KPMG

Consolidated Financial Statements

Intermountain Health Care, Inc. and Affiliated Companies
Years Ended December 31, 2021 and 2020
with Independent Auditors' Report

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

Independent Auditors' Report

Audit and Compliance Committee
Intermountain Health Care, Inc.:

Opinion

We have audited the consolidated financial statements of Intermountain Health Care, Inc. and affiliated companies (the Company), which comprise the consolidated balance sheets as of December 31, 2021 and 2020, and the related consolidated statements of operations and changes in net assets, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of their operations and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Basis for Opinion

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

Responsibilities of Management for the Consolidated Financial Statements

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

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

KPMG

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

In performing an audit in accordance with GAAS, we:

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

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

KPMG LLP

Salt Lake City, Utah
March 17, 2022

Intermountain Health Care, Inc. and Affiliated Companies

Consolidated Balance Sheets

(In Millions)

	December 31 2021	December 31 2020
Assets		
Current assets:		
Cash and equivalents	$ 396	$ 381
Assets limited as to use	765	1,279
Accounts receivable	934	669
Inventory	212	194
Due from brokers for securities sold	259	527
Other current assets	396	429
Total current assets	2,962	3,479
Assets limited as to use	12,056	9,841
Property and equipment, net	3,429	3,377
Other assets	1,155	977
Total assets	$ 19,602	$ 17,674
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued liabilities	$ 666	$ 597
Compensation and related liabilities	461	417
Due to brokers for securities purchased	329	791
Medical claims payable	275	290
Other current liabilities	471	388
Current portion of long-term debt	30	35
Long-term debt subject to short-term remarketing arrangements	436	488
Total current liabilities	2,668	3,006
Pension liability	230	640
Long-term debt	2,196	2,189
Other liabilities	911	1,179
Net assets:		
Without donor restrictions	13,194	10,294
With donor restrictions	403	366
	13,597	10,660
Total liabilities and net assets	$ 19,602	$ 17,674

See accompanying notes to consolidated financial statements.

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

	Year Ended December 31 2021	2020
Revenues		
Patient services	$ 5,549	$ 4,556
Premiums and capitation	4,646	4,852
Other revenues	557	674
	10,752	10,082
Expenses		
Employee compensation and benefits	4,065	3,653
Medical claims	2,308	2,065
Supplies	1,849	1,644
Other operating expenses	1,395	1,514
	9,617	8,876
Earnings before interest, depreciation and amortization	1,135	1,206
Depreciation and amortization	411	402
Interest	66	61
	477	463
Net operating income	658	743
Nonoperating income (loss)		
Investment income	1,514	936
Gain from sale of affiliates	317	—
Loss from nonoperating affiliates	(19)	—
	1,812	936
Excess of revenues over expenses	$ 2,470	$ 1,679

(continued)

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

	Year Ended December 31 2021	2020
Net assets without donor restrictions		
Excess of revenues over expenses	$ 2,470	$ 1,679
Unrecognized changes in funded status of postretirement benefit plans	416	(167)
Net assets released from restrictions for the purchase of property and equipment and other	14	23
Increase in net assets without donor restrictions	2,900	1,535
Net assets with donor restrictions		
Contributions	76	71
Net assets released from restrictions and other	(39)	(35)
Increase in net assets with donor restrictions	37	36
Increase in net assets	2,937	1,571
Net assets at beginning of year	10,660	9,089
Net assets at end of year	$ 13,597	$ 10,660

See accompanying notes to consolidated financial statements.

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

	Year Ended December 31 2021	2020
Operating activities		
Cash received from patient services	$ 5,167	$ 4,803
Cash received from premiums and capitation	4,619	4,814
Other receipts from operations	558	723
Interest and dividends received	293	171
Cash paid for employee compensation and benefits	(4,026)	(3,624)
Cash paid for supplies and other operating expenses	(3,230)	(3,210)
Cash paid for medical claims	(2,332)	(2,004)
Interest paid	(82)	(91)
Net cash provided by operating activities	967	1,582
Investing activities		
Purchases of property and equipment	(409)	(320)
Assets limited as to use:		
Purchases of investments	(2,522)	(1,889)
Sales and maturities of investments	1,864	950
Net purchases of trading securities	(184)	(470)
Cash paid for acquisitions, net of cash acquired	(276)	(9)
Net cash received from sale of affiliates	332	—
Net cash used by nonoperating affiliates	(20)	(14)
Net cash used in investing activities	(1,215)	(1,752)
Financing activities		
Proceeds from issuance of debt	—	650
Repayment of debt	(35)	(247)
Borrowings under line of credit agreement	—	100
Repayment of borrowings under line of credit agreement	—	(100)
Borrowings under financing arrangement	—	82
Repayment of borrowings under financing arranagement	—	(82)
Restricted contributions and other	36	17
Net cash provided by financing activities	1	420
Net increase (decrease) in cash and equivalents	(247)	250
Cash and equivalents at beginning of year	670	420
Cash and equivalents at end of year	$ 423	$ 670
Reconciliation of cash and equivalents		
Cash and equivalents	$ 396	$ 381
Cash in assets limited as to use	27	289
Cash and equivalents	$ 423	$ 670

See accompanying notes to consolidated financial statements.

1. Organization

The mission of Intermountain Health Care, Inc. (Intermountain) is "helping people live the healthiest lives possible." Intermountain is a Utah nonprofit corporation that has been granted an exemption from federal income tax as a charitable organization under Section 501(c)(3) of the Internal Revenue Code (Code). Intermountain is the sole corporate member or parent company of several nonprofit companies, the most significant of which is IHC Health Services, Inc. (Health Services). Health Services, which has been granted an exemption from federal income tax as a charitable organization under Section 501(c)(3) of the Code, owns and manages hospitals, clinics and other health-related operations, principally in Utah, Nevada and Idaho. Health Services is the sole stockholder of Intermountain Medical Holdings Nevada, Inc. (Intermountain Nevada), which provides medical services to members under capitation agreements and operates clinics in the state of Nevada. Intermountain is also the sole corporate member of SelectHealth, Inc. (SelectHealth), a licensed health maintenance organization and third-party administrator that has been granted an exemption from federal income tax as a social welfare organization under Section 501(c)(4) of the Code.

On March 31, 2021, Health Services sold all outstanding stock of its wholly owned subsidiary Intalere, Inc. (Intalere) to Vizient, Inc. (Vizient). Additionally, on July 1, 2021, Health Services acquired 100% of the membership units of Classic Aviation Holdings, LLC and subsidiaries (Classic). See Note 3.

2. Significant Accounting Policies

Principles of Consolidation

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

Use of Estimates

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

2. Significant Accounting Policies (continued)

Charity Care

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

Cash and Equivalents

Cash and equivalents consist of deposits with banks and highly liquid investments in interest-bearing securities with original maturity dates of three months or less at the date of purchase. Certain cash investments included in assets limited as to use (see Note 7) in the consolidated balance sheets are intended to be invested on a long-term basis and are therefore excluded from cash and equivalents in the consolidated statements of cash flows.

Assets Limited as to Use

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

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

2. Significant Accounting Policies (continued)

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

Concentrations of Credit Risk
Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of accounts receivable. Medicare and Medicaid accounts, including amounts receivable from government-sponsored plans through SelectHealth, represent 50% and 56% of net accounts receivable as of December 31, 2021 and 2020, respectively. Management does not believe there are any other significant concentrations of credit risk as of December 31, 2021 or 2020.

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

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

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

2. Significant Accounting Policies (continued)

Long-lived Assets

Long-lived assets are reviewed for impairment when there is evidence that events or changes in circumstances indicate the carrying amount of such assets may not be fully recoverable. Recoverability of an asset or asset group is assessed by comparing the carrying amount to the estimated undiscounted future net cash flows. If impairment is indicated, then the carrying amount of long-lived assets is reduced to the approximate fair value. Impairments of long-lived assets recorded during 2021 and 2020 were not significant. In addition, remaining estimated useful lives of long-lived assets are reduced based on planned changes in the intended use of the assets.

Goodwill

Goodwill is reviewed for impairment on an annual basis or sooner if indicators of impairment arise. Indicators of impairment are based on market conditions and operational performance. Goodwill impairments recorded during 2021 and 2020 were not significant.

Medical Claims Payable

Medical claims payable reflects claims payable to unaffiliated healthcare providers and includes both claims reported to SelectHealth and Intermountain Nevada and actuarial estimates of incurred-but-not-reported medical services as of the consolidated balance sheet dates. The liability for these medical benefits is reviewed on a regular basis and reflects management's best estimate of claims SelectHealth and Intermountain Nevada expect to pay.

Leases

The Company determines if an arrangement is a lease at the inception of the contract and recognizes rights and obligations of lease contracts as right-of-use assets and lease liabilities, respectively, in the consolidated balance sheets at the contract commencement date based on the present value of the lease payments over the expected lease term. In the absence of a stated interest rate in the lease contract, the Company uses its incremental borrowing rate to determine the present value of the lease payments. The Company does not separate lease components from nonlease components of the lease contract when determining lease rights and obligations.

2. Significant Accounting Policies (continued)

Pension and Other Postretirement Plans

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

Net Assets

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

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

Patient Services Revenues

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

2. Significant Accounting Policies (continued)

Patient Services Revenues (continued)
Performance obligations for healthcare services provided to patients generally relate to contracts of one year or less. Performance obligations for inpatient services are generally completed at the time the patients are discharged. Performance obligations for outpatient services are generally satisfied over a period of less than a day.

For uninsured patients who do not qualify for charity care, Health Services recognizes patient services revenues for services provided on a discounted basis from its established rates, as provided by policy. Based on historical experience, a significant portion of Health Services' uninsured and underinsured patients are unwilling to pay for the services provided. Accordingly, Health Services records adjustments to patient services revenues in the period services are rendered for amounts not expected to be paid.

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

Premiums and Capitation
Premium revenues are derived from SelectHealth membership contracts with employer groups, individuals and government entities that are generally written on an annual basis. The associated premiums are recognized as revenue in the period in which enrolled members are entitled to receive healthcare services. Amounts received by SelectHealth prior to the period of coverage are included in other current liabilities in the consolidated balance sheets.

Intermountain Nevada has capitation contracts with third-party payers that pay annual fixed amounts per enrolled member to effectively subcontract a significant portion of the responsibility and risks for managing patient care to Intermountain Nevada. Intermountain Nevada recognizes capitation revenues from third-party payers at amounts it expects to receive in exchange for providing patient care, including variable consideration for certain estimated retroactive adjustments under these capitation contracts. Capitation revenues are also adjusted in future periods as final settlements and reconciliations with third-party payers are determined. Subsequent changes to the estimates of the transaction price are generally recorded as adjustments to capitation revenues in the period of the change. Performance obligations for capitation revenues are generally satisfied over a period of one year or less.

2. Significant Accounting Policies (continued)

Other Revenues

Other revenues primarily include pharmacy sales, foundation funds released from restriction, lab services to unaffiliated healthcare providers, third-party administration fees, medical office rentals, cafeteria sales, and grants resulting from the Coronavirus Aid, Relief and Economic Security Act (CARES Act) for which terms and conditions of the funding were met (see Note 23). Excluding grants, the Company recognizes other revenues at amounts that reflect the consideration it has received, or to which it expects to be entitled, in exchange for providing products or services. Performance obligations for other revenues are generally satisfied over a period of one year or less.

Operating and Nonoperating Activities

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

Excess of Revenues over Expenses

Excess of revenues over expenses includes the Company's operating and nonoperating activities. Changes in net assets without donor restrictions not included in excess of revenues over expenses primarily include unrecognized changes in funded status of postretirement benefit plans.

Reclassifications

Certain reclassifications were made to the 2020 consolidated financial statements and accompanying notes to conform to the 2021 presentation. These changes had no impact on excess of revenues over expenses or net assets of the Company.

3. Organizational Changes

Disposition of Intalere and Other Affiliates

As described in Note 1, Health Services sold all outstanding stock of Intalere to Vizient on March 31, 2021 resulting in a gain of $288. Additionally, during 2021, Health Services sold two other affiliates for a combined gain of $29. Health Services received net cash of $332 and stock with a fair value of $38 from the three transactions. Gains recognized from these transactions are included in gain on sale of affiliates in the consolidated statements of operations and changes in net assets.

(Dollars in Millions)

3. Organizational Changes (continued)

Acquisition of Classic
As described in Note 1, on July 1, 2021, Health Services acquired Classic, which provides critical care air transport and helicopter air ambulance services with operations primarily in eight states, including Alaska, in the western United States, Haiti, and Puerto Rico. This strategic acquisition was made to better serve Health Services' patients living in rural communities by expanding its geographical footprint in the Intermountain region.

In connection with the acquisition, Health Services followed the purchase accounting conventions as prescribed by Financial Accounting Standards Board Accounting Standards Codification Topic 805, *Business Combinations*, to establish the consolidated opening balance sheet of Classic as of July 1, 2021. The consolidated balance sheets include all purchase accounting adjustments necessary to present Classic's balances at fair value as of the acquisition date.

The following table summarizes the final allocation of consideration paid for the assets acquired and liabilities assumed of Classic as of July 1, 2021:

Cash	$ 2
Other current assets	45
Property and equipment	39
Intangible assets	37
Goodwill	159
Other assets	18
Current liabilities	(7)
Other liabilities	(15)
Fair value of assets and liabilities	$ 278

Goodwill relates to the expected synergies between Classic and Health Services, Classic's workforce and other intangible assets that do not qualify for separate recognition. Intangible assets, included in other assets in the consolidated balance sheets, primarily relate to facility contracts and a trade name acquired that had a remaining weighted average intangible asset amortization period of 9.9 years as of December 31, 2021.

For the period from July 1, 2021 through December 31, 2021, Classic's net revenues were $59, which were recognized in patient services revenues in the consolidated statements of operations and changes in net assets.

(Dollars in Millions)

4. Charity Care and Community Benefit

The estimated cost of charity care provided by Health Services was $165 and $158 in 2021 and 2020, respectively. The cost to provide charity care for patients who qualify under Health Services' financial assistance policy was estimated by multiplying the charges incurred at established rates for services rendered by Health Services' cost-to-charge ratio. In addition to charity care, the Company also provides significant financial support to improve the health of individuals in the communities it serves.

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

	Year Ended December 31 2021	2020
Estimated cost of charity care	$ 165	$ 158
Other community benefit services and contributions	232	211
	$ 397	$ 369

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

The Company provides community benefit services that address significant health priorities identified by the Company. Services include community health education and community-based health initiatives focusing on prediabetes prevention, high blood pressure, depression, suicide, and prescription opioid misuse as well as increasing access to health and behavioral health services. The Company supports upstream initiatives, such as social care and nutrition security, through ongoing expansion of programs that screen for social care needs, building collaborations to address needs and utilization of predictive data for proactive outreach. Other community benefit services include community and school-based health clinics, intern and resident training, health professions education and medical research. Health Services owns and operates three community and school-based health clinics to meet the needs of uninsured, low-income and homeless patients in locations where there are no other healthcare providers. The Company also provides financial and in-kind support to 59 independently owned community safety-net clinics in Utah, Idaho and Arizona that provide healthcare services to medically underserved patients. In addition, Health Services is committed to providing healthcare services to rural communities, operating nine hospitals in rural locations.

In 2021, Health Services contributed $10 to the Civica Foundation for the research and development of biosimilar insulin to help address the costs of insulin for individuals with diabetes. This contribution will help to provide a more affordable version of this life-sustaining medicine to individuals with diabetes.

4. Charity Care and Community Benefit (continued)

In 2020, Health Services committed $50 to the University of Utah to establish a population health medical education endowment fund, the earnings from which will support a transformative population health medical education model. These funds will be used to establish the Intermountain Healthcare Population Health Student Scholars Program providing loan awards, which will fund partial tuition support for a cohort of students from each medical school class, and create population health endowed professorships to advance population healthcare delivery science and outcomes research. As of December 31, 2021, Health Services had paid $30 and is scheduled to pay $10 annually in 2022 and 2023.

In 2018, Health Services committed $15 to the Huntsman Cancer Foundation (HCF) to support research at the Huntsman Cancer Institute. As of December 31, 2021, Health Services had paid $12 and is scheduled to pay $3 in 2022. Also, in 2018, Health Services committed $10 to HCF to improve community health initiatives for the Utah Cancer Outcomes, Outreach, and Policy Center. As of December 31, 2021, Health Services had paid $8 and is scheduled to pay $2 in 2022. In addition, in 2018, Health Services committed $12 to United Way of Northern Utah to support the Utah Alliance for the Determinants of Health. In 2020, Health Services paid $4 to fulfill this commitment.

In 2015, Health Services committed $15 to the University of Utah School of Medicine to support the construction of a new education building. In 2020, Health Services paid $3 to fulfill this commitment.

Health Services is not affiliated with any of the beneficiaries of the preceding contribution commitments.

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

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

4. Charity Care and Community Benefit (continued)

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

5. Premium Stabilization Programs

The risk adjustment program established by the federal government redistributes insurer premiums based on market data. Estimated receipts and disbursements related to the risk adjustment program are included in premiums and capitation revenues in the consolidated statements of operations and changes in net assets. Receivables related to the risk adjustment program were not significant as of December 31, 2021 and 2020. Current payables related to the risk adjustment program included in accounts payable and accrued liabilities in the consolidated balance sheets were $38 and $65 as of December 31, 2021 and 2020, respectively. Long-term payables related to the risk adjustment program included in other liabilities in the consolidated balance sheets were $10 and $26 as of December 31, 2021 and 2020, respectively.

The risk corridors program, which shared excessive insurer gains or losses with the federal government during the ACA market implementation years of 2014 through 2016, was settled in 2020. On April 27, 2020, the Supreme Court of the United States (Court) ruled that the ACA established a money-mandating obligation that was not repealed by Congress and that insurers could therefore seek payment of unpaid risk corridors receivables from the federal government, which resulted in SelectHealth receiving payment of $421 in 2020. SelectHealth has a receivable of $22 for risk corridors amounts held in escrow by the federal government pending final approval of compensation to class council, and a corresponding liability is included in accounts payable and accrued liabilities in the consolidated balance sheets as of December 31, 2021 and 2020, respectively.

Prior to the Court's ruling, SelectHealth entered into a claim proceeds agreement in 2020 with an external party to share half of any potential risk corridors collections to mitigate financial risk in the event of an adverse ruling, for which SelectHealth received $82. Amounts received under this claim proceeds agreement represented borrowings under a financing arrangement. For the year ended December 31, 2020, SelectHealth recognized $128 in other operating expenses in the consolidated statements of operations and changes in net assets in relation to this agreement.

The ACA also includes a medical loss ratio (MLR) provision requiring insurers to rebate premium to policyholders if certain minimum expense to premium thresholds are not met. SelectHealth met its MLR requirements and did not issue or accrue for any rebates related to the years ended December 31, 2021 and 2020.

(Dollars in Millions)

6. Liquidity and Availability of Financial Resources

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

	December 31 2021	December 31 2020
Cash and equivalents	$ 396	$ 381
Assets limited as to use	12,821	11,120
Accounts receivable	934	669
Due from brokers for securities sold	259	527
Other current assets	396	429
Less amounts not available to be used within one year:		
Private debt, private equity, real asset and strategic development funds	(1,918)	(1,305)
Donor-restricted funds	(325)	(260)
Prepaid assets and other	(107)	(117)
Bond funds held in trust	(94)	(190)
Investments held by a trustee per statutory requirements	(41)	(41)
	$ 12,321	$ 11,213

Donor-restricted funds are available for expenditure upon satisfaction of the restriction, the expected timing of which is not generally determinable in advance. Health Services also has lines of credit available as described in Note 12.

(Dollars in Millions)

7. Fair Value Measurements

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

- Level 1 – Valuation is based on quoted prices for identical financial instruments in active markets. The Company does not adjust the quoted price for Level 1 financial instruments.
- Level 2 – Valuation is based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and independent pricing models or other model-based valuation techniques using observable inputs.
- Level 3 – Certain types of financial instruments are classified as Level 3 within the valuation hierarchy because these financial instruments trade infrequently and, therefore, have little or no price transparency.

Valuation for certain investments is based on the net asset value (NAV) per share provided by fund administrators.

The following table presents a categorization, based on the foregoing valuation hierarchy, of the Company's financial instruments measured at fair value as of December 31, 2021:

	Level 1	Level 2	Level 3	Fair Value
Assets limited as to use:				
Cash investments	$ 102	$ –	$ –	$ 102
Equity securities	4,765	2	–	4,767
Fixed-income securities	765	2,053	5	2,823
Asset allocation funds	93	–	–	93
Global/international debt funds	228	–	–	228
	$ 5,953	$ 2,055	$ 5	8,013
Investments measured using NAV per share or its equivalent				4,808
Fair value of assets limited as to use				$ 12,821

(Dollars in Millions)

7. Fair Value Measurements (continued)

The following table presents a categorization, based on the foregoing valuation hierarchy, of the Company's financial instruments measured at fair value as of December 31, 2020:

	Level 1	Level 2	Level 3	Fair Value
Assets limited as to use:				
Cash investments	$ 404	$ 3	$ –	$ 407
Equity securities	4,218	3	2	4,223
Fixed-income securities	381	2,429	5	2,815
Asset allocation funds	61	–	–	61
Global/international debt funds	144	–	–	144
Investment derivatives, net	–	(1)	–	(1)
	$ 5,208	$ 2,434	$ 7	7,649
Investments measured using NAV per share or its equivalent				3,471
Fair value of assets limited as to use				$ 11,120

Changes in Level 3 financial instruments were not significant.

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

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

(Dollars in Millions)

7. Fair Value Measurements (continued)

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

	2021	2020	Redemption Frequency	Redemption Notice Period
Global/international debt funds	$ 90	$ 91	Daily	15 days
Common/collective trust funds	1,606	1,201	Monthly	5 to 30 days
Global/international equity funds	408	206	Monthly	10 to 60 days
Absolute return and hedge funds	786	668	Monthly, quarterly	5 to 90 days
Private debt, private equity, real asset and strategic development funds	1,918	1,305	Event driven	—
	$ 4,808	$ 3,471		

The fair values of private debt, private equity, real asset and strategic development funds were estimated using the most current information available, which is as of September 30 of the year listed or later, adjusted for cash flows and other known events impacting fair value since the valuation date. Health Services has committed up to $3,297 for investment in these funds through 2031, of which $1,928 had been funded as of December 31, 2021.

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

(Dollars in Millions)

7. Fair Value Measurements (continued)

The following table presents gross investment derivative assets and liabilities, categorized as Level 2 of the valuation hierarchy, reported on a net basis included in assets limited as to use in the consolidated balance sheets:

	December 31	
	2021	**2020**
Derivative assets:		
Futures contracts	$ 104	$ 267
Interest rate swap agreements and other contracts	690	294
	794	561
Derivative liabilities:		
Futures contracts	(104)	(267)
Interest rate swap agreements and other contracts	(690)	(295)
	(794)	(562)
Investment derivatives, net	$ —	$ (1)

8. Assets Limited as to Use

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

	December 31	
	2021	**2020**
Internally designated	$ 12,361	$ 10,629
Donor-restricted funds	325	260
Bond funds held in trust	94	190
Investments held by a trustee per statutory requirements	41	41
	$ 12,821	$ 11,120

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

(Dollars in Millions)

8. Assets Limited as to Use (continued)

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

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

	December 31	
	2021	**2020**
Other-than-trading equity securities	$ 7,308	$ 6,165
Trading securities	4,180	3,835
Investments held by consolidated foundations	861	498
Other-than-trading fixed-income securities	258	417
Equity method investment funds and other	214	205
	$ 12,821	$ 11,120

Other-than-trading fixed-income securities in a continuous unrealized loss position as of December 31, 2021 and 2020 were not significant.

(Dollars in Millions)

9. Property and Equipment

A summary of property and equipment is as follows:

	December 31 2021	December 31 2020
Buildings and improvements	$ 4,303	$ 4,064
Equipment and software	1,903	1,795
	6,206	5,859
Less accumulated depreciation	(3,528)	(3,192)
	2,678	2,667
Land	461	371
Construction in progress	290	339
	$ 3,429	$ 3,377

The estimated useful life is 10 to 40 years for buildings and improvements, 3 to 15 years for equipment and 3 to 7 years for software. As of December 31, 2021, the Company had remaining contractual obligations of $251 for various construction and software development projects.

10. Other Assets

A summary of other noncurrent assets is as follows:

	December 31 2021	December 31 2020
Goodwill	$ 463	$ 329
Right-of-use assets, net	284	273
Intangible assets, net	146	125
Contributions receivable, net	86	72
Prepaid health and welfare plan benefit	72	59
Investments in unconsolidated entities	53	46
Receivable from government programs	7	37
Other	44	36
	$ 1,155	$ 977

The remaining weighted average intangible asset amortization period was 11.7 and 13.3 years as of December 31, 2021 and 2020, respectively.

(Dollars in Millions)

11. Other Current Liabilities

A summary of other current liabilities is as follows:

	December 31 2021	December 31 2020
Medicare advance payments (see Note 23)	$ 174	$ 120
Unearned revenue	110	92
Medicare and Medicaid settlements	82	75
Lease liabilities, current portion	52	48
Self-insurance liabilities, current portion	43	43
Other	10	10
	$ 471	$ 388

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

12. Lines of Credit

Health Services had aggregate lines of credit of $300 available as of December 31, 2021 and 2020. As of December 31, 2021, Health Services had a syndicated line of credit of $200, expiring on May 28, 2024, and a syndicated line of credit of $100, expiring on October 6, 2022. As of December 31, 2021 and 2020, there were no amounts outstanding on the lines of credit.

13. Self-insurance Liabilities

Self-insurance programs include professional and general liability, workers' compensation, and directors' and officers' liability coverage through self-insurance programs and commercial excess liability insurance. Total undiscounted self-insurance liabilities, including current and noncurrent liabilities, were $190 and $164 as of December 31, 2021 and 2020, respectively. The noncurrent portion of self-insurance liabilities is included in other liabilities in the consolidated balance sheets. The liabilities for the professional liability and workers' compensation programs are based on actuarial estimates.

(Dollars in Millions)

14. Long-term Debt

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

	Annual Interest Rates	December 31 2021	December 31 2020
Revenue bond issues:			
2000, due through 2035	Variable[1]	$ 125	$ 125
2002B and 2002C, due through 2035	Variable[1]	42	42
2003, due through 2036	Variable[1]	272	301
2005, due through 2037	Variable[1]	143	143
2012A, due through 2039	4.38%	200	200
2012, due through 2043	2.75%	—	6
2014A, due through 2045	4.00% to 5.00%	158	158
2014B and 2014C, due through 2049	Variable[1]	80	80
2016A, due through 2026	5.00%	39	39
2016B, due through 2047	3.00% to 5.00%	172	172
2016C, 2016D and 2016E, due through 2051	Variable[1]	200	200
2018A, due through 2041	4.00% to 5.00%	181	181
2018B, due through 2057	5.00%	100	100
2018C, due in 2058	Variable[1]	50	50
2018 taxable issue, due in 2048	4.13%	401	401
2020A, due through 2050	3.00% to 5.00%	200	200
2020B, due through 2060	5.00%	150	150
		2,513	2,548
Add net unamortized premiums, discounts and debt issuance costs		149	164
Less current portion of long-term debt		(30)	(35)
Less long-term debt subject to short-term remarketing arrangements		(436)	(488)
Long-term debt		$ 2,196	$ 2,189

[1]Variable rates as of December 31, 2021 and 2020 were 0.07% to 0.12% and 0.06% to 0.11%, respectively.

14. Long-term Debt (continued)

As of December 31, 2021, Health Services had certain interest rate swap agreements that effectively convert $485 of the principal balances of $912 of its variable-rate debt to a fixed-rate basis.

In July 2020, Health Services issued $200 of Series 2020A Hospital Revenue Bonds at a premium of $43, $150 of Series 2020B Hospital Revenue Bonds at a premium of $31, and $174 of additional Series 2018 Taxable Bonds at a premium of $52. Proceeds from the Series 2020A and 2020B Hospital Revenue Bonds are being used to fund construction costs for certain of Health Services' healthcare facilities. Proceeds from the additional Series 2018 Taxable Bonds were used to refund $215 of Series 2012 Hospital Revenue Bonds. The net gain on defeasance recognized by Health Services was not significant.

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

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

(Dollars in Millions)

14. Long-term Debt (continued)

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

2022	$ 30
2023	30
2024	34
2025	34
2026	40
Thereafter	2,345
Long-term debt principal payments	$ 2,513

15. Interest Rate Swap Agreements

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

Changes in the fair value of these swap agreements are recognized in investment income in the consolidated statements of operations and changes in net assets. For the year ended December 31, 2021, unrealized gains associated with interest rate swaps not designated as hedges were $56. For the year ended December 31, 2020, unrealized losses associated with interest rate swaps not designated as hedges were $65. Notional amounts of these interest rate swap agreements were $908 as of December 31, 2021. None of these interest rate swap agreements were designated as cash flow hedges as of December 31, 2021 or 2020.

Accumulated net losses from interest rate swap agreements previously designated as cash flow hedges that have not been recognized in excess of revenues over expenses in the consolidated statements of operations and changes in net assets were $44 as of December 31, 2021. These accumulated net losses will be amortized to investment income in the consolidated statements of operations and changes in net assets through 2037 using the effective interest method.

(Dollars in Millions)

15. Interest Rate Swap Agreements (continued)

The fair value of these interest rate swap liabilities, categorized as Level 2 of the valuation hierarchy and recorded in other liabilities in the consolidated balance sheets, was $222 and $278 as of December 31, 2021 and 2020, respectively.

Health Services has International Swap Dealers Association (ISDA) Master Agreements with six counterparties. Under the provisions of one ISDA agreement, as amended, Health Services is required to deposit collateral with the counterparty when the net liability position of Health Services for all interest rate swap agreements held with the counterparty exceeds $75 exclusive of any fair value adjustments to the liability positions for nonperformance risk. As of December 31, 2021 and 2020, no collateral was required to be posted under the provisions of this ISDA agreement. The provisions of the other ISDA agreements do not require collateral deposits.

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

16. Leases

The Company leases medical and administrative office buildings, equipment and vehicles to support operations. The present values of right-of-use assets, included in other assets, and lease liabilities, included in other current liabilities and other liabilities, reported in the consolidated balance sheets as of December 31 were as follows:

	2021		2020	
	Operating Leases	**Financing Leases**	**Operating Leases**	**Financing Leases**
Other assets	$ 248	$ 36	$ 239	$ 34
Other current liabilities	46	6	44	4
Other liabilities	210	31	201	34

The weighted average terms and discount rates of operating and financing leases as of December 31 were as follows:

	2021		2020	
	Operating Leases	**Financing Leases**	**Operating Leases**	**Financing Leases**
Terms (years)	10.4	11.3	10.2	13.9
Discount rates	1.9%	1.6%	1.9%	2.0%

(Dollars in Millions)

16. Leases (continued)

Lease expenses incurred by the Company were as follows:

	Year Ended December 31 2021	2020
Operating lease expense	$ 54	$ 48
Financing lease expense	7	5
	$ 61	$ 53

Future lease payments under operating and financing leases for the next five years and thereafter are as follows:

	Operating Leases	Financing Leases
2022	$ 49	$ 6
2023	43	6
2024	27	4
2025	23	3
2026	21	2
Thereafter	139	20
	302	41
Present value adjustment	(46)	(4)
	$ 256	$ 37

(Dollars in Millions)

17. Net Assets with Donor Restrictions

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

	December 31 2021	December 31 2020
Subject to expenditure for specified purposes:		
Healthcare programs and services	$ 161	$ 150
Buildings and equipment	132	124
Research	17	12
Community benefit	14	17
	324	303
Donor-restricted endowments subject to spending policy and appropriation (including net accumulated earnings of $23 in 2021 and $15 in 2020):		
Healthcare programs and services	45	27
Research	30	32
Mental health initiatives	4	4
	79	63
	$ 403	$ 366

18. Litigation and Other Matters

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

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

(Dollars in Millions)

19. Revenues

Patient Services Revenues

Payments received under Medicare, Medicaid and other programs are generally based on predetermined rates or the allowable cost of services. Overall, Medicare and Medicaid payments are less than Health Services' established rates and corresponding contractual adjustments are recognized in the period services are rendered. Medicare and Medicaid settlements relating to prior years were not significant during either 2021 or 2020.

Patient services revenues by major payer source were as follows:

	Year Ended December 31 2021	2020
Commercial insurance and other	$ 2,181	$ 1,891
Medicare	1,564	1,243
Self-pay – after insurance	1,135	909
Medicaid	602	476
Self-pay – no insurance	67	37
	$ 5,549	$ 4,556

Premiums and Capitation Revenues

Premiums and capitation revenues by major product line were as follows:

	Year Ended December 31 2021	2020
Premiums:		
Individual	$ 1,095	$ 1,431
Large employer	952	937
Medicaid	625	489
Small employer	553	582
Medicare Advantage	403	418
	3,628	3,857
Capitation – Medicare Advantage	1,018	995
	$ 4,646	$ 4,852

(Dollars in Millions)

20. Functional Expenses

A summary of expenses by nature and function for the year ended December 31, 2021 is as follows:

	Program Services				
	Hospitals	**Clinics**	**Healthcare Benefits**	**Admini-strative**	**Total Expenses**
Employee compensation and benefits	$ 2,534	$ 738	$ 367	$ 426	$ 4,065
Medical claims	–	–	2,308	–	2,308
Supplies	1,201	135	55	458	1,849
Other operating expenses	202	129	282	782	1,395
Depreciation and amortization	294	46	16	55	411
Interest	57	9	–	–	66
	$ 4,288	$ 1,057	$ 3,028	$ 1,721	$ 10,094

A summary of expenses by nature and function for the year ended December 31, 2020 is as follows:

	Program Services				
	Hospitals	**Clinics**	**Healthcare Benefits**	**Admini-strative**	**Total Expenses**
Employee compensation and benefits	$ 2,268	$ 672	$ 300	$ 413	$ 3,653
Medical claims	–	–	2,065	–	2,065
Supplies	1,045	115	41	443	1,644
Other operating expenses	260	113	442	699	1,514
Depreciation and amortization	282	45	19	56	402
Interest	53	8	–	–	61
	$ 3,908	$ 953	$ 2,867	$ 1,611	$ 9,339

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

(Dollars in Millions)

20. Functional Expenses (continued)

Program services include a broad range of general and specialized healthcare activities and healthcare insurance for patients and members within the various geographic areas supported by the Company's operations. Healthcare benefits include costs incurred related to providing healthcare services to insured members and payments of claims under capitation arrangements and population health at-risk contracts. Administrative functions include information systems, revenue cycle, risk management, human resources, supply chain, marketing and communications, telehealth, business applications, leadership, accounting, finance, internal audit, fundraising, legal, compliance and other administrative functions.

21. Loss from Nonoperating Affiliates

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

A summary of losses from nonoperating affiliates is as follows:

	Year Ended December 31	
	2021	2020
Revenues	$ 23	$ 81
Expenses		
Employee compensation and benefits	17	54
General and administrative	5	28
Depreciation and amortization	3	9
	25	91
Net loss before other income and taxes	(2)	(10)
Other income, net	3	11
Net income before taxes	1	1
Income tax expense	(20)	(1)
Net loss	$ (19)	$ —

(Dollars in Millions)

22. Employee Retirement and Other Postretirement Plans

The Company sponsors a noncontributory defined benefit pension plan covering certain employees who are at least 21 years of age and have a minimum of one year of qualifying service. This plan closed on April 4, 2020. Employees hired on or after April 5, 2020 are not participants in the plan. Eligibility and benefits under the plan are unchanged for employees hired on or prior to the closing date.

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

	Year Ended December 31 2021	2020
Change in benefit obligation:		
Benefit obligation at beginning of year	$ 3,705	$ 3,280
Service cost	189	162
Interest cost	99	110
Actuarial loss (gain)	(90)	365
Benefits paid	(275)	(212)
Benefit obligation at end of year	3,628	3,705
Change in fair value of plan assets:		
Fair value of plan assets at beginning of year	3,065	2,818
Actual return on plan assets, net of expenses	411	297
Employer contributions	197	162
Benefits paid	(275)	(212)
Fair value of plan assets at end of year	3,398	3,065
Funded status – net liability	$ 230	$ 640

The accumulated benefit obligation of the pension plan was $3,255 and $3,355 as of December 31, 2021 and 2020, respectively.

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

	December 31 2021	2020
Unrecognized net actuarial loss	$ (957)	$ (1,377)
Unrecognized net prior service credit	5	15
Amounts in net assets without donor restrictions	$ (952)	$ (1,362)

(Dollars in Millions)

22. Employee Retirement and Other Postretirement Plans (continued)

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

	Year Ended December 31	
	2021	**2020**
Amortized during the year:		
Net actuarial loss	$ 105	$ 81
Net prior service credit	(13)	(17)
Occurring during the year:		
Net actuarial gain (loss)	315	(242)
Net prior service credit	3	—
Increase (decrease) in net assets without donor restrictions	$ 410	$ (178)

Net actuarial gains and losses incurred in the pension plan during 2021 and 2020 resulted primarily from changes in the discount rate and differences between the actual returns on plan assets and the assumed returns.

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

	December 31	
	2021	**2020**
Discount rate	3.06%	2.75%
Rate of compensation increase	4.50	4.50

A summary of pension cost is as follows:

	Year Ended December 31	
	2021	**2020**
Service cost	$ 189	$ 162
Amortization of net actuarial loss	105	81
Interest cost	99	110
Amortization of net prior service credit	(13)	(17)
Expected return on plan assets	(183)	(174)
	$ 197	$ 162

(Dollars in Millions)

22. Employee Retirement and Other Postretirement Plans (continued)

Net actuarial loss and net prior service credit amounts in net assets without donor restrictions expected to be recognized as components of investment income in 2022 are $77.

Assumptions used to determine pension cost were as follows:

	Year Ended December 31	
	2021	**2020**
Discount rate	2.75%	3.46%
Expected return on plan assets	6.50	6.50
Rate of compensation increase	4.50	4.00

The overall rate of return on assets assumption is based on historical returns, adhering to the asset allocations set forth in the investment policies of the pension plan. The expected return on plan assets is 6.50% for determining pension cost for the year ending December 31, 2022.

Methods for determining the fair value of financial instruments held by the pension plan are consistent with those described in Note 7. The following table presents a categorization, based on the valuation hierarchy, of the pension plan's financial instruments measured at fair value as of December 31, 2021:

	Level 1	**Level 2**	**Fair Value**
Cash investments	$ 80	$ –	$ 80
Equity securities	1,046	–	1,046
Fixed-income securities	260	519	779
Investment derivatives, net	–	2	2
	$ 1,386	$ 521	1,907
Investments measured using NAV per share or its equivalent			1,612
Transactions pending settlement, net			(121)
Fair value of plan assets			$ 3,398

(Dollars in Millions)

22. Employee Retirement and Other Postretirement Plans (continued)

The following table presents a categorization, based on the valuation hierarchy, of the pension plan's financial instruments measured at fair value as of December 31, 2020:

	Level 1	Level 2	Fair Value
Cash investments	$ 88	$ –	$ 88
Equity securities	815	–	815
Fixed-income securities	288	474	762
Investment derivatives, net	–	5	5
	$ 1,191	$ 479	1,670
Investments measured using NAV per share or its equivalent			1,439
Transactions pending settlement, net			(44)
Fair value of plan assets			$ 3,065

The pension plan uses the NAV per share or its equivalent to measure fair value of the following types of financial instruments as of December 31, as described in Note 7:

	2021	2020	Redemption Frequency	Redemption Notice Period
Common/collective trust funds	$ 503	$ 480	Monthly	5 to 30 days
Global/international equity funds	121	95	Monthly	60 days
Absolute return and hedge funds	296	276	Monthly, quarterly, annually	5 to 90 days
Private debt, private equity and real asset funds	692	588	Event driven	—
	$ 1,612	$ 1,439		

The Company has committed up to $1,415 for investment in these funds through 2031, of which $957 had been funded as of December 31, 2021.

(Dollars in Millions)

22. Employee Retirement and Other Postretirement Plans (continued)

Consistent with practices described in Note 7, the pension plan offsets the fair value of various investment derivative instruments when executed with the same counterparty under a master netting arrangement whereby the financial instruments held by the same counterparty are legally offset as the instruments are settled.

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

	December 31 2021	December 31 2020
Derivative assets:		
Futures contracts	$ 93	$ 145
Forward currency and other contracts	40	21
	133	166
Derivative liabilities:		
Futures contracts	(93)	(145)
Forward currency and other contracts	(38)	(16)
	(131)	(161)
Investment derivatives, net	$ 2	$ 5

Intermountain has not yet determined the amount it will contribute to the pension plan in 2022.

Benefit payments of the pension plan are expected to be paid as follows:

2022	$ 214
2023	214
2024	223
2025	230
2026	236
2027–2031	1,206

The Company also sponsors a 401(k) defined contribution plan for eligible employees. Employee contributions are matched up to a maximum of 4% of each participant's eligible compensation. The Company also contributes 2% of eligible compensation for participants hired subsequent to the pension plan closing date. The Company contributed $95 and $42 to the 401(k) plan in 2021 and 2020, respectively. The Company temporarily suspended matching contributions to the 401(k) plan from July through December 2020.

(Dollars in Millions)

22. Employee Retirement and Other Postretirement Plans (continued)

Additionally, the Company sponsors a 457(b) defined contribution plan. Employee contributions invested for the 457(b) plan were $202 and $171 as of December 31, 2021 and 2020, respectively, and are included in noncurrent assets limited as to use and other liabilities in the consolidated balance sheets.

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

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

	December 31	
	2021	**2020**
Fair value of plan assets	$ 90	$ 79
Benefit obligation	18	20
Unrecognized net actuarial gain	72	66

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

Methods for determining the fair value of financial instruments held for the postretirement health and welfare benefits are consistent with those described in Note 7. All financial instruments as of December 31, 2021 and 2020 were classified as Level 1 or used NAV as a practical expedient.

23. COVID-19 Pandemic and CARES Act Funding

On March 11, 2020, the World Health Organization designated the novel coronavirus (COVID-19) outbreak as a global pandemic. In response to COVID-19, the CARES Act was signed into law on March 27, 2020. The CARES Act authorizes funding to hospitals and other healthcare providers to be distributed through the Public Health and Social Services Emergency Fund (Provider Relief Fund).

Payments from the Provider Relief Fund are to be used to prevent, prepare for, and respond to COVID-19, and shall reimburse the recipient for healthcare-related expenses and lost revenues attributable to COVID-19. Additionally, funds are available to reimburse providers for COVID-19 related treatment of uninsured patients.

23. COVID-19 Pandemic and CARES Act Funding (continued)

For the year ended December 31, 2020, the Company recognized revenue associated with Provider Relief Fund payments of $220, which is included in other operating revenues in the consolidated statements of operations and changes in net assets. Management continues to monitor compliance with the terms and conditions of the Provider Relief Fund. If unable to attest to or comply with current or future terms and conditions, the Company's ability to retain some or all of the distributions received may be impacted. The CARES Act also included provisions to defer employer social security payments. The Company deferred employer social security payments of $51 and $102 as of December 31, 2021 and 2020, respectively, which is included in compensation and related liabilities and other liabilities in the consolidated balance sheets based on when the amounts are expected to be paid.

In 2020, the Company received $290 of Medicare advanced payments through an expanded program of the Centers for Medicare & Medicaid Services meant to expedite cash flow to qualified healthcare providers. In April 2021, recoupments of Medicare advanced payments began in accordance with the terms and conditions of the program. The advanced payments are recognized as revenue for services performed and Medicare claims billed, which will continue through August 2022 when the recoupment period ends. As of December 31, 2021, advanced payments of $174 were recorded in other current liabilities in the consolidated balance sheets.

24. Subsequent Events

On December 15, 2021, Intermountain signed a definitive agreement to combine with Sisters of Charity of Leavenworth Health System, Inc. (SCL Health) in 2022. SCL Health is a Catholic ministry that operates as a Kansas nonprofit corporation. SCL Health operates hospitals and clinics in Colorado, Montana and Kansas. The business combination is anticipated to occur in the second quarter of 2022.

In December 2021, Intermountain Nevada filed with the Internal Revenue Service to become a 501(c)(3) charitable organization exempt from federal income tax effective January 1, 2022. In conjunction with this filing, Intermountain Nevada recognized a tax liability of $52 related to the deemed sale of assets, which is included in other current liabilities in the consolidated balance sheets as of December 31, 2021. As of January 1, 2022, Health Services' membership interest in Intermountain Nevada was assigned to Intermountain.

On March 7, 2022, Health Services entered into a variable interest term loan agreement maturing on March 1, 2023. Proceeds of $234 from this loan were used to extinguish all outstanding Series 2000 bonds, all outstanding Series 2002 bonds and a portion of the outstanding Series 2003 bonds.

The Company evaluated subsequent events through March 17, 2022, the date the consolidated financial statements were issued, and determined that no additional disclosures were necessary.