



CONSOLIDATED FINANCIAL STATEMENTS

IHC Health Services, Inc.

Years Ended December 31, 2020 and 2019

with Independent Auditors' Report



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

Independent Auditors' Report

Audit and Compliance Committee
IHC Health Services, Inc.:

We have audited the accompanying consolidated financial statements of IHC Health Services, Inc. (the Company), which comprise the consolidated balance sheets as of December 31, 2020 and 2019, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of IHC Health Services, Inc. as of December 31, 2020 and 2019, and the results of their operations and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

KPMG LLP

Salt Lake City, Utah
March 18, 2021

IHC Health Services, Inc.
Consolidated Balance Sheets
(In Millions)

	December 31	
	2020	2019
Assets		
Current assets:		
Cash and equivalents	\$ 298	\$ 290
Assets limited as to use	1,237	1,450
Accounts receivable	848	783
Inventory	194	174
Due from brokers for securities sold	382	406
Other current assets	269	239
Total current assets	3,228	3,342
Assets limited as to use	8,277	5,996
Property and equipment, net	3,355	3,397
Other assets	936	936
Total assets	\$ 15,796	\$ 13,671
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 433	\$ 470
Compensation and related liabilities	396	404
Due to brokers for securities purchased	539	825
Other current liabilities	424	234
Securities held for affiliate	210	179
Current portion of long-term debt	35	33
Long-term debt subject to short-term remarketing arrangements	488	446
Total current liabilities	2,525	2,591
Pension liability	640	462
Long-term debt	2,189	1,862
Other liabilities	1,145	794
Net assets:		
Without donor restrictions	8,952	7,656
With donor restrictions	345	306
	9,297	7,962
Total liabilities and net assets	\$ 15,796	\$ 13,671

See accompanying notes to consolidated financial statements.

IHC Health Services, Inc.
Consolidated Statements of Operations and Changes in Net Assets
(In Millions)

	Year Ended December 31	
	2020	2019
Revenues		
Patient services	\$ 5,853	\$ 5,965
Capitation	995	428
Other revenues	894	554
	<u>7,742</u>	<u>6,947</u>
Expenses		
Employee compensation and benefits	3,501	3,218
Supplies	1,639	1,529
Medical claims	645	308
Other operating expenses	1,121	1,062
	<u>6,906</u>	<u>6,117</u>
Earnings before interest, depreciation and amortization	836	830
Depreciation and amortization	397	380
Interest	61	76
	<u>458</u>	<u>456</u>
Net operating income	378	374
Nonoperating income (loss)		
Investment income	794	712
Loss from nonoperating affiliates	—	(22)
	<u>794</u>	<u>690</u>
Excess of revenues over expenses	<u>\$ 1,172</u>	<u>\$ 1,064</u>

(continued)

IHC Health Services, Inc.

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

(In Millions)

	Year Ended December 31	
	2020	2019
Net assets without donor restrictions		
Excess of revenues over expenses	\$ 1,172	\$ 1,064
Net transfers from (to) affiliates	271	(49)
Unrecognized changes in funded status of postretirement benefit plans	(167)	(224)
Other	20	29
Increase in net assets without donor restrictions	<u>1,296</u>	<u>820</u>
Net assets with donor restrictions		
Contributions	71	97
Net assets released from restrictions and other	(32)	(29)
Increase in net assets with donor restrictions	<u>39</u>	<u>68</u>
Increase in net assets	1,335	888
Net assets at beginning of year	<u>7,962</u>	<u>7,074</u>
Net assets at end of year	<u><u>\$ 9,297</u></u>	<u><u>\$ 7,962</u></u>

See accompanying notes to consolidated financial statements.

IHC Health Services, Inc.
Consolidated Statements of Cash Flows
(In Millions)

	Year Ended December 31	
	2020	2019
Operating activities		
Cash received from patient services	\$ 6,075	\$ 5,967
Cash received from capitation	1,015	438
Other receipts from operations	949	549
Interest and dividends received	87	103
Cash paid for employee compensation and benefits	(3,477)	(3,173)
Cash paid for supplies and other operating expenses	(2,838)	(2,559)
Cash paid for medical claims	(612)	(326)
Interest paid	(91)	(85)
Net cash provided by operating activities	1,108	914
Investing activities		
Purchases of property and equipment	(316)	(442)
Assets limited as to use:		
Purchases of investments	(1,744)	(990)
Sales and maturities of investments	854	949
Net purchases of trading securities	(319)	(296)
Cash paid for acquisitions, net of cash acquired	(9)	(397)
Net cash used by nonoperating affiliates	(14)	(21)
Net cash used in investing activities	(1,548)	(1,197)
Financing activities		
Proceeds from issuance of debt	650	—
Repayment of debt	(247)	(32)
Borrowings under line of credit	100	100
Repayment of borrowings under line of credit	(100)	(100)
Transfers from (to) affiliates	271	(49)
Restricted contributions and other	16	8
Net cash provided by (used in) financing activities	690	(73)
Net increase (decrease) in cash and equivalents	250	(356)
Cash and equivalents at beginning of year	334	690
Cash and equivalents at end of year	\$ 584	\$ 334
Reconciliation of cash and equivalents		
Cash and equivalents	\$ 298	\$ 290
Cash in assets limited as to use	286	44
Cash and equivalents	\$ 584	\$ 334

See accompanying notes to consolidated financial statements.

IHC Health Services, Inc.
Notes to Consolidated Financial Statements
(Dollars in Millions)

1. Organization

The mission of IHC Health Services, Inc. (the Company) is “helping people live the healthiest lives possible.” The Company 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). The Company is the sole corporate member of Intermountain Healthcare Foundation, Inc. (the Foundation), which raises funds and makes distributions primarily to or for the benefit of the Company. The Foundation 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 Code. Intermountain Health Care, Inc. (Intermountain) is the sole corporate member of the Company. 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 Code. The Company owns and manages hospitals, clinics and other health-related operations, principally in Utah and Nevada.

On June 28, 2019, the Company acquired 100% of the common stock of Intermountain Medical Holdings Nevada, Inc. (formerly known as HealthCare Partners Nevada) and subsidiaries (Intermountain Nevada) from Collaborative Care Holdings, LLC (Optum), a subsidiary of UnitedHealth Group, Inc., as described in Note 4.

2. Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the operations of the Company, Intermountain Nevada and the Foundation. 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.

IHC Health Services, Inc.
Notes to Consolidated Financial Statements
(Dollars in Millions)

2. Significant Accounting Policies (continued)

Charity Care

The Company 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. The Company has established a financial assistance policy for both the uninsured and the underinsured. The Company 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, available liquid assets and charges for services rendered. The Company's 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 the Company.

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 that are intended to be invested on a long-term basis are excluded from 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.

IHC Health Services, Inc.
Notes to Consolidated Financial Statements
(Dollars in Millions)

2. Significant Accounting Policies (continued)

Concentrations of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of accounts receivable. SelectHealth, Inc. (SelectHealth), an affiliate of the Company and a Utah nonprofit corporation that has been granted an exemption from federal income tax as a charitable organization under Section 501(c)(4) of the Code, is a licensed health maintenance organization and third-party administrator. SelectHealth offers government-sponsored Medicare Advantage plans in Utah and Idaho as well as a managed Medicaid plan in Utah. Medicare and Medicaid accounts, including amounts receivable from government-sponsored plans through SelectHealth, represent 44% and 38% of net accounts receivable as of December 31, 2020 and 2019, respectively. Accounts receivable from SelectHealth for nongovernment-sponsored plans represents 17% and 19% of net accounts receivable as of December 31, 2020 and 2019, respectively. Management does not believe there are any other significant concentrations of credit risk as of December 31, 2020 or 2019.

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*.

Long-lived Assets

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

IHC Health Services, Inc.
Notes to Consolidated Financial Statements
(Dollars in Millions)

2. Significant Accounting Policies (continued)

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. There were no goodwill impairments recorded during either 2020 or 2019.

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.

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 the Company to patients. The Company 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. The Company 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) in exchange for providing patient care, including variable consideration for certain estimated retroactive adjustments under payment programs with third-party payers. Estimates of contractual allowances for third-party payers are based on payment terms in the associated contractual agreements and payment history. Patient services revenues are also adjusted in future periods as final settlements and reconciliations with third-party payers are determined. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient services revenues in the period of the change.

IHC Health Services, Inc.
Notes to Consolidated Financial Statements
(Dollars in Millions)

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, the Company 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 the Company's uninsured and underinsured patients are unwilling to pay for the services provided. Accordingly, the Company 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.

Capitation

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 change. Performance obligations for capitation revenues are generally satisfied over a period of one year or less.

Other Revenues

Other revenues primarily include grants resulting from the Coronavirus Aid, Relief and Economic Security Act (CARES Act) for which the terms and conditions of the funding were met (see Note 3), pharmacy sales, lab services to unaffiliated healthcare providers, net assets released from restrictions, medical office rentals, and cafeteria sales. 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.

IHC Health Services, Inc.
Notes to Consolidated Financial Statements
(Dollars in Millions)

2. Significant Accounting Policies (continued)

Operating and Nonoperating Activities

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

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 net transfers from (to) affiliates and unrecognized changes in funded status of postretirement benefit plans.

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.

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.

Reclassifications

Certain reclassifications were made to the 2019 consolidated financial statements and accompanying notes to conform to the 2020 presentation. These changes had no impact on excess of revenues over expenses or net assets of the Company.

IHC Health Services, Inc.
Notes to Consolidated Financial Statements
(Dollars in Millions)

3. COVID-19 Pandemic and CARES Act Funding

In December 2019, the novel coronavirus (COVID-19) was first detected and began to spread worldwide. In March 2020, the World Health Organization declared that the COVID-19 outbreak was a global pandemic. In accordance with local health department mandates, the Company temporarily halted elective procedures in March, April and May 2020. While some elective procedures resumed as early as May 2020, the Company's operations have been adversely impacted by the pandemic. In particular, patient services revenue was negatively impacted by halting elective procedures and by a decrease in demand for preventative and routine healthcare services. However, lab services increased due to COVID-19 testing and certain capitation arrangements were more profitable as the associated revenues are contractually fixed and the corresponding claims activity decreased during the year ended December 31, 2020.

On March 27, 2020, in response to the COVID-19 pandemic, the CARES Act was signed into law. The CARES Act provides stimulus in the form of financial aid to hospitals and other healthcare providers meant to offset the costs of treating COVID-19 patients or to reimburse hospitals for lost revenues attributable to COVID-19. This financial aid is not required to be repaid upon attestation and compliance with certain terms and conditions. During the year ended December 31, 2020, the Company recognized \$220 of CARES Act grant revenue in other operating revenues in the consolidated statements of operations and changes in net assets. The CARES Act also included provisions to defer employer social security payments. As of December 31, 2020, the Company deferred employer social security payments of \$95, which is included in compensation and related liabilities and other liabilities in the consolidated balance sheets based on the timing the amounts are expected to be paid.

The Company also received \$290 of Medicare advance payments through an expanded program of the Centers for Medicare & Medicaid Services meant to expedite cash flow to qualified healthcare providers. The advance payments will be recognized as revenue for services performed and Medicare claims billed when the recoupment period begins in April 2021. These payments are advances that will be recouped by withholding future Medicare payments for claims until such time as the accelerated payments have been recouped. As of December 31, 2020, the Company recorded advance payments of \$120 and \$170 in other current liabilities and other liabilities, respectively, in the consolidated balance sheets.

IHC Health Services, Inc.
Notes to Consolidated Financial Statements
(Dollars in Millions)

4. Organizational Change – Intermountain Nevada

As described in Note 1, on June 28, 2019, the Company acquired Intermountain Nevada from Optum. Intermountain Nevada is a patient and physician-focused integrated healthcare delivery and management company that provides medical services to members primarily through capitation contracts with some of the nation's leading health plans. Intermountain Nevada operates 58 clinics in the state of Nevada. This strategic acquisition was made to increase the Company's physical footprint in the Intermountain region and to leverage Intermountain Nevada's experience with capitation contracts to better serve the Company's patients, members and communities.

In connection with the change in ownership, the Company 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 Intermountain Nevada as of June 28, 2019. The consolidated balance sheet includes all purchase accounting adjustments necessary to present Intermountain Nevada's balances at fair value as of the acquisition date. The Company finalized the working capital provision included in the purchase agreement in 2020. The resulting adjustments to the purchase price were not significant.

The following table summarizes the final allocation of consideration paid for the assets acquired and liabilities assumed of Intermountain Nevada as of June 28, 2019:

Cash	\$	18
Other current assets		82
Property and equipment		29
Intangible assets		127
Goodwill		303
Other assets		65
Current liabilities		(122)
Other liabilities		(85)
Fair value of assets and liabilities	\$	<u>417</u>

IHC Health Services, Inc.
Notes to Consolidated Financial Statements
(Dollars in Millions)

4. Organizational Change – Intermountain Nevada (continued)

The Company recorded goodwill of \$303 as part of the acquisition in other assets in the consolidated balance sheets. This goodwill relates to the anticipated synergies to be achieved through the acquisition, particularly the competencies and learnings from providing value-based services under capitation contracts. The Company recorded \$127 of intangible assets in other assets in the consolidated balance sheets, which primarily relate to customer relationships acquired, with an estimated useful life of 15 years. The Company did not elect the accounting alternative within Accounting Standards Update No. 2019-06, *Intangibles—Goodwill and Other (Topic 350)*, *Business Combinations (Topic 805)*, and *Not-for-Profit Entities (Topic 958)*, to amortize goodwill nor to recognize customer-related intangible assets as part of goodwill.

For the year ended December 31, 2020 and for the period from June 28, 2019 through December 31, 2019, Intermountain Nevada's revenues were \$1,069 and \$481, respectively, of which \$995 and \$428 of capitation revenues were recognized in the consolidated statements of operations and changes in net assets.

5. Charity Care and Community Benefit

The estimated cost of charity care provided by the Company was \$158 and \$175 in 2020 and 2019, respectively. The cost to provide charity care for patients who qualify under the Company's financial assistance policy was determined by multiplying the charges incurred at established rates for services rendered by the Company's 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	
	2020	2019
Cost of charity care	\$ 158	\$ 175
Other community benefit services and contributions	207	117
	<u>\$ 365</u>	<u>\$ 292</u>

The Company 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.

IHC Health Services, Inc.
Notes to Consolidated Financial Statements
(Dollars in Millions)

5. Charity Care and Community Benefit (continued)

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. Other community benefit services include community and school-based health clinics, intern and resident training, health professions education and medical research. The Company 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 53 independently owned community safety-net clinics in Utah, Idaho and Arizona that provide healthcare services to medically underserved patients. In addition, the Company is committed to providing healthcare services to rural communities, operating nine hospitals in rural locations.

In 2020, the Company 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. As of December 31, 2020, the Company had paid \$20 and is scheduled to pay \$10 annually from 2021 to 2023.

In 2019, the Company committed \$5 to the United Way of Salt Lake to support the expansion of the Alliance for the Determinants of Health in Salt Lake County. As of December 31, 2020, the Company had paid \$2.5 and is scheduled to pay \$2.5 in 2021.

In 2018, the Company committed \$15 to the Huntsman Cancer Foundation (HCF) to support research at the Huntsman Cancer Institute. As of December 31, 2020, the Company had paid \$9 and is scheduled to pay \$3 annually in 2021 and 2022. Also, in 2018, the Company committed \$10 to HCF to improve community health initiatives for the Utah Cancer Outcomes, Outreach, and Policy Center. As of December 31, 2020, the Company had paid \$6 and is scheduled to pay \$2 annually in 2021 and 2022. In addition, in 2018, the Company committed \$12 to United Way of Northern Utah to support the Utah Alliance for the Determinants of Health. In 2020, the Company paid \$4 to fulfill this commitment.

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

The Company is not affiliated with any of the beneficiaries of the preceding contribution commitments.

IHC Health Services, Inc.
Notes to Consolidated Financial Statements
(Dollars in Millions)

5. Charity Care and Community Benefit (continued)

The Company 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, the Company 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.

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.

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	
	2020	2019
Cash and equivalents	\$ 298	\$ 290
Assets limited as to use	9,514	7,446
Accounts receivable	848	783
Due from brokers for securities sold	382	406
Other current assets	269	239
Less amounts not available to be used within one year:		
Private debt, private equity, real asset and strategic development funds	(1,305)	(1,075)
Donor-restricted funds	(239)	(237)
Securities held for affiliate	(210)	(179)
Bond funds held in trust	(190)	—
Prepaid assets and other	(109)	(79)
	<u>\$ 9,258</u>	<u>\$ 7,594</u>

Donor-restricted funds are available for expenditure upon satisfaction of the restriction, the expected timing of which is not generally determinable in advance. The Company also had \$300 and \$100 in lines of credit available as of December 31, 2020 and 2019, respectively, as described in Note 12.

IHC Health Services, Inc.
Notes to Consolidated Financial Statements
(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. Valuation for certain investments is based on the net asset value (NAV) per share provided by fund administrators. The Company does not adjust the quoted price or NAV per share for Level 1 financial instruments.
- Level 2 – Valuation is based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and independent pricing models or other model-based valuation techniques using observable inputs.
- 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.

IHC Health Services, Inc.
Notes to Consolidated Financial Statements
(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:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value</u>
Cash equivalents	<u>\$ 92</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 92</u>
Assets limited as to use:				
Cash investments	\$ 380	\$ 3	\$ —	\$ 383
Equity securities	3,775	2	2	3,779
Fixed-income securities	264	1,459	5	1,728
Asset allocation funds	61	—	—	61
Global/international debt funds	144	—	—	144
Investment derivatives, net	—	(1)	—	(1)
	<u>\$ 4,624</u>	<u>\$ 1,463</u>	<u>\$ 7</u>	<u>6,094</u>
Investments measured using NAV per share or its equivalent				<u>3,420</u>
Fair value of assets limited as to use				<u>\$ 9,514</u>

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, 2019:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Fair Value</u>
Cash equivalents	<u>\$ 97</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 97</u>
Assets limited as to use:				
Cash investments	\$ 105	\$ 3	\$ —	\$ 108
Equity securities	2,118	—	2	2,120
Fixed-income securities	177	1,770	5	1,952
Asset allocation funds	53	—	—	53
Global/international debt funds	134	—	—	134
Investment derivatives, net	—	2	—	2
	<u>\$ 2,587</u>	<u>\$ 1,775</u>	<u>\$ 7</u>	<u>4,369</u>
Investments measured using NAV per share or its equivalent				<u>3,077</u>
Fair value of assets limited as to use				<u>\$ 7,446</u>

IHC Health Services, Inc.
Notes to Consolidated Financial Statements
(Dollars in Millions)

7. Fair Value Measurements (continued)

Changes in Level 3 financial instruments were not significant.

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

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

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

	<u>2020</u>	<u>2019</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Global/international debt funds	\$ 91	\$ 196	Daily, monthly	1 to 15 days
Common/collective trust funds	1,150	910	Monthly	5 to 30 days
Global/international equity funds	206	140	Monthly	60 days
Absolute return and hedge funds	668	756	Monthly, quarterly	5 to 90 days
Private debt, private equity, real asset and strategic development funds	1,305	1,075	Event driven	—
	<u>\$ 3,420</u>	<u>\$ 3,077</u>		

IHC Health Services, Inc.
Notes to Consolidated Financial Statements
(Dollars in Millions)

7. Fair Value Measurements (continued)

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. The Company has committed up to \$2,598 for investment in these funds through 2025, of which \$1,544 had been funded as of December 31, 2020.

The Company 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, the Company has incorporated the risks of its own and the counterparties' nonperformance in the fair value measurements.

Under the provisions of a master netting arrangement, the Company offsets the fair value of certain investment derivative instruments transacted with the same counterparty. The Company 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.

IHC Health Services, Inc.
Notes to Consolidated Financial Statements
(Dollars in Millions)

7. Fair Value Measurements (continued)

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

	December 31	
	2020	2019
Derivative assets:		
Futures contracts	\$ 267	\$ 251
Interest rate swap agreements and other contracts	294	557
	<u>561</u>	<u>808</u>
Derivative liabilities:		
Futures contracts	(267)	(251)
Interest rate swap agreements and other contracts	(295)	(555)
	<u>(562)</u>	<u>(806)</u>
Investment derivatives, net	<u>\$ (1)</u>	<u>\$ 2</u>

8. Assets Limited as to Use

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

	December 31	
	2020	2019
Internally designated	\$ 8,875	\$ 7,080
Donor-restricted funds	239	237
Securities held for affiliate	210	129
Bond funds held in trust	190	—
	<u>\$ 9,514</u>	<u>\$ 7,446</u>

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, repayment of long-term debt subject to short-term remarketing arrangements should such repayment become necessary, and the transfer of securities held for affiliate should the funds be requested.

IHC Health Services, Inc.
Notes to Consolidated Financial Statements
(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, and bond funds held in trust. These investments are available for the acquisition of property and equipment, repayment of long-term debt, and the payment of professional and general liability and workers' compensation self-insurance claims. Donor-restricted funds include amounts held by a consolidated foundation that will be used for various healthcare programs and services, buildings and equipment, or research activities. 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 the Company for the costs of certain capital projects.

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

	December 31	
	2020	2019
Other-than-trading equity securities	\$ 5,736	\$ 4,204
Trading securities	2,810	2,481
Investments held by consolidated foundation	451	366
Other-than-trading fixed-income securities	312	190
Equity method investment funds and other	205	205
	<u>\$ 9,514</u>	<u>\$ 7,446</u>

There were no other-than-trading fixed-income securities in a continuous unrealized loss position as of December 31, 2020 or 2019.

IHC Health Services, Inc.
Notes to Consolidated Financial Statements
(Dollars in Millions)

9. Property and Equipment

A summary of property and equipment is as follows:

	December 31	
	2020	2019
Buildings and improvements	\$ 4,029	\$ 3,965
Equipment and software	1,745	1,721
	5,774	5,686
Less accumulated depreciation	(3,123)	(2,889)
	2,651	2,797
Land	370	361
Construction in progress	334	239
	<u>\$ 3,355</u>	<u>\$ 3,397</u>

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, 2020, the Company had remaining contractual obligations of \$137 for various construction and software development projects.

10. Other Assets

A summary of other noncurrent assets is as follows:

	December 31	
	2020	2019
Goodwill	\$ 329	\$ 348
Right-of-use assets, net	268	226
Intangible assets, net	125	134
Contributions receivable, net	74	85
Prepaid health and welfare plan benefit	59	42
Investments in unconsolidated entities	46	45
Other	35	56
	<u>\$ 936</u>	<u>\$ 936</u>

IHC Health Services, Inc.
Notes to Consolidated Financial Statements
(Dollars in Millions)

11. Other Current Liabilities

A summary of other current liabilities is as follows:

	December 31	
	2020	2019
Medicare advance payments (see Note 3)	\$ 120	\$ —
Medical claims payable	101	69
Medicare and Medicaid settlements	75	74
Lease liabilities, current portion	46	43
Self-insurance liabilities, current portion	43	36
Other	39	12
	<u>\$ 424</u>	<u>\$ 234</u>

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

The Company had aggregate lines of credit of \$300 and \$100 available as of December 31, 2020 and 2019, respectively. As of December 31, 2020, the Company had a syndicated line of credit of \$200, expiring on May 28, 2021, and a syndicated line of credit of \$100, expiring on October 6, 2022. As of December 31, 2020 and 2019, 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 \$164 and \$175 as of December 31, 2020 and 2019, 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.

IHC Health Services, Inc.
Notes to Consolidated Financial Statements
(Dollars in Millions)

14. Long-term Debt

The Company's long-term debt is summarized as follows:

	Annual Interest Rates	December 31	
		2020	2019
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	301	303
2005, due through 2037	Variable ¹	143	151
2012A, due through 2039	4.38%	200	200
2012, due through 2043	2.75% to 5.00%	6	221
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	4.00% to 5.00%	39	48
2016B, due through 2047	3.00% to 5.00%	172	176
2016C, 2016D and 2016E, due through 2051	Variable ¹	200	200
2018A, due through 2041	4.00% to 5.00%	181	190
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	227
2020A, due through 2050	3.00% to 5.00%	200	—
2020B, due through 2060	5.00%	150	—
Other notes payable	4.35%	1	2
		<u>2,549</u>	<u>2,273</u>
Add net unamortized premiums, discounts and debt issuance costs		163	68
Less current portion of long-term debt		(35)	(33)
Less long-term debt subject to short-term remarketing arrangements		(488)	(446)
Long-term debt		<u>\$ 2,189</u>	<u>\$ 1,862</u>

¹Variable rates as of December 31, 2020 and 2019 were 0.06% to 0.11% and 1.50% to 1.73%, respectively.

IHC Health Services, Inc.
Notes to Consolidated Financial Statements
(Dollars in Millions)

14. Long-term Debt (continued)

As of December 31, 2020, the Company had certain interest rate swap agreements that effectively convert \$490 of the principal balances of \$941 of its variable-rate debt to a fixed-rate basis.

In July 2020, the Company 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 will be used to fund construction costs for certain of the Company's 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 the Company was not significant.

Variable-rate revenue bonds, while subject to long-term amortization periods, may be put to the Company 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 the Company 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 the Company and are secured by notes issued by the Company 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 the Company 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 the Company. 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.

IHC Health Services, Inc.
Notes to Consolidated Financial Statements
(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:

2021	\$	35
2022		30
2023		30
2024		34
2025		34
Thereafter		<u>2,386</u>
Long-term debt principal payments	\$	<u>2,549</u>

15. Interest Rate Swap Agreements

The Company has interest rate swap agreements that reduce the impact of interest rate changes on future interest expense. Changes in the fair value of these swap agreements are recognized in investment income in the consolidated statements of operations and changes in net assets. Unrealized losses associated with interest rate swaps not designated as hedges were \$65 and \$68, respectively, for the years ended December 31, 2020 and 2019. Notional amounts of these interest rate swap agreements were \$937 as of December 31, 2020. None of these interest rate swap agreements were designated as cash flow hedges as of December 31, 2020 or 2019.

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 \$49 as of December 31, 2020. These accumulated net losses will be amortized to investment income in the consolidated statements of operations and changes in net assets through 2037 using the effective interest method.

The fair value of these interest rate swap liabilities, categorized as Level 2 of the valuation hierarchy and recorded in other liabilities in the consolidated balance sheets, was \$278 and \$214 as of December 31, 2020 and 2019, respectively.

The Company has International Swap Dealers Association (ISDA) Master Agreements with six counterparties. Under the provisions of one ISDA agreement, as amended, the Company is required to deposit collateral with the counterparty when the net liability position of the Company 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, 2020 and 2019, 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.

IHC Health Services, Inc.
Notes to Consolidated Financial Statements
(Dollars in Millions)

15. Interest Rate Swap Agreements (continued)

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

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 sheet as of December 31 were as follows:

	2020		2019	
	Operating Leases	Financing Leases	Operating Leases	Financing Leases
Other assets	\$ 234	\$ 34	\$ 194	\$ 32
Other current liabilities	42	4	40	3
Other liabilities	199	34	163	31

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

	2020		2019	
	Operating Leases	Financing Leases	Operating Leases	Financing Leases
Terms (years)	10.4	13.9	8.5	15.2
Discount rates	1.9%	2.0%	2.2%	2.6%

Lease expenses incurred by the Company were as follows:

	Year Ended December 31	
	2020	2019
Operating lease expense	\$ 46	\$ 40
Financing lease expense	5	3
	<u>\$ 51</u>	<u>\$ 43</u>

IHC Health Services, Inc.
Notes to Consolidated Financial Statements
(Dollars in Millions)

16. Leases (continued)

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

	Operating Leases	Financing Leases
2021	\$ 43	\$ 6
2022	38	5
2023	33	4
2024	21	4
2025	18	3
Thereafter	141	22
	294	44
Present value adjustment	(53)	(6)
	<u>\$ 241</u>	<u>\$ 38</u>

17. Net Assets with Donor Restrictions

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

	December 31 2020	2019
Subject to expenditure for specified purposes:		
Healthcare programs and services	\$ 150	\$ 120
Buildings and equipment	124	123
Research	12	13
	286	256
Donor-restricted endowments subject to spending policy and appropriation (including net accumulated earnings of \$15 in 2020 and \$12 in 2019):		
Research	32	26
Healthcare programs and services	27	24
	59	50
	<u>\$ 345</u>	<u>\$ 306</u>

IHC Health Services, Inc.
Notes to Consolidated Financial Statements
(Dollars in Millions)

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.

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 the Company's 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 2020 or 2019.

Patient services revenues by major payer source were as follows:

	Year Ended December 31	
	2020	2019
Commercial insurance and other	\$ 1,891	\$ 1,850
Medicare	1,374	1,376
SelectHealth (nongovernment-sponsored)	935	1,008
Self-pay – after insurance	909	1,010
Medicaid	707	639
Self-pay – no insurance	37	82
	<u>\$ 5,853</u>	<u>\$ 5,965</u>

IHC Health Services, Inc.
Notes to Consolidated Financial Statements
(Dollars in Millions)

20. Functional Expenses

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

	Program Services			Support Services		
	Hospitals	Clinics	Healthcare Benefits	Foundation and Grants	General and Administrative	Total Expenses
Employee compensation and benefits	\$ 2,268	\$ 672	\$ 148	\$ 16	\$ 397	\$ 3,501
Supplies	1,045	115	36	2	441	1,639
Purchased services	161	63	34	3	559	820
Medical claims	—	—	645	—	—	645
Administrative	51	33	11	3	87	185
Equipment and facility	48	17	14	—	37	116
Depreciation and amortization	282	45	14	—	56	397
Interest	53	8	—	—	—	61
	<u>\$ 3,908</u>	<u>\$ 953</u>	<u>\$ 902</u>	<u>\$ 24</u>	<u>\$ 1,577</u>	<u>\$ 7,364</u>

A summary of expenses by nature and function for the year ended December 31, 2019 is as follows:

	Program Services			Support Services		
	Hospitals	Clinics	Healthcare Benefits	Foundation and Grants	General and Administrative	Total Expenses
Employee compensation and benefits	\$ 2,170	\$ 631	\$ 73	\$ 16	\$ 328	\$ 3,218
Supplies	1,003	101	18	1	406	1,529
Purchased services	226	63	18	4	532	843
Medical claims	—	—	308	—	—	308
Administrative	8	26	1	1	79	115
Equipment and facility	50	13	7	—	34	104
Depreciation and amortization	285	40	6	—	49	380
Interest	65	11	—	—	—	76
	<u>\$ 3,807</u>	<u>\$ 885</u>	<u>\$ 431</u>	<u>\$ 22</u>	<u>\$ 1,428</u>	<u>\$ 6,573</u>

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

IHC Health Services, Inc.
Notes to Consolidated Financial Statements
(Dollars in Millions)

20. Functional Expenses (continued)

Program services include a broad range of general and specialized healthcare activities for patients within the various geographic areas supported by the Company's operations. Healthcare benefits include costs incurred related to payments of claims under capitation arrangements. Support services include information systems, revenue cycle, supply chain, accounting, finance, decision support, risk management, public relations, human resources, legal, compliance, internal audit, fundraising and other administrative functions.

21. Loss from Nonoperating Affiliates

As described in Note 2, the activities of nonoperating affiliates represent strategic investments of the Company 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	
	2020	2019
Revenues	\$ 81	\$ 85
Expenses		
Employee compensation and benefits	54	61
General and administrative	28	46
Depreciation and amortization	9	10
	<u>91</u>	<u>117</u>
Net loss before other income and taxes	(10)	(32)
Other income, net	<u>11</u>	<u>9</u>
Net income (loss) before taxes	1	(23)
Income tax benefit (expense)	<u>(1)</u>	<u>1</u>
Net loss	<u>\$ —</u>	<u>\$ (22)</u>

IHC Health Services, Inc.
Notes to Consolidated Financial Statements
(Dollars in Millions)

22. Employee Retirement and Other Postretirement Plans

Intermountain 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	
	2020	2019
Change in benefit obligation:		
Benefit obligation at beginning of year	\$ 3,280	\$ 2,787
Actuarial loss	365	424
Service cost	162	135
Interest cost	110	121
Benefits paid	(212)	(187)
Benefit obligation at end of year	3,705	3,280
Change in fair value of plan assets:		
Fair value of plan assets at beginning of year	2,818	2,552
Actual return on plan assets, net of expenses	297	334
Employer contributions	162	119
Benefits paid	(212)	(187)
Fair value of plan assets at end of year	3,065	2,818
Funded status – net liability	\$ 640	\$ 462

The accumulated benefit obligation of the pension plan was \$3,355 and \$3,005 as of December 31, 2020 and 2019, respectively.

IHC Health Services, Inc.
Notes to Consolidated Financial Statements
(Dollars in Millions)

22. Employee Retirement and Other Postretirement Plans (continued)

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

	December 31	
	2020	2019
Unrecognized net actuarial loss	\$ (1,377)	\$ (1,216)
Unrecognized net prior service credit	15	32
Amounts in net assets without donor restrictions	<u>\$ (1,362)</u>	<u>\$ (1,184)</u>

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

	Year Ended December 31	
	2020	2019
Amortized during the year:		
Net actuarial loss	\$ 81	\$ 51
Net prior service credit	(17)	(17)
Occurring during the year:		
Net actuarial loss	(242)	(261)
Decrease in net assets without donor restrictions	<u>\$ (178)</u>	<u>\$ (227)</u>

Net actuarial gains and losses incurred in the pension plan during 2020 and 2019 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	
	2020	2019
Discount rate	2.75%	3.46%
Rate of compensation increase	4.50	4.00

IHC Health Services, Inc.
Notes to Consolidated Financial Statements
(Dollars in Millions)

22. Employee Retirement and Other Postretirement Plans (continued)

A summary of pension cost is as follows:

	Year Ended December 31	
	2020	2019
Service cost	\$ 162	\$ 135
Interest cost	110	121
Amortization of net actuarial loss	81	51
Amortization of net prior service credit	(17)	(17)
Expected return on plan assets	(174)	(171)
	<u>\$ 162</u>	<u>\$ 119</u>

Amounts in net assets without donor restrictions expected to be recognized as components of investment income in 2021 include a net actuarial loss of \$105 and a net prior service credit of \$12.

Assumptions used to determine pension cost were as follows:

	Year Ended December 31	
	2020	2019
Discount rate	3.46%	4.46%
Expected return on plan assets	6.50	6.50
Rate of compensation increase	4.00	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, 2021.

IHC Health Services, Inc.
Notes to Consolidated Financial Statements
(Dollars in Millions)

22. Employee Retirement and Other Postretirement Plans (continued)

Methods for determining the fair value of financial instruments held by the pension plan are consistent with those described in Note 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, 2020:

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

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, 2019:

	<u>Level 1</u>	<u>Level 2</u>	<u>Fair Value</u>
Cash investments	\$ 47	\$ —	\$ 47
Equity securities	659	—	659
Fixed-income securities	270	516	786
Global/international debt funds	52	—	52
Investment derivatives, net	—	6	6
	<u>\$ 1,028</u>	<u>\$ 522</u>	1,550
Investments measured using NAV per share or its equivalent			1,442
Accrued income			5
Transactions pending settlement, net			(179)
Fair value of plan assets			<u>\$ 2,818</u>

IHC Health Services, Inc.
Notes to Consolidated Financial Statements
(Dollars in Millions)

22. Employee Retirement and Other Postretirement Plans (continued)

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

	<u>2020</u>	<u>2019</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Global/international debt funds	\$ —	\$ 86	Daily, monthly	1 to 15 days
Common/collective trust funds	480	395	Monthly	5 to 30 days
Global/international equity funds	95	67	Monthly	60 days
Absolute return and hedge funds	276	336	Monthly, quarterly	5 to 90 days
Private debt, private equity and real asset funds	588	558	Event driven	—
	<u>\$ 1,439</u>	<u>\$ 1,442</u>		

The Company has committed up to \$1,146 for investment in these funds through 2025, of which \$726 had been funded as of December 31, 2020.

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	
	<u>2020</u>	<u>2019</u>
Derivative assets:		
Futures contracts	\$ 145	\$ 56
Forward currency and other contracts	21	26
	<u>166</u>	<u>82</u>
Derivative liabilities:		
Futures contracts	(145)	(56)
Forward currency and other contracts	(16)	(20)
	<u>(161)</u>	<u>(76)</u>
Investment derivatives, net	<u>\$ 5</u>	<u>\$ 6</u>

IHC Health Services, Inc.
Notes to Consolidated Financial Statements
(Dollars in Millions)

22. Employee Retirement and Other Postretirement Plans (continued)

Intermountain has not yet determined the amount it will contribute to the pension plan in 2021.

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

2021	\$ 238
2022	208
2023	213
2024	221
2025	224
2026–2030	1,157

Intermountain 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 \$40 and \$72 to the 401(k) plan in 2020 and 2019, respectively. The Company temporarily suspended matching contributions to the 401(k) plan from July through December 2020. Matching contributions resumed effective January 1, 2021.

Additionally, Intermountain sponsors a 457(b) defined contribution plan. Employee contributions invested for the 457(b) plan were \$171 and \$136 as of December 31, 2020 and 2019, respectively, and are included in noncurrent assets limited as to use and other liabilities in the consolidated balance sheets.

Furthermore, Intermountain 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.

IHC Health Services, Inc.
Notes to Consolidated Financial Statements
(Dollars in Millions)

22. Employee Retirement and Other Postretirement Plans (continued)

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

	December 31	
	2020	2019
Benefit obligation	\$ 20	\$ 28
Fair value of plan assets	79	70
Unrecognized net actuarial gain	66	55

Intermountain 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, 2020 and 2019 were classified as Level 1.

23. Related Party

The Company has agreements to provide healthcare services to patients enrolled in insurance plans of SelectHealth, which include a risk sharing component for certain products to promote a shared accountability relationship focusing on clinical quality, health improvement and cost efficiency. The Company recognized \$1,297 and \$1,308 related to these agreements in 2020 and 2019, respectively, which are included in patient services revenues in the consolidated statements of operations and changes in net assets.

The Company also provided pharmacy services to patients enrolled in insurance plans of SelectHealth of \$254 and \$210 in 2020 and 2019, respectively. In addition, the Company provided certain employee benefits, professional and general liability insurance, and management and facility services to SelectHealth of \$54 and \$53 in 2020 and 2019, respectively. These services are included in other revenues in the consolidated statements of operations and changes in net assets.

Furthermore, the Company self-insures health insurance benefits for its employees, for which SelectHealth provided third-party administration and other business services. Administration fees incurred by the Company for these services were \$20 in 2020 and 2019, which are included in employee compensation and benefits in the consolidated statements of operations and changes in net assets.

IHC Health Services, Inc.
Notes to Consolidated Financial Statements
(Dollars in Millions)

23. Related Party (continued)

Due to the related nature of SelectHealth, the amounts recognized may have been different if similar activities had been undertaken with an unrelated party.

SelectHealth returned capital of \$292 to the Company in 2020. The Company previously contributed capital to SelectHealth in 2015 and 2016 totaling \$400 due to the uncertain nature of collections from the federal government related to premium stabilization programs established by the Patient Protection and Affordable Care Act.

24. Subsequent Events

The Company evaluated subsequent events through March 18, 2021, the date the consolidated financial statements were issued, and determined that no additional disclosures were necessary.