset value:					
Alternative investments	$ 4,985				
	$ 51,642				

11. Retirement Plans (continued)

Information about the expected cash flows for the Plan follows (in thousands):

Expected employer contributions in 2018	$ 2,650,000
Expected benefit payments:	
2018	5,560,000
2019	5,501,000
2020	5,395,000
2021	5,311,000
2022	5,228,000
2023-2027	24,100,000

Sun Health Pension Plan

Under the terms of the agreement for the purchase of Sun Health Corporation, Banner assumed sponsorship of the Sun Health Pension Plan, a defined benefit plan, and the Sun Health Pension Plan Trust (the Trust). Sun Health Services retained the obligation to fund any required contributions to the Trust to meet the Employee Retirement Income Security Act of 1974 minimum funding requirements, and Sun Health Services retains the right to any excess assets that may exist upon termination of the Sun Health Pension Plan. Benefit accruals under the Sun Health Pension Plan have been frozen since May 2007, except for certain employees whose salary benefits were not frozen until 2014. At December 31, 2017 and 2016, Banner recorded a non-current liability of $30,601,000 and $33,890,000, respectively, representing the unfunded liability under the Sun Health Pension Plan, and a long-term receivable from Sun Health Services in the same amount on the accompanying consolidated balance sheets.

11. Retirement Plans (continued)

The following table sets forth the benefit obligation and assets of the Sun Health Pension Plan at December 31 (using measurement dates as of December 31, 2017 and 2016, respectively):

	2017	2016
	(In Thousands)	
Change in projected benefit obligation		
Projected benefit obligation at beginning of year	**$ 103,087**	$ 104,410
Service cost	**25**	49
Interest cost	**4,277**	4,392
Actuarial loss (gain)	**5,112**	(1,173)
Benefits paid	**(4,945)**	(4,591)
Projected benefit obligation at end of year	**107,556**	103,087
Change in plan assets		
Fair value of plan assets at beginning of year	**69,197**	69,408
Actual return on plan assets	**8,154**	693
Employer contributions	**4,549**	3,687
Benefits paid	**(4,945)**	(4,591)
Fair value of plan assets at end of year	**76,955**	69,197
Funded status – accrued benefit recorded	**$ (30,601)**	$ (33,890)

The assumptions used to determine the projected benefit obligation include the weighted average discount rate of 3.77% and 4.26% as of December 31, 2017 and 2016, respectively, and weighted average expected long-term rate of return on plan assets of 7.00% as of December 31, 2017 and 2016.

The expected long-term rate of return on plan assets is based on historical and projected rates of return for current and planned asset categories in the Sun Health Pension Plan's investment portfolio. Assumed projected rates of return for each asset category were selected after analyzing historical experience and future expectations of the returns and volatility for assets of that category using benchmark rates. Based on the target asset allocation among the asset categories, the overall expected rate of return for the portfolio was developed and adjusted for historical and expected experience of active portfolio management results compared to benchmark returns and for the effect of expenses paid from plan assets.

11. Retirement Plans (continued)

Banner's overall investment strategy with the Sun Health Pension Plan is to achieve a mix of approximately 60% of investments for long-term growth and 40% for near-term benefit payments with a wide diversification of asset types, fund strategies, and fund managers. The target allocations for plan assets are 55% equity securities, 35% fixed-income securities, and 10% alternative investments. Equity securities include U.S. and international investments and range from large-cap to small-cap companies. Fixed-income securities include corporate bonds of companies from diversified industries, mortgage-backed securities, and U.S. Treasuries. Alternative investments include mainly hedge funds that invest in several different strategies.

The fair value of Banner's Sun Health Pension Plan assets at December 31, by asset category, is as follows:

	2017	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Valuation Technique (a, b, c)
	(In Thousands)				
Asset category					
Registered investment company funds:					
U.S. funds	$ 26,147	$ 26,147	$ –	$ –	a
International funds	28,480	28,480	–	–	a
Common/collective trust funds	14,660	–	14,660	–	a
Total assets in the fair value hierarchy	$ 69,287	$ 54,627	$ 14,660	$ –	
Investments measured at net asset value:					
Alternative investments	$ 7,668				
	$ 76,955				

11. Retirement Plans (continued)

	2016	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Valuation Technique (a, b, c)
	(In Thousands)				
Asset category					
Registered investment company funds:					
U.S. funds	$ 31,686	$ 31,686	$ –	$ –	a
International funds	17,569	17,569	–	–	a
Common/collective trust funds	12,889	–	12,889	–	a
Total assets in the fair value hierarchy	$ 62,144	$ 49,255	$ 12,889	$ –	
Investments measured at net asset value:					
Alternative investments	$ 7,053				
	$ 69,197				

Information about the expected cash flows for the Sun Health Pension Plan follows (in thousands):

Expected employer contributions in 2018	$ 4,070,000
Expected benefit payments:	
2018	5,391,000
2019	5,612,000
2020	5,809,000
2021	6,007,000
2022	6,119,000
2023–2027	32,183,000

Health and Dental Plan

Employees of Banner are provided health and dental coverage through a combination of several programs, purchased and self-insured. Health, dental, and group life coverage is funded through employee and employer contributions. Banner's health, dental, and group life insurance expense was $143,431,000 and $143,747,000 for the years ended December 31, 2017 and 2016, respectively.

11. Retirement Plans (continued)

Long-Term Disability Plan

Employees of Banner are provided long-term disability coverage through an external purchased insurance plan. Banner's long-term disability expense was $5,737,000 and $5,536,000 for the years ended December 31, 2017 and 2016, respectively.

Executive Retirement Plans

Banner has several executive retirement plans for certain senior executives' retirement and death benefits. Banner's executive retirement plan expense was $16,922,000 and $8,340,000 for the years ended December 31, 2017 and 2016, respectively. The liability was approximately $13,424,000 and $29,910,000 as of December 31, 2017 and 2016, respectively, of which $7,365,000 and $25,164,000 is current as of December 31, 2017 and 2016, respectively. The liability has been discounted to present value using a discount rate of 3.61% and 3.32% in 2017 and 2016, respectively.

12. Income Taxes

Banner's deferred tax assets and liabilities primarily relate to BHN for 2017, and for 2016, the deferred tax assets and liabilities primarily relate to BHN and BUHP. BUHP obtained a tax exemption certificate from the Internal Revenue Service in 2017. Deferred tax assets and liabilites consist of the following as of December 31:

	2017	2016
	(In Thousands)	
Deferred tax assets:		
Net loss carryforwards	**$ 77,175**	$ 78,175
Accrued compensation	**–**	356
Accrued expenses	**–**	2,573
Total deferred tax assets	**77,175**	81,104
Deferred tax liabilities:		
Depreciation	**$ (265)**	$ (323)
Accrued expenses	**559**	(501)
Total deferred tax liabilities	**294**	(824)
Valuation allowance	**(77,469)**	(71,941)
Net deferred tax assets after valuation allowance	**$ –**	$ 8,339

12. Income Taxes (continued)

As of December 31, 2017, Banner had estimated federal net operating loss carryforwards of $310,300,000 that begin to expire in the year 2034 and estimated state net operating loss carryforwards of $310,300,000 that begin to expire in 2018.

A reconciliation of Banner's income taxes computed at the federal statutory rate to the income tax benefit (expense), recorded within, for the years ended December 31 consists of the following (in thousands):

	2017	**2016**
	(In Thousands)	
Computed tax benefit at 34%	**$ 34,189**	$ 34,838
State taxes net of federal benefit	**4,142**	4,021
Tax rate impact of Tax Cut and Jobs Act on deferred balance	**(38,509)**	–
Change in valuation reserve	**(5,528)**	(43,051)
Permanent items	**–**	(101)
Other	**(4,760)**	1,191
	$ (10,467)	$ (3,102)

On December 22, 2017, the Tax Cuts and Jobs Act was enacted (Enactment), which significantly revised U.S. corporate income tax law by, among other things, reducing the corporate statutory income tax rate from 34% to 21%, beginning January 1, 2018. This reduction in the corporate statutory income tax rate required Banner to re-evaluate certain of its deferred tax assets and liabilities, as of the date of Enactment, to reflect the revised income tax rates applicable to future periods. For tax-exempt entities, the Enactment also requires organizations to categorize certain fringe benefit expenses as a source of unrelated business income, pay an excise tax on remuneration above certain thresholds that is paid to executives by the organization, and report income or loss from unrelated business activities on an activity-by-activity basis, among other provisions.

Banner believes that it has made a reasonable estimate of the income tax effects of the Tax Cuts and Jobs Act as of and for the year ended December 31, 2017. However, Banner was required to base certain of its estimates and assumptions on incomplete information and/or preliminary interpretations of the effects of Enactment. Certain regulatory guidance provides for a

12. Income Taxes (continued)

measurement period of up to one year, during which the accounting for the effects of the Act may be completed. As a result, Banner may need to reflect further adjustments to its deferred tax assets and liabilities recorded as of December 31, 2017 in future periods upon obtaining, preparing, or analyzing additional information about facts and circumstances that existed as of that date that, if known at that time, would have affected the income tax effects initially reported. Banner has determined that the $38,509,000 adjustments to the deferred tax assets in connection with the reduction of the corporate income tax rate were provisional amounts and reasonable estimates at December 31, 2017.

As Banner has recorded a full valuation allowance, the tax benefit related to the remeasurement of the deferred taxes is offset by the change in the valuation allowance. Banner does not expect the amounts of any future income tax adjustments that may be required to be made to Banner's deferred tax assets as of December 31, 2017 to be material.

Banner has not recorded any expense or accrued for any related expense for any uncertain tax positions. Banner's 2014 through 2017 tax years remain subject to examination for federal income tax purposes, whereas the 2013 through 2017 tax years remain subject to examination for state taxing jurisdictions in which Banner operates.

13. Commitments and Contingencies

Leases

Future minimum lease payments (excluding operating agreements), by year and in the aggregate, under non-cancelable operating lease arrangements with initial or remaining terms of one year or more consist of the following at December 31, 2017 (in thousands):

2018	$ 30,597
2019	27,348
2020	23,238
2021	19,140
2022	16,359
Thereafter	30,342
	$ 147,024

13. Commitments and Contingencies (continued)

Amounts charged to expense for all operating leases totaled $76,529,000 and $132,773,000 in 2017 and 2016, respectively.

Operating Agreements

North Colorado Medical Center

Banner has subleased North Colorado Medical Center (NCMC) and other real and personal property comprising substantially all of the assets located in Weld County, Colorado, and used by Banner for health care operations from NCMC, Inc. since 1995.

Effective as of January 1, 2012, Banner entered into a Second Amended and Restated Operating Agreement (the Second Amended Operating Agreement) with NCMC, Inc. The Second Amended Operating Agreement extended the term of the sublease through December 31, 2027. Under the Second Amended Operating Agreement, Banner is required to pay rent to NCMC, Inc. monthly under the following rent formula: (i) asset depreciation expense in an amount equal to the total actual asset depreciation expense of NCMC, Inc. for the acute care assets and most other assets subleased to Banner; (ii) a return on most of the assets included in the asset depreciation expense component, excluding certain infrastructure improvement assets, in an amount equal to 8% of the year-end net book value of such assets; (iii) a return on assets in an amount equal 4% of the year-end net book value of approximately $60,000,000 of infrastructure improvements made by NCMC, Inc. to NCMC from 2012 to 2014; and (iv) rent for certain real existing and future property used for ancillary health care operations based on a fair market value rent as negotiated by the parties. The Second Amended Operating Agreement also requires Banner to approve additional annual capital expenditures averaging $16,000,000 over the term of the Second Amended Operating Agreement. Banner is also required to pay additional rent of $1,000,000 per year through 2017. To compensate for indigent care provided by Banner, NCMC, Inc. is required to pay Banner $5,000,000 in 2015 and in each year thereafter, which has been and will be recorded as contribution revenue in the year earned. If, at the end of 2017, 2022, and 2027, the cumulative operating income from Banner's health care operations in Weld County exceeds 5% of the cumulative net operating revenue during the preceding five-year period, Banner will pay to NCMC, Inc. 50% of such excess. If cumulative operating income for the five-year period is less than zero, NCMC, Inc. will pay Banner 50% of the amount by which the operating income was less than zero, provided that the aggregate asset depreciation expense paid by Banner during such five-year period, less the charity payment made by NCMC, Inc., may not be less than the amount of the scheduled annual debt

13. Commitments and Contingencies (continued)

service made by NCMC, Inc. during such period. As of December 31, 2017, management has determined that Banner will be paying an additional lease payment in 2018 based on the projected five-year cumulative operating income for NCMC of $13,266,000, less $1,250,000 paid in 2017 and $5,000,000 paid in 2016. As of December 31, 2017, Banner has accrued the remaining liability of $7,016,000.

During 2012, NCMC, Inc. commenced a $60,000,000 infrastructure improvement construction project at NCMC. In accordance with the lease accounting standards, Banner was considered to have substantially all of the risks of ownership of NCMC during the construction period as Banner continued to pay rent during the construction period. Accordingly, Banner recorded an asset titled Leased Hospital assets and a corresponding obligation titled Hospital Lease obligation of $205,951,000 in 2012. Additional assets and corresponding obligations were recorded in subsequent years as assets were added to the lease. An additional asset and corresponding obligation of $14,888,000 and $36,534,000 were recorded in 2017 and 2016, respectively. Construction was completed in 2017, and Banner determined that the lease does not qualify for sale/leaseback accounting under generally accepted accounting principles. The property leased from NCMC, Inc. is being depreciated over the lease term, and total depreciation expense recorded by Banner for the years ended December 31, 2017 and 2016 amounted to $28,434,000 and $27,376,000, respectively. Interest expense recorded by Banner on the lease obligation with NCMC, Inc. amounted to $13,725,000 and $14,244,000 for the years ended December 31, 2017 and 2016, respectively.

Total payments made to NCMC, Inc. amounted to $39,894,000 and $36,800,000 for the years ended December 31, 2017 and 2016, respectively.

Greater Fairbanks Community Hospital

Banner leased from the Greater Fairbanks Community Hospital Foundation (the Foundation) a hospital facility, a skilled nursing facility, and a physician clinic located in Fairbanks, Alaska. The entities together are referred to as the Facility. The lease obligated Banner to operate the Facility and pay basic rent based on the fair market value per square foot for the Facility, adjusted annually. In exchange for rents to be paid, the lease obligated the Foundation to purchase all future equipment for the Facility. In addition to the basic rent, additional rent payments were required to be made by Banner to the Foundation based on excess cash flows, net of expenses, as defined. The net effect of the additional rent payments is that Banner retained the operating income from the

13. Commitments and Contingencies (continued)

Facility, up to 4.50% of the total revenue, and paid the balance of the operating income to the Foundation as additional rent. Rental expense under the Facility's operating lease totaled $51,517,000 for the year ended December 31 2016.

In December 2015, Banner exercised its right to terminate the lease upon at least one year's notice. The termination was effective January 1, 2017. Included in Banner's consolidated statements of income for the year ended December 31, 2016, $296,072,000 of total revenue and $3,474,000 of operating loss related to the Facility. Under the Lease Termination and Sale Agreement, Banner sold accounts receivable of the hospital and nursing facility to the Foundation at a 15% discount, which was recorded as a reduction of the accounts receivable balance and recorded in other operating expense for the year ended December 31, 2016.

In 2015, the Foundation commenced a construction project at the Facility for a surgical building. In accordance with the lease accounting standards, Banner was considered to have substantially all of the risks of ownership of the surgical building during the construction period as Banner continued to pay rent during the construction period. Accordingly, Banner recorded an asset and a corresponding obligation associated with the construction costs of the surgical building amounting to $66,125,000 as of December 31, 2016. Upon termination of the lease, the asset and obligation were removed.

Washakie Medical Center

Prior to May 14, 2015, Banner leased Washakie Medical Center (WMC) from the Board of Trustees of Memorial Hospital of Washakie County, Wyoming (Hospital Board) with the approval and consent of the Board of County Commissioners of Washakie County, Wyoming (County) pursuant to a lease agreement, as amended (Original Lease). Under the Original Lease, Banner was required to pay rent to the Hospital Board monthly in the amount of $12,500. Banner furnished and maintained substantially all equipment used in WMC operations.

The County issued bonds in May 2015 to substantially renovate and expand the existing WMC facility. When construction was completed, Banner determined that the lease did not qualify for sale-leaseback treatment under generally accepted accounting principles. Banner recorded leased assets of $29,795,000 and a lease obligation of $29,823,000 for the WMC Lease as of December 31, 2017. Banner is required under generally accepted accounting principles to record the lease, as defined below, as a capital lease. The leased property is being deprecated over the

13. Commitments and Contingencies (continued)

lease term. Total depreciation expense recorded by Banner for the years ended December 31, 2017 and 2016 amounted to $1,615,000 and $471,000, respectively. Interest expense recorded by Banner on the lease obligation amounted to $1,570,000 and $870,000 for the years ended December 31, 2017 and 2016, respectively.

Effective as of May 13, 2015, Banner entered into an amended and restated lease agreement with the County and the Hospital Board (together, the Landlord) (the Lease). The Lease extended the term of the Original Lease through May 13, 2045. Under the Lease, Banner is required to pay basic rent to the Hospital Board in the amount of $150,000 annually, plus inflation of 3% each year, beginning June 1, 2015 through June 1, 2029. Beginning June 1, 2030, Banner is required to pay base rent of $500,000 annually, plus 3% annual inflation, through the end of the Lease term. Additional annual rent of $1,797,494 is to be paid in monthly installments of $149,791 directly to the Bond Trustee, beginning June 3, 2015 through June 3, 2029. Additionally, Banner is responsible for paying the annual fees of the Bond Trustee in the amount of approximately $3,000.

Under the terms of the Lease, Banner is responsible to maintain, replace, and upgrade hospital equipment at WMC to aid in the provision of quality patient care in an equivalent manner to its similarly situated owned and operated critical access hospitals.

The Lease can be terminated at any time by mutual agreement of the parties. Banner can terminate the Lease upon one year written notice to the Landlord, to be effective beginning on the 16th anniversary of the Lease. The Landlord can terminate the Lease upon one year written notice to Banner, to be effective beginning on the 21st anniversary of the Lease.

Debt Guarantee

Banner has guaranteed payment of the principal and interest on various debt offerings of NCMC, Inc. pursuant to the limited guaranty agreements entered into with the bond trustee. Under the limited guaranty agreements applicable to the NCMC, Inc. Series 2016, 2013, and 2012 bonds, Banner agrees to pay the principal and interest on such bonds in the event of default by NCMC, Inc.; however, the aggregate amount payable under the limited guaranty agreements applicable to the Series 2016, 2013, and 2012 bonds is limited to the rent otherwise payable under the Second Amended Operating Agreement. As of December 31, 2017, $210,559,000 (unaudited) was outstanding under the NCMC, Inc. Series 2016, 2013, and 2012 bonds, net of an amount held in escrow. The maximum annual debt service on the NCMC, Inc. Series 2016, 2013, and 2012 bonds is approximately $17,692,000 (unaudited). In the event of default by NCMC, Inc., Banner has

13. Commitments and Contingencies (continued)

agreed to pay directly to the trustee, monthly, the portion of the rent equal to NCMC, Inc.'s debt service obligation. Such payments are to be credited against rent and all other payment obligations to NCMC, Inc. under the Second Amended Operating Agreement. Banner is not obligated to pay any amounts that become due on such bonds as a result of acceleration of the principal of the bonds under the Master Indenture. Banner's obligations under the limited guaranty agreements cease upon the termination of the Second Amended Operating Agreement. Banner did not record a liability for the limited guaranty agreements at December 31, 2017 or 2016.

Facility Construction

Banner is undertaking significant renovation and expansion projects at several of its facilities. The cost to complete construction and purchase equipment for these projects is estimated to be $425,000,000 (unaudited).

Academic Affiliation Agreement

On February 28, 2015, the University of Arizona Health Network (UAHN) and its wholly owned subsidiary University Medical Center Corporation were acquired by Banner. As part of the transaction, Banner and the University of Arizona (UA) executed a 30-year academic affiliation agreement (the AAA) providing for ongoing support of the UA Colleges of Medicine in Tucson and Phoenix, and for Banner – University Medical Center Phoenix (B-UMCP) to become the primary teaching affiliate of the UA College of Medicine – Phoenix. Under the terms of the transaction, Banner contributed $261,000,000 (included within the total purchase price consideration) and UA contributed $39,000,000 to an Academic Enhancement Fund trust to provide $20,000,000 of annual support for academic enhancements, faculty recruitment, and program development at the UA College of Medicine – Tucson and College of Medicine – Phoenix. In addition, Banner agreed to (i) fund such additional amounts as may be needed to meet the $20,000,000 annual commitment during the 30-year term of the AAA to the extent that the Academic Enhancement Fund, and earnings thereon, is insufficient to do so; (ii) expend (or incur a binding commitment to expend) at least $500,000,000 within five years of closing on capital projects in Tucson to support the clinical enterprise, including the expansion and renovation of Banner—University Medical Center Tucson (B-UMCT) and construction of a new multi-specialty outpatient clinic and ambulatory surgery center on a site north of B-UMCT; and (iii) subject to certain adjustments, fund annual amounts for funds flow and mission support in (A) a minimum amount of $151,300,000, plus (B) 0.4% of the net operating revenue of B-UMCT, Banner—University Medical Center South (B-UMCS), B-UMCP (collectively, the academic medical

13. Commitments and Contingencies (continued)

centers), and the faculty practice plan, plus (C) a variable amount equal to one-half of the combined operating income of the academic medical centers and the faculty practice plan in excess of a 5% operating margin. The annual funds flow commitment is subject to adjustment based upon fluctuations in governmental funding for graduate medical education. Banner funded $241,813,000 and $212,720,000 relating to the AAA funds flow and mission support for the years ended December 31, 2017 and 2016, respectively. As of December 31, 2017, Banner had expended $346,200,000 of its $500,000,000 capital commitment.

MD Anderson Cancer Center

Banner entered into an agreement with MD Anderson Physician Network (MD Anderson) to develop and operate a comprehensive cancer program consisting of inpatient beds and an outpatient cancer center that was constructed on the campus of Banner Gateway Medical Center, which opened in 2011. Under the terms of the agreement, Banner retains ownership of the cancer program and cancer center. MD Anderson provides clinical oversight and other program support services and is reimbursed for these services based on a fixed and variable fee schedule outlined in the agreement. Banner paid fees of approximately $5,338,000 and $3,991,000 to MD Anderson for the years ended December 31, 2017 and 2016, respectively.

Compliance with Laws and Regulations

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government health care program participation requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by health care providers.

Violations of these laws and regulations could result in expulsion from government health care programs, together with the imposition of significant fines and penalties as well as significant repayments for patient services previously billed. Compliance with such laws and regulations can be subject to future review and interpretation as well as regulatory actions unknown or unasserted at this time.

13. Commitments and Contingencies (continued)

OIG Patient Status Investigation

In June 2015, Banner was served with a subpoena from the Office of Inspector General of the U.S. Department of Health and Human Services (OIG) seeking a large number of medical records for cases dating back to 2009, as well as documentation from 2009 to 2015 pertaining to Banner's practices and procedures for classifying patients as inpatients, outpatients, or observation status patients. Based on communications with the OIG and the U.S. Department of Justice, management believes that the subpoena reflects a substantial investigation concerning patient status. Banner has begun producing the requested records and other materials, and is cooperating with the investigation. At this point, it is not possible to estimate the ultimate outcome of the investigation. Similar investigations have been tied to qui tam litigation brought under the federal False Claims Act and have resulted in substantial settlements against other health care systems, and management believes that it is likely that an as-yet unsealed qui tam lawsuit is pending related to the investigation.

401(k) Plan Litigation

In November 2015, Banner and a number of affiliated individuals were sued in federal district court in a putative class action brought on behalf of all current and certain former Banner employees participating in Banner's 401(k) defined contribution retirement plan. The complaint alleges a variety of acts and omissions relating to the administration of the 401(k) plan, including excessive and poorly performing investment options, excessive administration, investment and record-keeping fees, and conflicts of interest. The acts and omissions are alleged to constitute violations of fiduciary duty and of the Employee Retirement Income Security Act (ERISA). Discovery in the case is underway, and Banner intends to defend the case vigorously. While some of the similar class actions against other sponsors of large 401(k) plans have resulted in substantial liability to the employer, it is too early to provide an estimate as to the likelihood of an unfavorable outcome or the range of potential damages in the event of an unfavorable outcome. The extent of insurance coverage for this claim has not yet been settled.

13. Commitments and Contingencies (continued)

June 2016 Cyber Attack and Resulting Class Actions

In late June 2016, Banner identified activity within its computer network indicating that a cyber-attack may have occurred. An investigation was launched immediately with the assistance of an independent computer forensics firm, which revealed that the attack was initiated on June 17, 2016. It has been determined that Banner computer systems that process credit card payments in food and beverage outlets at some Banner locations were accessed by unauthorized persons, resulting in the copying of approximately 21,000 credit card numbers. It has also been determined that the cyber attackers may also have gained access to a number of Banner servers, containing personal and patient information of approximately 3.7 million individuals, including patients and providers. The attack was publicly disclosed on August 3, 2016, and law enforcement and appropriate regulatory authorities have been notified. Following discovery, Banner implemented actions to remove the malware, remedy the damage to the network, and enhance the security of its network. Banner has also directly notified those individuals which it can identify as potentially having had their personal and patient information improperly accessed, and is offering ongoing monitoring and other steps to protect those who may have been affected by the breach.

Nine putative class action lawsuits have been filed against Banner, seeking damages and other remedies on behalf of individuals possibly affected by the incident. These cases have been consolidated into a single lawsuit, and Banner intends at this time to defend them vigorously. At this point, the full extent of potential loss incurred in connection with the investigation notification, mitigation and remediation of the attack, and the likelihood and extent of potential liability in the pending lawsuits are not known. The extent of insurance coverage for any potential liability has not yet been settled, although management believes at this time that a substantial portion of the potential exposure from the cyber-attack and ensuring litigation will be covered by its cyber risk insurance program.

Office of Civil Rights Investigation

In follow-up to the June 2016 cyber-attack, Banner has been the subject of an investigation by the Office of Civil Rights of the US Department of Health & Human Services (“OCR“). Banner is cooperating with the investigation. The OCR investigation is still active, and the OCR has indicated that the initial Banner responses with respect to its past security assessment activities are inadequate. Although Banner has supplemented its initial responses, Banner anticipates that it may receive negative findings with respect to its information technology security program, and that a fine may be assessed against Banner. At this point, it is not possible to estimate the range of potential fines by the OCR.

13. Commitments and Contingencies (continued)

ADA Compliance Claim

In March 2017, 18 significantly hearing impaired claimants filed a lawsuit in United States District Court alleging violations of the Americans with Disabilities Act, the Rehabilitation Act, and the Arizonans with Disabilities Act, based upon Banner's alleged failure to provide them with effective communication during their visits to Banner facilities, primarily based upon Banner's usage of Video Remote Interpreting Machines to communicate with the patients via video conferencing. Plaintiffs are seeking both injunctive relief and damages, the latter claims based upon Banner's alleged "substantial indifference" to their communication needs. In accordance with an agreement in 2015 settling two lawsuits brought by different plaintiffs alleging similar claims, Banner's policies and procedures for communicating effectively with deaf and hearing impaired patients and visitors were substantially revised and enhanced. While most of these alleged incidents occurred prior to Banner's implementation of its new policies and procedures, the 2017 lawsuit includes claims based upon Banner's allegedly ineffective or incomplete implementation of the 2015 settlement agreement. Banner intends to defend the monetary demands vigorously. At this early stage of litigation and discovery, it is not possible to predict the outcome of this litigation, or the range of potential monetary exposure if the plaintiffs prevail.

In addition to general and professional liability claims, Banner is involved in litigation and regulatory investigations arising in the ordinary course of business. In the opinion of management, after consultation with legal counsel, these matters are expected to be resolved without material adverse effect on Banner's consolidated financial position, results of operations, or cash flows.

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