



**Unaudited Consolidated  
Financial Statements and Supplementary Information**

**Banner Health and Subsidiaries**

**September 30, 2020**

**Banner Health and Subsidiaries**  
**Unaudited Consolidated Financial Statements**  
**September 30, 2020**

**Contents**

Unaudited Consolidated Balance Sheets	2
Unaudited Consolidated Statements of Income	4
Unaudited Consolidated Statements of Changes in Net Assets	5
Unaudited Consolidated Statements of Cash Flows	6
Notes to Unaudited Consolidated Financial Statements	7
Supplementary Information	
Unaudited Balance Sheet-Obligated and Non-Obligated Group Details of Consolidation	21
Unaudited Statement of Income and Changes in Net Assets – Obligated and Non-Obligated Group Details of Consolidation	23
Unaudited Statement of Cash Flows – Obligated and Non-Obligated Group Details of Consolidation	24



Ernst & Young LLP  
Ernst & Young Tower  
101 E. Washington St.  
Suite 910  
Phoenix, AZ 85004

Tel: +1 602 322 3000  
Fax: +1 602 322 3023  
ey.com

## Review Report of Independent Auditors

The Board of Directors  
Banner Health

We have reviewed the consolidated financial information of Banner Health and Subsidiaries, which comprise the consolidated balance sheet as of September 30, 2020, and the related consolidated statements of income, changes in net assets and cash flows for the nine-month periods ended September 30, 2020 and 2019.

### Management's Responsibility for the Financial Information

Management is responsible for the preparation and fair presentation of the interim financial information in conformity with U.S. generally accepted accounting principles; this includes the design, implementation and maintenance of internal control sufficient to provide a reasonable basis for the preparation and fair presentation of interim financial information in conformity with U.S. generally accepted accounting principles.

### Auditor's Responsibility

Our responsibility is to conduct our review in accordance with auditing standards generally accepted in the United States applicable to reviews of interim financial information. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States, the objective of which is the expression of an opinion regarding the financial information. Accordingly, we do not express such an opinion.

### Conclusion

Based on our review, we are not aware of any material modifications that should be made to the consolidated financial information referred to above for it to be in conformity with U.S. generally accepted accounting principles.

### Report on Balance Sheet as of December 31, 2019

We have previously audited, in accordance with auditing standards generally accepted in the United States, the consolidated balance sheet of Banner Health and Subsidiaries as of December 31, 2019, and the related consolidated statements of income, changes in net assets and cash flows for the year then ended (not presented herein), and we expressed an unmodified audit opinion on those consolidated financial statements in our report dated March 17, 2020. In our opinion, the accompanying consolidated balance sheet of Banner Health and Subsidiaries as of December 31, 2019, is consistent, in all material respects, with the consolidated balance sheet from which it was derived.

November 18, 2020

*Ernst & Young LLP*

# Banner Health and Subsidiaries

## Consolidated Balance Sheets

(In Thousands)

	Unaudited September 30 2020	December 31 2019
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 1,094,512	\$ 496,348
Short-term investments	352,272	113,230
Collateral held under securities lending program	242,484	208,533
Assets limited as to use	42,244	149,512
Patient receivables	978,184	943,316
Inventories	297,183	222,238
Other receivables	280,021	431,578
Other current assets	322,487	124,259
Total current assets	3,609,387	2,689,014
Assets limited as to use:		
Funds designated by:		
Board of Directors	2,447,334	2,371,342
Lease agreements	2,050	1,990
Funds held by trustees under:		
Self-insurance funding arrangements	128,513	114,114
Project fund	-	9,182
Other funds	192,225	227,070
Total assets limited as to use, less current portion	2,770,122	2,723,698
Property and equipment, net	4,374,321	4,238,913
Right of use assets - Operating	263,001	252,269
Right of use assets - Finance	75,884	28,819
Other assets:		
Long-term investments	2,784,556	2,428,594
Other	718,028	805,099
Total other assets	3,502,584	3,233,693
Total assets	\$ 14,595,299	\$ 13,166,406

# Banner Health and Subsidiaries

## Consolidated Balance Sheets

(In Thousands)

	Unaudited September 30 2020	December 31 2019
<b>Liabilities and net assets</b>		
Current liabilities:		
Trade accounts payable	\$ 174,622	\$ 269,057
Current portion of long-term debt	288,392	376,501
Debt subject to self liquidity	400,000	400,000
Current portion of operating lease obligations	66,844	67,389
Current portion of finance lease obligations	2,952	2,952
Payable under securities lending program	242,484	208,533
Estimated current portion of third-party payor settlements	16,897	8,262
Accrued expenses:		
Salaries and benefits	537,050	508,926
Medical claims payable	191,942	224,058
Other	1,040,626	254,940
Total current liabilities	2,961,809	2,320,618
Long-term debt, less current portion	3,782,439	3,245,669
Operating lease obligations, less current portion	215,383	206,399
Finance lease obligations, less current portion	81,252	27,046
Estimated self-insurance liabilities, less current portion	201,100	176,388
Estimated third-party payor settlements, less current portion	13,482	16,534
Interest rate swaps	462,600	335,259
Other	198,939	188,455
Total liabilities	7,917,004	6,516,368
Net assets without donor restrictions:		
Attributable to Banner Health	6,395,930	6,393,695
Attributable to non-controlling interests	95,610	63,212
Net assets without donor restrictions	6,491,540	6,456,907
Net assets with donor restrictions	186,755	193,131
Total net assets	6,678,295	6,650,038
Total liabilities and net assets	\$ 14,595,299	\$ 13,166,406

See accompanying notes.

# Banner Health and Subsidiaries

## Consolidated Statements of Income

### Unaudited

*(In Thousands)*

	Nine Months Ended September 30	
	2020	2019
Revenues:		
Net patient service revenue	\$ 5,294,677	\$ 5,225,789
Medical insurance premiums	1,400,434	1,471,941
Other revenue	585,964	318,741
Total revenues	<u>7,281,075</u>	<u>7,016,471</u>
Expenses:		
Salaries and benefits	3,363,453	3,198,266
Supplies	1,162,942	1,098,155
Physician and professional fees	179,359	178,449
Medical claims cost, net of Banner claims of \$203,552 and \$273,219 in 2020 and 2019, respectively	1,053,613	1,142,171
Depreciation and amortization	367,253	343,047
Interest	109,511	96,549
Purchased services	453,441	438,821
Other	437,312	404,555
Total expenses	<u>7,126,884</u>	<u>6,900,013</u>
Operating income	154,191	116,458
Other (loss) income:		
Investment (loss) income, net	(4,730)	430,886
Unrealized loss on interest rate swaps	(127,511)	(128,023)
Other loss	(52,540)	(6,300)
Total other (loss) income	<u>(184,781)</u>	<u>296,563</u>
(Deficiency) excess of revenues over expenses	(30,590)	413,021
Less excess of revenues over expenses attributable to non-controlling interests	26,618	19,657
(Deficiency) excess of revenues over expenses attributable to Banner Health	<u>\$ (57,208)</u>	<u>\$ 393,364</u>

See accompanying notes.

## Banner Health and Subsidiaries

### Consolidated Statements of Changes in Net Assets

#### Unaudited

(In Thousands)

	Nine Months Ended September 30	
	2020	2019
Net assets without donor restrictions:		
(Deficiency) excess of revenues over expenses attributable to Banner Health	\$ (57,208)	\$ 393,364
Equity transfers	\$ -	-
Cumulative effect of change in accounting principles	-	24,637
Contributions for property and equipment acquisitions	17,909	20,769
Pension termination, and other	41,534	171
Increase in net assets without donor restrictions	\$ 2,235	438,941
Excess of revenues over expenses attributable to non-controlling interests	26,618	19,657
Net contributions from (distributions to) non-controlling interests	5,780	(3,980)
Increase attributable to non-controlling interests	32,398	15,677
Net assets with donor restrictions:		
Contributions	22,253	20,911
Net unrealized gain on investments	610	2,331
Net assets released from restriction	(29,239)	(23,203)
(Decrease) increase in net assets with donor restrictions	(6,376)	39
Increase in net assets	28,257	454,657
Net assets, beginning of period	6,650,038	5,848,603
Net assets, end of period	\$ 6,678,295	\$ 6,303,260

See accompanying notes.

# Banner Health and Subsidiaries

## Consolidated Statements of Cash Flows

### Unaudited

(In Thousands)

	Nine Months Ended September 30	
	2020	2019
<b>Operating activities</b>		
Increase in net assets	\$ 28,257	\$ 454,657
Adjustments to reconcile (decrease) increase in net assets to net cash provided by operating activities:		
Loss on early extinguishment of debt	-	1,782
Depreciation and amortization	367,253	343,047
Net increase on investments designated as trading	(715,256)	(714,142)
Net unrealized loss on interest rate swaps	127,511	128,023
Cumulative effect of change in accounting principles	-	(24,637)
Gain on sale of assets	-	(1,840)
Contributions for property and equipment and other	(17,909)	(20,769)
Restricted contributions	(22,253)	(20,911)
Non-controlling interest	14,700	17,150
Changes in operating elements:		
Patient receivables	(34,868)	(46,352)
Inventories and other current assets	(121,609)	(69,306)
Accounts payable and accrued expenses	687,259	(33,505)
Estimated third-party settlements	5,583	6,034
Estimated self-insurance liabilities	24,712	6,454
Other assets and liabilities	20,598	65,450
Net cash provided by operating activities	363,978	91,135
<b>Investing activities:</b>		
Net purchases of property and equipment	(475,873)	(428,175)
Transfer from (to) project fund	9,182	(27,177)
Decrease (increase) in other assets	78,814	(111,582)
Net cash used in investing activities	(387,877)	(566,934)
<b>Financing activities:</b>		
Proceeds from restricted contributions	22,253	20,911
Proceeds from issuance of debt	877,838	688,241
Payments on finance leases and leased hospital obligations	(1,407)	(24,922)
Payments on long-term debt	(433,835)	(342,491)
Cash distributions to non-controlling interests	(14,700)	(17,150)
Net cash provided by financing activities	450,149	324,589
Net increase in cash, cash equivalents, and restricted cash	426,250	(151,210)
Cash, cash equivalents, and restricted cash at beginning of year	791,060	798,964
Cash, cash equivalents, and restricted cash at end of period	\$ 1,217,310	\$ 647,754
<b>Supplemental disclosure of cash flow information</b>		
Interest paid, including amounts capitalized	\$ 59,479	\$ 52,929

See accompanying notes.



## Banner Health and Subsidiaries

### Notes to Unaudited Consolidated Financial Statements

September 30, 2020

#### **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, 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 controlling interests in several health care-related business ventures and non-controlling interests in several other entities.

#### **2. Significant Accounting Policies**

##### **Basis of Presentation**

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles (GAAP) for interim financial reporting, applied on a basis substantially consistent with that of the 2019 audited financial statements of Banner. They do not include all of the information and footnotes required by GAAP for annual financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. Operating results for the nine months ended September 30, 2020 are not necessarily indicative of the results to be expected for the year ending December 31, 2020. For more information, refer to the audited consolidated financial statements and notes thereto as of and for the year ended December 31, 2019.

The separate details of the Obligated and Non-Obligated Group financial statements are presented for purposes of additional analysis and are not a required part of the consolidated financial statements.

##### **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 financial results of which are included in Banner's consolidated financial statements. Banner records the unrelated investor's ownership share of these business ventures as non-controlling interest.

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

Banner Health and Subsidiaries

Notes to Unaudited Consolidated Financial Statements

September 30, 2020

**2. Significant Accounting Policies (continued)**

**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. The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the consolidated balance sheet that sum to the total of the same such amounts shown in the consolidated statement of cash flows for the nine months ended September 30, 2020:

	September 30, 2020	December 31, 2019
	<i>(In Thousands)</i>	
Cash and cash equivalents	\$ 1,094,512	\$ 496,348
Investments	18,240	20,142
Assets limited as to use	104,558	274,570
Cash, cash equivalents, and restricted cash	<u>\$ 1,217,310</u>	<u>\$ 791,060</u>

**Short-Term Investments**

Short-term investments primarily include debt securities with maturity dates of one year or less from the balance sheet date, U.S. Treasury government obligations 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 (see Note 3).

**Investments**

Investment income, including interest and dividends, realized gains and losses on investments, unrealized gains and losses on investments, and income and losses 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 invests in various commingled funds, which are assets from multiple accounts, primarily equities, blended into a single fund. Commingled funds do not have a readily determinable fair value, despite the nature of the underlying securities, therefore the net asset value, as reported by the fund manager, is used as a practical expedient for fair value. As such, they are excluded from the fair value hierarchy (see Note 3) and noted as investments measured at net asset value: private commingled funds.

Banner invests in alternative investments, mainly hedge funds, through limited partnerships. 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

## Banner Health and Subsidiaries

### Notes to Unaudited Consolidated Financial Statements

September 30, 2020

#### 2. Significant Accounting Policies (continued)

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's change in net asset value during the year. The alternative investment income is primarily recorded within income (loss) 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 \$(32,639,000) and \$77,888,000 of alternative investment unrestricted realized and unrealized gains/losses for the periods ended September 30, 2020 and 2019, respectively. The restricted share of alternative investment realized, and unrealized income is approximately \$(3,018,000) and \$(752,000) for the period ended September 30, 2020 and 2019, respectively.

Certain of Banner's alternative investments are subject to redemption lockup periods or have capital call commitments. As of September 30, 2020, approximately \$212,246,000 of Banner's alternative investments were 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 approximately \$375,500,000. Of that total, Banner has made capital contributions with a current market value of \$197,984,000 as of September 30, 2020, resulting in up to approximately \$177,516,000 in uncalled commitments.

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. Banner's fixed-income manager has executed a master netting arrangement for each of the derivative instruments held by the same counterparty, which 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 September 30, 2020 and December 31, 2019. As of September 30, 2020, approximately \$36,021,000 of gross derivative assets and approximately \$36,022,000 of gross derivative liabilities were netted together within investments. As of December 31, 2019, approximately \$175,008,000 of gross derivative assets and approximately \$174,803,000 of gross derivative liabilities were netted together within investments (see Note 3).

Banner has entered into a repurchase agreement for approximately \$7,600,000 and \$11,100,000 as of September 30, 2020 and December 31, 2019, respectively. In connection with the repurchase agreement, Banner has loaned cash to certain financial institutions in exchange for purchased securities that serve as collateral. The fair value of the collateral provided by these financial institutions, based on quoted market prices in active markets, was approximately \$7,751,000 and \$11,374,000 as of September 30, 2020 and December 31, 2019, respectively. The repurchase agreement has been characterized as a collateralized borrowing. The collateral has not been sold or pledged to an external party as of September 30, 2020 and December 31, 2019, and, accordingly, is not recorded on the consolidated balance sheets. The executed repurchase agreement as of September 30, 2020 will mature during 2020.

#### Net Patient Service Revenue

Net patient service revenue is reported at the amount to which Banner expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payors (including health insurers and government programs), and others and include variable consideration for retroactive revenue adjustments due to settlement of ongoing and future audits, reviews, and investigations.

Banner Health and Subsidiaries

Notes to Unaudited Consolidated Financial Statements

September 30, 2020

**2. Significant Accounting Policies (continued)**

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

Banner's initial estimate of the transaction price for services provided to patients is determined by reducing the total standard charges related to the patient services provided by various elements of variable consideration, including contractual adjustments, discounts, implicit price concessions, and other reductions to Banner's standard charges. Banner determines the transaction price associated with services provided to patients who have third-party payor coverage based on the reimbursement terms outlined in contractual agreements, Banner's discount policies and historical experience. For uninsured and under-insured patients who do not qualify for charity care, Banner determines the transaction price associated with services on the basis of charges reduced by implicit price concessions. Implicit price concessions included in the estimate of the transaction price are based on Banner's historical collection experience for applicable patient portfolios. Patients who meet Banner's criteria for free care are provided care without charge; such amounts are not reported as revenue. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to net patient service revenue in the period of the change.

Net patient service revenue is recognized as performance obligations are satisfied, even though Banner bills patients and third-party payors several days after the services are performed and/or the patient is discharged. Performance obligations are determined based on the nature of the services provided by Banner. Net patient service revenue for performance obligations satisfied over time is recognized based on actual charges incurred to date in relation to total expected charges. Banner believes that this method provides a reasonable depiction of the transfer of services over the term of the performance obligation based on the services needed to satisfy the obligation. Generally, performance obligations satisfied over time relate to patients receiving inpatient acute care services. Banner measures the performance obligation from admission into the hospital to the point when it is no longer required to provide services to that patient, which is generally at the time of discharge. Revenue for performance obligations satisfied at a point in time is recognized when goods or services are provided, and Banner does not believe it is required to provide additional goods or services to the patient.

Banner has determined that the nature, amount, timing and uncertainty of revenue and cash flows are affected by the payors, the lines of business that render services to patients and the timing of when revenue is recognized and billed. Net patient service revenue for the nine months ended September 30, 2020 and 2019, by payor is as follows:

	<b>2020</b>	<b>2019</b>
	<i>(In Thousands)</i>	
Hospital	\$ 4,342,068	\$ 4,403,523
Physician services	483,012	447,286
Laboratory	226,991	156,485
Ambulatory and other	242,606	218,495
	<u>\$ 5,294,677</u>	<u>\$ 5,225,789</u>

## Banner Health and Subsidiaries

### Notes to Unaudited Consolidated Financial Statements

September 30, 2020

## 2. Significant Accounting Policies (continued)

### Use of Estimates

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

### New Accounting Pronouncements

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 the company on January 1, 2021. Management is currently evaluating the impact of adopting this accounting standard.

## 3. 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.

**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.

**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.

Banner Health and Subsidiaries

Notes to Unaudited Consolidated Financial Statements

September 30, 2020

**3. Fair Value Measurements (continued)**

Assets and liabilities measured at fair value are generally based on the market approach, using prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. Interest rate swap liabilities are valued using the income approach, which uses 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 alternative investments, of approximately \$1,158,757,000 and \$1,141,939,000 as of September 30, 2020 and December 31, 2019, respectively, are 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. There have not been any changes in any financial instruments' fair value classification between Level 1 and Level 2 since December 31, 2019. Banner has no Level 3 financial instruments.

Banner Health and Subsidiaries

Notes to Unaudited Consolidated Financial Statements

September 30, 2020

**3. Fair Value Measurements (continued)**

	September 30, 2020	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	\$ 122,798	\$ 122,488	\$ 310	\$ -
Collateral held under securities lending (primarily cash and debt securities)	242,484	123,764	118,720	
Mutual funds:				
Mutual funds – U.S. funds	1,398,856	1,398,856	-	-
Mutual funds – International	359,367	359,367	-	-
Total mutual funds	1,758,223	1,758,223	-	-
Debt securities:				
U.S. Treasury/government obligations	357,122	-	357,122	-
Corporate bonds/non-U.S. government bonds	406,202	-	406,202	-
Asset-backed securities	295,242	-	295,242	-
Commercial mortgage-backed securities	45,681	-	45,681	-
Non-government-backed collateralized mortgages	30,253	-	30,253	-
Government mortgage-backed securities	163,246	-	163,246	-
Government commercial-backed securities	14,155	-	14,155	-
Total debt securities	1,311,901	-	1,311,901	-
Repurchase agreements	7,600	-	7,600	-
Equity securities:				
U.S. equity securities	88,939	88,939	-	-
International equity securities	10	10	-	-
Total equity securities	88,949	88,949	-	-
Derivative securities:				
Future contracts	34,178	34,178	-	-
Forward contracts	267	-	267	-
Options agreements	3	-	3	-
Net credit swaps	1,573	-	1,573	-
Subtotal derivative assets	36,021	34,178	1,843	-
Future contracts	(34,178)	(34,178)	-	-
Forward contracts	(197)	-	(197)	-
Option agreements	(67)	-	(67)	-
Net credit swaps	(1,580)	-	(1,580)	-
Subtotal derivative liabilities	(36,022)	(34,178)	(1,844)	-
Total investments in the fair value hierarchy	\$ 3,531,954	\$ 2,093,424	\$ 1,438,530	\$ -
Investment measured at net asset value: private commingled fund	1,603,544			
Total fair value investments	<u>\$ 5,135,498</u>			
Short-term investments	\$ 352,272			
Collateral held under securities lending agreements	242,484			
Assets limited as to use	2,812,366			
Long-term investments	2,784,556			
Other assets – Banner Foundation restricted funds	104,884			
Less alternative investments	1,158,757			
Less split-dollar life insurance	2,307			
Total fair value investments	<u>\$ 5,135,498</u>			
Interest rate swaps included in other long-term liabilities	\$ (462,600)	\$ -	\$ (462,600)	\$ -

Banner Health and Subsidiaries

Notes to Unaudited Consolidated Financial Statements

September 30, 2020

**3. Fair Value Measurements (continued)**

	December 31, 2019	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash and cash equivalents	\$ 294,712	\$ 283,496	\$ 11,216	\$ –
Collateral held under securities lending (primarily cash and debt securities)	208,533	141,635	66,898	
Mutual funds:				
Mutual funds – U.S. funds	1,014,628	1,014,628	–	–
Mutual funds – International	356,225	356,225	–	–
Total mutual funds	1,370,853	1,370,853	–	–
Debt securities:				
U.S. Treasury/government obligations	274,353	–	274,353	–
Corporate bonds/non-U.S. government bonds	353,431	–	353,431	–
Asset-backed securities	190,195	–	190,195	–
Commercial mortgage-backed securities	32,465	–	32,465	–
Non-government-backed collateralized mortgages	31,382	–	31,382	–
Government mortgage-backed securities	131,716	–	131,716	–
Government commercial-backed securities	5,339	–	5,339	–
Total debt securities	1,018,881	–	1,018,881	–
Repurchase agreements	11,100	–	11,100	–
Equity securities:				
U.S. equity securities	957	957	–	–
International equity securities	208,767	208,767	–	–
Total equity securities	209,724	209,724	–	–
Derivative securities:				
Future contracts	120,151	120,151	–	–
Forward contracts	53,128	–	53,128	–
Interest rate swap agreements	45	–	45	–
Net credit swaps	1,684	–	1,684	–
Subtotal derivative assets	175,008	120,151	54,857	–
Future contracts	(120,151)	(120,151)	–	–
Forward contracts	(53,214)	–	(53,214)	–
Option agreements	(121)	–	(121)	–
Net credit swaps	(1,317)	–	(1,317)	–
Subtotal derivative liabilities	(174,803)	(120,151)	(54,652)	–
Total investments in the fair value hierarchy	\$ 3,114,008	\$ 2,005,708	\$ 1,108,300	\$ –
Investment measured at net asset value: private commingled fund	1,450,599			
Total fair value investments	<u>\$ 4,564,607</u>			
Short-term investments	\$ 113,230			
Collateral held under securities lending agreements	208,533			
Assets limited as to use	2,873,210			
Long-term investments	2,428,594			
Other assets – Banner Foundation restricted funds	85,886			
Less alternative investments	1,141,939			
Less split-dollar life insurance	2,907			
Total fair value investments	<u>\$ 4,564,607</u>			
Interest rate swaps included in other long-term liabilities	\$ (335,259)	\$ –	\$ (335,259)	\$ –



Banner Health and Subsidiaries  
Notes to Unaudited Consolidated Financial Statements  
September 30, 2020

### 3. Fair Value Measurements (continued)

Investment (loss) income consisted of the following for the nine months ended September 30:

	<b>2020</b>	<b>2019</b>
	<i>(In Thousands)</i>	
Interest and dividend income	\$ 48,961	\$ 59,510
Net realized gain on sales of marketable securities	4,009	35,547
Realized and unrealized (loss) gain from alternative investments, including amount recorded in net assets with donor restriction	(31,431)	78,640
Net realized loss on derivative instruments	1,811	(391)
Net unrealized (loss) gain on marketable securities	(21,745)	264,516
Net unrealized loss on derivative instruments	(511)	(849)
	<u>1,094</u>	<u>436,973</u>
Less investment gain credited to other revenue, restricted equity, and capitalized bond project funds	5,824	6,087
Investment (loss) income, net	<u>\$ (4,730)</u>	<u>\$ 430,886</u>

### 4. Liquidity

Financial assets available for general expenditure within one year of the balance sheet date, consist of the following as of September 30, 2020 and December 31, 2019:

	<b>2020</b>	<b>2019</b>
	<i>(In Thousands)</i>	
Cash and cash equivalents	\$ 1,094,512	\$ 496,348
Patient receivables	978,184	943,316
Other receivables	280,021	431,578
Short-term investments	352,272	113,230
Funds designated by board of directors and lease agreements	2,449,384	2,373,332
Long-term investments	2,784,556	2,428,594
	<u>\$ 7,938,929</u>	<u>\$ 6,786,398</u>

Banner has the ability to structure its financial assets to be available as its general expenditures and other obligations come due. Cash in excess of daily requirements is invested in short-term investments.

Banner established a new line of credit totaling \$150,000,000 from Bank of America, N.A. during the second quarter of 2020. Together with Banner's bank syndicated credit facility of \$400,000,000, Banner has access to \$550,000,000 to support liquidity needs. On September 28, 2020, Banner drew \$200,000,000 on the syndicated credit facility for the pending acquisition of Wyoming Medical Center.

## Banner Health and Subsidiaries

### Notes to Unaudited Consolidated Financial Statements

September 30, 2020

#### 5. Debt

At September 30, 2020 and December 31, 2019, the estimated fair value of Banner's debt, excluding unamortized net premiums, was \$4,340,718,000 and \$3,763,816,000, 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.

On April 16, 2020, Banner converted \$300,000,000 of outstanding self-liquidity variable rate demand bonds to Floating Rate Notes.

Banner closed on \$607,710,000 of bond debt on May 14, 2020. The bond issuance was comprised of a 2020A series, which was used to reimburse the line of credit utilized to finance the acquisition of the North Colorado Medical Center assets, and a 2020 B series for strategic capital.

On October 29, 2020, Banner closed the Series 2020C bonds in the amount of \$603,670,000. This issue defeased the outstanding 2012A, 2008E, 2008F, 2008G and 2008H bonds, generated \$120,000,000 for general corporate purposes and terminated certain swaps. A \$12,385,000 loss on early extinguishment of debt was incurred as part of the defeasement. Banner also converted the aforementioned Floating Rate Notes to tax-exempt fixed rate bonds.

#### 6. Interest Rate Swap Agreements

Banner has multiple interest rate swap contracts that effectively convert the variable rate of certain bonds into fixed rates. Banner's obligations under the swap agreements are secured by the Master Indenture.

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 unrealized losses of approximately \$127,511,000 and \$128,023,000 for the nine months ended September 30, 2020 and 2019, respectively, recorded in excess of revenues over expenses. The net realized portion of the interest rate swaps for the nine months ended September 30, 2020 and 2019, recorded as an increase to interest expense, was approximately \$29,180,000 and \$18,973,000, respectively.

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 value exceeds \$35,000,000-\$88,000,000, depending on the counterparty. For two counterparties, no collateral is required. At September 30, 2020 and December 31, 2019, Banner had approximately \$55,441,000 and \$101,619,000, respectively, of collateral outstanding with its counterparties. The fair value of the collateral is reported as assets limited as to use – other funds on the accompanying consolidated balance sheets.

As of September 30, 2020, and December 31, 2019, the estimated fair value of the interest rate swaps resulted in an imputed obligation of \$462,600,000 and \$335,259,000, respectively, which is recorded in interest rate swaps on the accompanying consolidated balance sheets. The fair value of the swaps is based on the forward LIBOR curve.

On June 29, 2020, partial novations of interest rate swap agreements were completed between Morgan Stanley to Mizuho Capital Markets LLC and between Merrill Lynch Capital Services, Inc. to Bank of New York Mellon. The Mizuho Capital Markets LLC partial novation begins January 1, 2025 and expires July 1, 2029 and the Bank of New York Mellon partial novation begins July 1, 2025 and expires October 1, 2031. Approximately \$125,000,000 of collateral was returned

# Banner Health and Subsidiaries

## Notes to Unaudited Consolidated Financial Statements

September 30, 2020

### 6. Fair Value Measurements (continued)

as a result of the partial novations. Morgan Stanley and Merrill Lynch swap agreements remain in effect for the balance of the of the swap terms following expiration of the partial novations, including the collateral posting requirements.

### 7. Leases

Banner adopted Accounting Standards Update 2016-02, *Leases* (Topic 842), on January 1, 2019. Banner elected a practical expedient to apply the new standard at the adoption date and not recast the comparative periods presented. As of January 1, 2019, Banner recorded a right-of-use asset of approximately \$491,695,000, a lease obligation of approximately \$507,599,000, and a cumulative effect adjustment to the opening balance of net assets without donor restriction of \$24,637,000. The transition adjustment relates to the reversal of the property and equipment lease obligations that were recognized as a sale leaseback as of December 31, 2018. Banner also elected a package of practical expedients to not reassess existing or expired contracts, lease classification, or initial direct costs for existing leases. Short term leases (12 months or less) will not be subject to the new standard per Banner's accounting policy. Included in the lease term are any renewal options reasonably certain of being exercised. Banner uses a risk-free discount rate commensurate with the lease term to determine the present value of lease payments used to record the right-of-use asset and related lease liability. The table below summarizes the components of lease cost by lease type for the nine months ended September 30, 2020 and 2019, followed by disclosure of weighted average remaining lease term and weighted average discount rate by type:

	2020	2019
	<i>(In Thousands)</i>	
Finance lease cost:		
Amortization of right-of-use assets	\$ 3,204	\$ 23,265
Interest on lease liabilities	1,889	4,201
Operating lease cost	51,948	48,666
Short-term lease cost	6,568	6,879
Variable lease cost	7,121	4,772
Total lease cost	<u>\$ 70,730</u>	<u>\$ 87,783</u>
Weighted-average remaining lease term-finance leases (yrs)	20.0	10.0
Weighted-average remaining lease term-operating leases (yrs)	5.5	7.8
Weighted-average discount rate-finance leases	2.95%	3.10%
Weighted-average discount rate-operating leases	2.30%	2.57%

The following table presents cash paid for amounts included in the measurement of lease liabilities for the nine months ended September 30:

	2020	2019
	<i>(In Thousands)</i>	
Operating cash flows for operating leases	\$ 54,115	\$ 43,318
Operating cash flows for finance leases	\$ 1,493	\$ 4,030
Financing cash flows for finance leases	\$ 1,407	\$ 20,892

Banner Health and Subsidiaries

Notes to Unaudited Consolidated Financial Statements

September 30, 2020

**7. Leases (continued)**

Maturities of Lease Liabilities

The following table reconciles the undiscounted cash flows to the finance lease liabilities and operating lease liabilities recorded on the balance sheet at September 30, 2020:

	<b>Operating Leases</b>	<b>Finance Leases</b>
	<i>(In Thousands)</i>	
2020	\$ 19,221	\$ 746
2021	70,361	4,810
2022	58,396	4,839
2023	43,108	4,810
2024	34,205	4,547
Thereafter	70,921	89,317
Total minimum lease payments	296,212	109,069
Less: amount of lease payments representing interest	(13,985)	(24,865)
Present value of future minimum lease payments	282,227	84,204
Less: current obligations under leases	(66,844)	(2,952)
Long-term lease obligations	<u>\$ 215,383</u>	<u>\$ 81,252</u>

**8. Statement of Functional Expenses**

The following statement of functional expenses reports Banner's operating expenses, as presented on the consolidated statements of income, by each of Banner's major operating functions for the nine months ended September 30, 2020 and 2019. Operating expenses that are attributable to more than one operating function have been allocated using a basis representative of the operating expenditure such as patient volume, full-time equivalent or facility size.

**Expenses September 30, 2020**

	<b>Delivery</b>	<b>Insurance Operations</b>	<b>Corporate Services</b>	<b>Other/ Eliminations</b>	<b>Banner Health Consolidated</b>
	<i>(In Thousands)</i>				
Expenses:					
Salaries and benefits	\$ 2,897,802	\$ 77,550	\$ 497,986	\$ (109,885)	\$ 3,363,453
Supplies	1,172,519	678	4,217	(14,472)	1,162,942
Physician and professional fees	169,690	14,034	23,676	(28,041)	179,359
Medical claims costs	-	1,257,165	-	(203,552)	1,053,613
Depreciation and amortization	297,276	1,344	68,633	-	367,253
Interest expense	94,550	2,474	12,549	(62)	109,511
Purchased services	330,779	20,370	222,222	(119,930)	453,441
Other expense	1,173,222	34,204	(768,618)	(1,496)	437,312
Total expenses	<u>\$ 6,135,838</u>	<u>\$ 1,407,819</u>	<u>\$ 60,665</u>	<u>\$ (477,438)</u>	<u>\$ 7,126,884</u>

Banner Health and Subsidiaries

Notes to Unaudited Consolidated Financial Statements

September 30, 2020

**8. Statement of Functional Expenses (continued)**

**Expenses September 30, 2019**

	<b>Delivery</b>	<b>Insurance Operations</b>	<b>Corporate Services</b>	<b>Other/ Eliminations</b>	<b>Banner Health Consolidated</b>
	<i>(In Thousands)</i>				
Expenses:					
Salaries and benefits	\$ 2,751,363	\$ 70,016	\$ 472,152	\$ (95,265)	\$ 3,198,266
Supplies	1,116,885	867	(7,737)	(11,860)	1,098,155
Physician and professional fees	171,992	8,459	27,450	(29,452)	178,449
Medical claims costs	-	1,419,267	(3,877)	(273,219)	1,142,171
Depreciation and amortization	285,056	1,363	56,628	-	343,047
Interest expense	98,964	2,143	(4,487)	(71)	96,549
Purchased services	331,612	23,652	210,926	(127,369)	438,821
Other expense	1,138,803	34,918	(767,400)	(1,766)	404,555
Total expenses	<u>\$ 5,894,675</u>	<u>\$ 1,560,685</u>	<u>\$ (16,345)</u>	<u>\$ (539,002)</u>	<u>\$ 6,900,013</u>

**9. Commitments and Contingencies**

**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.

**10. COVID-19**

The outbreak of COVID-19, a respiratory disease caused by a novel strain coronavirus, has and will continue to have significant adverse impacts on the operations and financial condition of health care providers generally. The treatment of this contagious disease at health care facilities has resulted in a temporary shutdown or diversion of patients from those facilities and in staffing and supply shortages. Elective procedures and other patient care appointments are being deferred and individuals may otherwise avoid medical treatment unrelated to COVID-19, resulting in reduced patient volumes and operating revenues at outpatient facilities.

## Banner Health and Subsidiaries

### Notes to Unaudited Consolidated Financial Statements

September 30, 2020

#### **10. COVID-19 (continued)**

A variety of federal, state, and local efforts have been initiated in response to the COVID-19 crisis, the largest of which is the Coronavirus Aid, Relief and Economic Security Act (the "CARES Act") that was enacted on March 27, 2020. The CARES Act is a federal stimulus package designed to provide emergency assistance to individuals and businesses, including hospitals and other health care providers. Banner has received approximately \$436,000,000 in stimulus funding to cover unreimbursed health care related expenses attributable to the public health emergency and lost revenues resulting from COVID-19 as of September 30, 2020. Approximately \$258,000,000 of these funds has been recognized as other operating revenue for the nine months ended September 30, 2020. Banner follows grant accounting to recognize the stimulus funding as other operating revenue based on guidance from the U.S. Department of Health & Human Services ("HHS"). Early guidance from HHS regarding the accounting treatment of such funds has been revised multiple times. The most recent guidance, which was received on October 28, 2020, has not been fully evaluated. The amounts recognized as other operating revenue could change materially based on evolving grant compliance provisions and guidance provided by HHS. In addition, Banner received \$621,000,000 of Medicare Advance and Accelerated Payments, recorded as a current liability, to help support liquidity needs in the short term.

#### **11. Pension termination**

Banner completed the termination process for a non-contributory defined benefit pension plan (the Plan) during the third quarter. Benefit accruals under the Plan had been frozen since 2002. Plan benefits were fully funded via the purchase of annuities through a third-party insurance company. As part of the termination, Banner recognized \$46,400,000 of accumulated plan losses as pension expense, within non-operating expense.

#### **12. Subsequent Events**

In October, 2020, Banner acquired Wyoming Medical Center ("WMC"), a 249 licensed bed general acute care hospital with two campuses in Casper, Wyoming, together with a related medical group and other ancillary operations. Banner became the sole member of Wyoming Medical Center, Inc. ("WMC, Inc."), which had been leasing WMC from Natrona County. Banner acquired the assets and real property from Natrona County as part of the transaction.

Subsequent events have been evaluated through November 18, 2020, the date of issuance of the accompanying consolidated financial statements.

## Supplementary Information

# Banner Health

## Balance Sheet - Obligated and Non-Obligated Group Details of Consolidation

September 30, 2020

### Unaudited

(In Thousands)

	Obligated Group	Non-Obligated Group	Eliminations	Total Consolidated
<b>Assets</b>				
Current assets:				
Cash and cash equivalents	\$ 663,674	\$ 430,838	\$ -	\$ 1,094,512
Short-term investments	352,240	32	-	352,272
Collateral held under securities lending program	242,484	-	-	242,484
Assets limited as to use	2,209	40,035	-	42,244
Patient receivables	900,754	133,271	(55,841)	978,184
Inventories	236,877	60,306	-	297,183
Other receivables	130,337	156,761	(7,077)	280,021
Other current assets	807,734	(485,247)	-	322,487
Total current assets	3,336,309	335,996	(62,918)	3,609,387
Assets limited as to use:				
Funds designated by:				
Board of Directors	2,447,334	-	-	2,447,334
Lease agreements	2,050	-	-	2,050
Funds held by trustees under:				
Self-insurance funding arrangements	(301)	128,814	-	128,513
Other funds	191,330	895	-	192,225
Total assets limited as to use, less current portion	2,640,413	129,709	-	2,770,122
Property and equipment, net	4,136,116	238,205	-	4,374,321
Right of use assets - operating leases	87,119	175,882	-	263,001
Right of use assets - finance leases	23,572	52,312	-	75,884
Other assets:				
Long-term investments	2,757,680	26,876	-	2,784,556
Other	435,784	216,965	65,279	718,028
Total other assets	3,193,464	243,841	65,279	3,502,584
Total assets	\$ 13,416,993	\$ 1,175,945	\$ 2,361	\$ 14,595,299



## Banner Health

### Balance Sheet - Obligated and Non-Obligated Group Details of Consolidation

September 30, 2020

Unaudited

(In Thousands)

	Obligated Group	Non-Obligated Group	Eliminations	Total Consolidated
<b>Liabilities and net assets</b>				
Current liabilities:				
Trade accounts payable	\$ 149,700	\$ 24,922	\$ -	\$ 174,622
Current portion of long-term debt	268,381	20,023	(12)	288,392
Debt subject to self liquidity	400,000	-	-	400,000
Current portion of operating lease obligations	21,343	45,501	-	66,844
Current portion of finance lease obligations	2,188	764	-	2,952
Payable under securities lending program	242,484	-	-	242,484
Estimated current portion of third-party payor settlements	16,897	-	-	16,897
Accrued expenses:				
Salaries and benefits	434,131	118,291	(15,372)	537,050
Medical claims payable	-	239,307	(47,365)	191,942
Other	924,424	118,605	(2,403)	1,040,626
Total current liabilities	2,459,548	567,413	(65,152)	2,961,809
Long-term debt, less current portion	3,769,258	14,523	(1,342)	3,782,439
Operating lease obligations, less current portion	74,749	140,634	-	215,383
Finance lease obligations, less current portion	21,020	60,232	-	81,252
Estimated self-insurance liabilities, less current portion	80,408	118,469	2,223	201,100
Estimated third-party payor settlements, less current portion	13,482	-	-	13,482
Interest rate swaps	462,600	-	-	462,600
Other	197,961	978	-	198,939
Total liabilities	7,079,026	902,249	(64,271)	7,917,004
Net assets without donor restrictions:				
Attributable to Banner Health	6,277,767	51,531	66,632	6,395,930
Attributable to non-controlling interests	-	95,610	-	95,610
Total net assets without donor restrictions	6,277,767	147,141	66,632	6,491,540
Net assets with donor restrictions	60,200	126,555	-	186,755
Total net assets	6,337,967	273,696	66,632	6,678,295
Total liabilities and net assets	\$ 13,416,993	\$ 1,175,945	\$ 2,361	\$ 14,595,299

**Banner Health**  
**Statement of Income and Changes in Net Assets -**  
**Obligated and Non-Obligated Group Details of Consolidation**  
**Nine Months Ended September 30, 2020**  
**Unaudited**

(In Thousands)

	Obligated Group	Non-Obligated Group	Eliminations	Total Consolidated
Revenues:				
Net patient service revenue	\$ 4,608,034	\$ 939,816	\$ (253,173)	\$ 5,294,677
Medical insurance premiums	-	1,400,434	-	1,400,434
Other revenue	399,230	348,348	(161,614)	585,964
Total revenues	5,007,264	2,688,598	(414,787)	7,281,075
Expenses:				
Salaries and benefits	2,362,584	1,108,811	(107,942)	3,363,453
Supplies	911,069	266,345	(14,472)	1,162,942
Physician and professional fees	144,014	62,440	(27,095)	179,359
Medical claims cost, net of Banner claims of \$203,552	-	1,219,527	(165,914)	1,053,613
Depreciation and amortization	344,043	23,210	-	367,253
Interest expense	101,315	8,258	(62)	109,511
Purchased services	436,520	112,384	(95,463)	453,441
Other expenses	375,447	63,363	(1,498)	437,312
Total expenses	4,674,992	2,864,338	(412,446)	7,126,884
Operating income	332,272	(175,740)	(2,341)	154,191
Other income:				
Investment (loss) gain, net	(5,791)	1,123	(62)	(4,730)
Unrealized loss on interest rate swaps	(127,511)	-	-	(127,511)
Total other (loss) income	(52,395)	(3,524)	3,379	(52,540)
	(185,697)	(2,401)	3,317	(184,781)
Excess (deficiency) of revenues over expenses	146,575	(178,141)	976	(30,590)
Less excess of revenues over expenses attributable to non-controlling interests	-	26,618	-	26,618
Excess (deficiency) of revenues over expenses attributable to Banner Health	146,575	(204,759)	976	(57,208)
Equity transfers	(382,290)	382,442	(152)	-
Contributions for property and equipment acquisitions	18,332	17	(440)	17,909
Pension termination, other loss	7,306	27,579	6,649	41,534
Increase in net assets without donor restrictions	\$ (210,077)	\$ 205,279	\$ 7,033	\$ 2,235
Non-controlling interests:				
Less excess of revenues over expenses attributable to non-controlling interests	-	26,618	-	26,618
Net contributions from non-controlling interests	-	5,780	-	5,780
Increase attributable to non-controlling interests	-	32,398	-	32,398
Net assets with donor restrictions:				
Contributions	4,307	17,946	-	22,253
Net unrealized gain on investments	18	592	-	610
Net assets released from restriction	(18,732)	(10,507)	-	(29,239)
(Decrease) increase in net assets with donor restrictions	\$ (14,407)	\$ 8,031	\$ -	\$ (6,376)
(Decrease) increase in net assets	(224,484)	245,708	7,033	28,257
Net assets, beginning of period	6,562,451	27,988	59,599	6,650,038
Net assets, end of period	\$ 6,337,967	\$ 273,696	\$ 66,632	\$ 6,678,295

# Banner Health

## Statement of Cash Flows -

### Obligated and Non-Obligated Group Details of Consolidation

Nine Months Ended September 30, 2020

#### Unaudited

(In Thousands)

	Obligated Group	Non-Obligated Group	Eliminations	Total Consolidated
<b>Operating activities</b>				
(Decrease) increase in net assets	\$ (224,484)	\$ 245,708	\$ 7,033	\$ 28,257
Adjustments to reconcile (decrease) increase in net assets to net cash provided by (used in) operating activities:				
Equity transfers	382,290	(382,442)	152	-
Depreciation and amortization	344,043	23,210	-	367,253
Increase in investments designated as trading	(692,132)	(23,124)	-	(715,256)
Net unrealized loss on interest rate swaps	127,511	-	-	127,511
Contributions for property and equipment and other	(18,332)	(17)	440	(17,909)
Restricted contributions	(4,307)	(17,946)	-	(22,253)
Noncontrolling interest	14,700	-	-	14,700
Changes in operating elements:				
Patient receivables	12,037	(33,243)	(13,662)	(34,868)
Inventories and other current assets	(115,711)	(8,888)	2,990	(121,609)
Accounts payable and accrued expenses	732,584	(53,330)	8,005	687,259
Estimated third-party settlements	5,583	-	-	5,583
Estimated self-insurance liabilities	12,433	9,610	2,669	24,712
Other assets and liabilities	14,863	5,736	(1)	20,598
Net cash provided by (used in) operating activities	591,078	(234,726)	7,626	363,978
<b>Investing activities:</b>				
Net purchases of property and equipment	(387,168)	(88,265)	(440)	(475,873)
Transfer from project fund	9,182	-	-	9,182
Increase (decrease) in other assets	120,399	(34,586)	(6,999)	78,814
Net cash used in investing activities	(257,587)	(122,851)	(7,439)	(387,877)
<b>Financing activities:</b>				
Proceeds from restricted contributions	4,307	17,946	-	22,253
Intercompany activity, including equity transfers	(258,155)	258,307	(152)	-
Proceeds from issuance of debt	851,551	26,288	(1)	877,838
Payments of finance lease obligations	(1,209)	(199)	1	(1,407)
Payments of long-term debt	(431,117)	(2,683)	(35)	(433,835)
Cash distributions to noncontrolling interests	(14,700)	-	-	(14,700)
Net cash used in financing activities	150,677	299,659	(187)	450,149
Net increase (decrease) in cash, cash equivalents, and restricted cash	484,168	(57,918)	-	426,250
Cash, cash equivalents, and restricted cash at beginning of year	300,894	490,166	-	791,060
Cash, cash equivalents, and restricted cash at end of period	\$ 785,062	\$ 432,248	\$ -	\$ 1,217,310