Highmark Health

Consolidated Financial Statements
December 31, 2019 and 2018

Highmark Health
Index
December 31, 2019 and 2018

Report of Independent Auditors

To the Board of Directors of Highmark Health

We have audited the accompanying consolidated financial statements of Highmark Health and its subsidiaries and affiliates, which comprise the consolidated balance sheets as of December 31, 2019 and 2018, and the related consolidated statements of operations, of changes in net assets and of cash flows for the years then ended.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; 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 the 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 our 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, we consider internal control relevant to the Company'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 Company'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 Highmark Health and its subsidiaries and affiliates as of December 31, 2019 and 2018, and the results of their operations, changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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Other Matter

Accounting principles generally accepted in the United States of America require that the prior year incurred and paid claims development information, net of reinsurance, on pages 45 and 46 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Financial Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

PRICEWATERHOUSECOOPERS LLP

Philadelphia, Pennsylvania
March 18, 2020

Highmark Health
Consolidated Balance Sheets
December 31, 2019 and 2018

(in thousands of dollars)

	2019	2018
Assets		
Cash and cash equivalents	$ 664,695	$ 886,043
Accounts receivable		
Insurance, less allowance for doubtful accounts of $15,118 and $23,651, respectively	2,343,599	2,239,278
Patient service, less allowance for doubtful accounts of $0 and $54,884, respectively	220,232	187,782
Other	203,714	224,847
Investments		
Debt securities, available-for-sale at fair value	4,932,240	4,002,940
Equity securities	1,699,895	1,459,913
Board designated, restricted and other investments at fair value	945,997	844,076
Investment in affiliates	523,999	475,962
Other	345,787	240,137
Reinsurance recoverables	112,081	112,104
Securities lending invested collateral	386,784	320,052
Inventory, net	74,863	159,724
Income tax recoverable	50,431	97,997
Deferred tax asset	29,637	160,076
Property and equipment, net	2,051,864	1,984,883
Goodwill and other intangible assets, net	198,008	515,845
Other assets	653,935	544,510
Total assets	$ 15,437,761	$ 14,456,169
Liabilities and Net Assets		
Claims and claim adjustment expenses outstanding	$ 2,709,193	$ 2,580,284
Unearned revenue	237,063	200,601
Amounts held for others	627,469	595,410
Accrued salaries and benefits	440,174	429,973
Other payables and accrued expenses	1,174,356	1,234,407
Income tax payable	66,205	-
Deferred tax liability	12,870	-
Securities lending payable	386,764	320,053
Benefit plan liabilities, net	387,236	605,103
Debt	1,613,227	1,628,977
Other liabilities	190,106	209,826
Total liabilities	7,844,663	7,804,634
Net Assets		
Without donor restrictions - Highmark Health	7,233,154	6,242,973
Without donor restrictions - noncontrolling interest	26,752	120,995
Total net assets without donor restrictions	7,259,906	6,363,968
With donor restrictions	333,192	287,567
Total net assets	7,593,098	6,651,535
Total liabilities and net assets	$ 15,437,761	$ 14,456,169

The accompanying notes are an integral part of these Consolidated Financial Statements.

Highmark Health
Consolidated Statements of Operations
Years Ended December 31, 2019 and 2018

(in thousands of dollars)

	2019	2018
Revenue and other support		
Premium revenue, net	$ 13,172,276	$ 13,773,039
Net patient service revenue	2,569,517	2,383,303
Vision revenue	756,833	956,564
Service revenue	1,541,322	1,592,680
Affiliates income	53,119	65,460
Net assets released from restriction	5,114	5,367
Total revenue and other support	18,098,181	18,776,413
Expenses		
Claims and claim adjustment expenses	10,756,960	11,220,517
Salaries, wages and fringe benefits	4,174,032	3,976,391
Patient care supplies	741,997	663,366
Depreciation and amortization	322,862	324,479
Other operating expenses, net	1,951,529	2,152,600
Goodwill and intangible impairment	41,249	-
Total operating expenses	17,988,629	18,337,353
Operating gain	109,552	439,060
Net investment income, including net realized gains on investments	608,678	206,264
Interest expense	(60,776)	(66,906)
Gain on sale of subsidiary	196,610	-
Other components of net periodic benefit cost	90,141	86,808
Net assets acquired through affiliation	10,962	-
Excess of revenue over expenses before income taxes	955,167	665,226
Income tax provision	131,098	95,870
Excess of revenue over expenses before noncontrolling interest	824,069	569,356
Deficit of revenue over expenses attributable to noncontrolling interest	(19,122)	(1,421)
Excess of revenue over expenses attributable to Highmark Health	$ 843,191	$ 570,777

(Continued)

The accompanying notes are an integral part of these Consolidated Financial Statements.

Highmark Health
Consolidated Statements of Changes in Net Assets
Years Ended December 31, 2019 and 2018

(in thousands of dollars)

	2019	2018
Net assets without donor restrictions - Highmark Health		
Excess of revenue over expenses	$ 843,191	$ 570,777
Unrealized net holding gains (losses) on available-for-sale securities, net of tax of ($50,095) and $49,515, respectively	175,106	(218,137)
Reclassification for net gains on available-for-sale securities included in income, net of tax of $9,294 and $8,990, respectively	(34,961)	(33,819)
Benefit plan asset and liability changes, net of tax of $3,056 and and $160, respectively	(20,031)	(108,339)
Net assets released from restriction for acquisition of equipment	810	1,152
Income tax benefit on transfers to related parties	29,010	-
Net adjustment for accounting guidance adoption	4,987	-
Other, net	(7,931)	2,199
Increase in net assets without donor restrictions - Highmark Health	990,181	213,833
Net assets without donor restrictions - noncontrolling interest		
Deficit of revenue over expenses	(19,122)	(1,421)
Dividends paid	-	(5,013)
Sale of subsidiary	(72,068)	-
Acquisition of subsidiary	(8,138)	-
Other	5,085	59
Decrease in net assets without donor restrictions - noncontrolling interest	(94,243)	(6,375)
Net assets with donor restrictions		
Contributions	11,188	10,206
Net investment income (loss)	50,478	(14,427)
Net assets released from restrictions used for:		
Operations	(5,114)	(5,367)
Acquisition of equipment	(810)	(1,152)
Transfer out of trusts to net investment income	(9,775)	(9,226)
Other, net	(342)	(861)
Increase (decrease) in net assets with donor restrictions	45,625	(20,827)
Increase in net assets	941,563	186,631
Net assets		
Beginning of the year	6,651,535	6,464,904
End of the year	$ 7,593,098	$ 6,651,535

The accompanying notes are an integral part of these Consolidated Financial Statements.

Highmark Health
Consolidated Statements of Cash Flows
Years Ended December 31, 2019 and 2018

(in thousands of dollars)

	2019	2018
Cash flows from operating activities		
Increase in net assets	$ 941,563	$ 186,631
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Bad debt expense	3,297	84,360
Depreciation and amortization, including investments	328,410	337,499
Sale of noncontrolling interest of subsidiary	72,068	-
Acquisition of noncontrolling interest of subsidiary	8,138	-
Gain on sale of subsidiary	(196,610)	-
Net assets acquired through acquisitions	(10,962)	-
Goodwill and intangible impairment	41,249	-
Net realized gains on investments	(56,862)	(44,972)
Net unrealized (gains) losses on investments	(453,453)	285,262
Dividends received from affiliates	4,397	4,518
Undistributed gain of affiliates	(56,593)	(64,602)
Beneficial interest in perpetual trusts	(34,736)	22,911
Benefit plan liability changes	20,031	108,339
Deferred income tax provision	107,898	155,902
Restricted contributions	(11,188)	(10,206)
(Decrease) increase due to change in		
Accounts receivable	(123,570)	(78,514)
Reinsurance recoverables	23	4,919
Pharmacy rebates receivable	11,078	13,514
Other assets	(90,949)	(55,609)
Claims and claim adjustment expenses	128,909	8,808
Amounts held for others	32,059	(58,678)
Benefit plan liabilities, net	(237,898)	(244,316)
Other liabilities	294,153	152,245
Net cash provided by operating activities	720,452	808,011
Cash flows from investing activities		
Purchases of investments	(3,861,207)	(4,648,668)
Proceeds from sales of investments	2,400,115	2,510,439
Proceeds from maturities of investments	497,091	327,318
Purchases of property and equipment, net	(551,429)	(471,969)
Change in securities lending invested collateral	(66,711)	(207,630)
Net proceeds from sale of subsidiary	488,247	-
Acquisition of subsidiary	(7,117)	-
Cash aquired through acquisitions	3,550	-
Net cash used in investing activities	(1,097,461)	(2,490,510)
Cash flows from financing activities		
Restricted contributions	11,188	10,206
Change in book overdrafts	(13,230)	23,693
Receipts from contract deposits	204,405	174,068
Withdrawals from contract deposits	(262,461)	(256,732)
Change in securities lending payable	66,711	207,630
Proceeds from issuance of debt	442,584	1,005,085
Repayment of debt	(456,115)	(1,032,933)
Noncontrolling interest dividends paid	-	(5,013)
Net cash (used in) provided by provided by financing activities	(6,918)	126,004
Decrease in cash, cash equivalents and restricted cash	(383,927)	(1,556,495)
Cash, cash equivalents and restricted cash		
Beginning of year	1,095,655	2,652,150
End of year	$ 711,728	$ 1,095,655

The accompanying notes are an integral part of these Consolidated Financial Statements.

Highmark Health
Consolidated Statements of Cash Flows
Years Ended December 31, 2019 and 2018

(in thousands of dollars)

	2019	2018
Supplemental disclosure of cash flow information		
Interest paid, net	$ 78,376	$ 62,355
Income taxes (received) paid, net	$ (108,992)	$ 19,717
Supplemental disclosure of noncash investing and financing		
Assets acquired through other payables	$ (36,764)	$ 41,409
Capital lease cancellations, net	$ -	$ (29,706)
Reconciliation of total cash, cash equivalents and restricted cash		
Cash and cash equivalents	$ 664,695	$ 886,043
Restricted cash included in board designated, restricted and other investments at fair value	47,033	209,612
Total cash, cash equivalents and restricted cash shown in the statement of cash flows	$ 711,728	$ 1,095,655

The accompanying notes are an integral part of these Consolidated Financial Statements.

(in thousands of dollars)

1. Nature of Operations

Highmark Health is incorporated as a nonprofit corporation in the Commonwealth of Pennsylvania and is federally recognized as a 501(c)(3). Highmark Health, through its affiliates, Highmark Inc. and its subsidiaries and affiliates (collectively "Highmark"), HM Health Solutions ("HMHS"), HM Health Holding Company ("HHHCO"), and Allegheny Health Network and its subsidiaries and affiliates (collectively "AHN"), is a diversified health and wellness enterprise based in Pittsburgh, Pennsylvania. Highmark Health, Highmark, HMHS, HHHCO and AHN are herein referred to as the "Corporation".

Highmark Inc. is incorporated as a nonprofit corporation and operates as a hospital plan corporation and a professional health services plan in the Commonwealth of Pennsylvania. Highmark Inc.'s affiliates, Highmark West Virginia Inc. ("Highmark WV") and Highmark BCBSD Inc. ("Highmark DE"), are nonprofit health services corporations and operate in the states of West Virginia and Delaware, respectively. As a licensee of the Blue Cross Blue Shield Association ("BCBSA"), Highmark underwrites various indemnity and managed care health insurance products for national accounts (groups headquartered in Pennsylvania, West Virginia and Delaware that have operations in other locations), regional accounts and individual accounts. In addition, Highmark also underwrites Medicaid, Medicare Advantage, Medicare Part D prescription drug and Medicare supplemental insurance products.

Highmark Inc.'s wholly owned for-profit subsidiary, HVHC LLC ("HVHC"), operated a retail vision business, Visionworks of America, Inc. ("Visionworks") through December 31, 2018. Effective January 1, 2019, HVHC was merged into Highmark and Visionworks became a direct subsidiary of Highmark. Highmark subsequently divested its remaining interest in Visionworks effective October 2019 (see Note 2).

Highmark Inc.'s wholly owned for-profit subsidiary, United Concordia Companies, Inc. ("UCCI") and its subsidiaries, provide dental services through preferred provider and managed care networks as well as third party administrative services. Highmark's other for-profit subsidiaries, including HM Insurance Group, LLC ("HMIG"), offer stop-loss insurance and other services.

HMHS is a for-profit corporation that provides health plan platform services, infrastructure management, data center hosting and print management.

HHHCO, a holding company, currently has one subsidiary that performs utilization management and care coordination services. Operations are primarily intercompany.

AHN is incorporated as a nonprofit corporation in the Commonwealth of Pennsylvania and is federally recognized as a 501(c)(3). AHN's subsidiaries and consolidated affiliates primarily are nonprofit health care providers offering routine and tertiary healthcare services, clinical support and healthcare education in Western Pennsylvania. Additionally, AHN's other for-profit and nonprofit subsidiaries manage and develop outpatient medical facilities, which offer a variety of services including pharmacies, primary care, imaging, and group hospital purchasing services.

(in thousands of dollars)

2. Divesture, Acquisition, and Affiliation

Divesture

Effective October 1, 2019, Highmark Inc. finalized the sale of Visionworks to a third party ("the Buyer"). In conjunction with the sale, call options related to Visionworks were repurchased by Highmark Inc. and the outstanding put options related to Visionworks expired unexercised. The gain on the sale of Visionworks was $196,610, which incorporates the gross fair value of consideration received less the repurchase of the options and fair value of consideration given, and is reduced by transactions costs and compensation costs associated with the sale of approximately $59,189 attributable to Highmark Inc. The gain was recorded within gain on sale of subsidiary in the Consolidated Statements of Operations.

As a part of the sale of Visionworks, Highmark Inc. agreed to indemnify the Buyer from certain losses and indemnified certain losses in the option repurchase transaction.

Acquisition and Affiliation

Effective April 1, 2018, Highmark WV converted the West Virginia Family Health ("WVFH") surplus note and accrued interest into Class A Stock. Highmark WV increased its majority ownership from 60% to 83%. The fair market value of the Class A Stock was determined by a valuation of WVFH conducted by a third party valuation firm.

On November 4, 2019, Highmark WV commenced an offer to purchase all the issued and outstanding capital stock of WVFH (the "Offer to Purchase"). At the time, the Corporation held 77.58% of the outstanding Class A Stock and 97.71% of the outstanding Class B Preferred Stock (the "Class B Stock") of WVFH. On December 20, 2019, Highmark WV consummated the transactions contemplated by the Offer to Purchase, and thereupon became the holder of 100% of the issued and outstanding Class A Stock and Class B Stock. Highmark WV paid $7,117 in the aggregate for the Class A Stock and Class B Stock.

Effective December 31, 2019, AHN finalized an affiliation agreement with Grove City Health System (Grove City), with AHN becoming the sole corporate member of Grove City. In accordance with the affiliation agreement, Grove City contemporaneously relinquished control of Grove City Health Foundation and contributed $27,432 to support the foundation's charitable mission. The Corporation's Consolidated Financial Statements include the financial position and cash flows of Grove City from the affiliation date, December 31, 2019. In conjunction with the affiliation, the Corporation recognized contribution income of $10,962 within net assets acquired through affiliation on the Consolidated Statements of Operations, representing the inherent contribution received from the affiliation.

3. Summary of Significant Accounting Policies

Basis of Financial Presentation

The accompanying Consolidated Financial Statements include the accounts of the Corporation.

The Consolidated Financial Statements are presented on the accrual basis of accounting, in accordance with accounting principles generally accepted in the United States of America ("GAAP").

All significant intercompany balances and transactions have been eliminated from the Consolidated Financial Statements.

The Corporation uses the equity method of accounting for 50% or less owned affiliates or those affiliates for which the Corporation does not hold a controlling financial interest but may influence operating or financial decisions.

Reclassifications
The Corporation has reclassified certain amounts relating to its prior period results to adopt new accounting guidance. These reclassifications have not changed the results of operations of prior periods, and are discussed below.

New Accounting Pronouncements

Implemented
In August 2018, the Financial Accounting Standards Board ("FASB") issued new guidance requiring implementation costs incurred by customers in cloud computing arrangements to be deferred and recognized over the term of the arrangement, if those costs would be capitalized by the customer in a software licensing arrangement under the internal-use software guidance. The amendments also require an entity to disclose the nature of its hosting arrangements and adhere to certain presentation requirements in its balance sheet, income statement and statement of cash flows. The new guidance is effective January 1, 2020. The Corporation elected to early adopt the guidance prospectively to all implementation costs as of January 1, 2019, which was permitted. The adoption of this new guidance did not materially impact the financial position, results of operations or cash flows of the Corporation.

In March 2017, FASB issued new guidance regarding the presentation of net periodic pension and postretirement benefit costs. The new guidance requires an entity to disaggregate the service cost component from the other components of net periodic benefit cost, and is effective for fiscal years beginning after December 15, 2018. The Corporation has adopted the guidance retrospectively to each period presented. The other components of net periodic benefit cost are now presented below the operating gain subtotal in the Consolidated Statements of Operations as other components of net periodic benefit cost from other operating expenses. The other components of net periodic benefit cost were in an income position at December 31, 2019 and 2018 and included interest cost, expected return on plan assets and amortization of prior service credit and actuarial loss. The service cost component was reclassified from other operating expenses to salaries, wages, and fringe benefits in the Consolidated Statements of Operations. The Corporation utilized the practical expedient that permits an employer to use the amounts disclosed in its pension and other postretirement benefit plan note for the prior comparative periods as the estimation basis for applying the retrospective presentation requirements. At December 31, 2019, other components of net benefit cost of $90,141 was reclassified from other operating expenses to other components of net periodic benefit income in the Consolidated Statements of Operations, and the service cost component of $53,328 was reclassified from other operating expenses to salaries, wages and fringe benefits in the Consolidated Statements of Operations.

(in thousands of dollars)

A reconciliation of the effect on the relevant line items in the Consolidated Statements of Operations for the year ended December 31, 2018 as a result of adopting this new accounting guidance is as follows:

	As Previously Reported	Adjustments	As Revised
Salaries, wages and fringe benefits	3,916,910	59,481	3,976,391
Other operating expenses, net	2,125,273	27,327	2,152,600
Total operating expenses	18,250,545	86,808	18,337,353
Operating gain	525,868	(86,808)	439,060
Other components of net periodic benefit cost	-	86,808	86,808

In January 2017, FASB issued new guidance eliminating Step 2 from the goodwill impairment test. The new guidance is effective for fiscal years beginning after December 15, 2021. The Corporation elected to early adopt the guidance at December 31, 2017, which was permitted. The early adoption of this new guidance did not materially impact the financial position, results of operations or cash flows of the Corporation.

In November 2016, FASB issued new guidance that requires that a statement of cash flows reconcile total cash including cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. When cash, cash equivalents, restricted cash and equivalents are presented in more than one line item on the Consolidated Balance Sheets, the new guidance requires a reconciliation of the totals in the statement of cash flows to the related captions in the Consolidated Balance Sheets. The new guidance also requires the disclosure of the nature of the restricted cash and restricted cash equivalent balances. The new guidance is effective for annual periods beginning after December 31, 2018, and was adopted retrospectively.

The largest impact of the new guidance is from the restricted grant cash and assets with donor restrictions. Excluded from the application of the new guidance are restricted cash amounts included within interests in beneficial trusts and endowments.

A reconciliation of the effect on the relevant line items in the Consolidated Statements of Cash Flows for the year ended December 31, 2018 as a result of adopting this new accounting guidance is as follows:

	As Previously Reported	Adjustments	As Revised
Purchases of investments	(5,299,090)	650,422	(4,648,668)
Proceeds from sales of investments	3,193,973	(683,534)	2,510,439
Proceeds from maturities of investments	382,318	(55,000)	327,318
Net cash used in investing activities	(2,402,398)	(88,112)	(2,490,510)
Decrease in cash, cash equivalents and restricted cash	(1,468,383)	(88,112)	(1,556,495)
Cash, cash equivalents and restricted cash at the beginning of the period	2,354,426	297,724	2,652,150
Cash, cash equivalents and restricted cash at the end of the period	886,043	209,612	1,095,655

In October 2016, FASB issued new guidance that requires an entity to recognize the income tax effect of intercompany sales and transfers of assets other than inventory at the time that the transfer occurs rather than when the asset is sold to a third party. The guidance is effective for annual periods beginning after December 15, 2018. The adoption of this new guidance did not materially impact the financial position, results of operations or cash flows of the Corporation.

In August 2016, FASB issued new guidance which clarifies the classification of certain cash receipts and cash payments in our Consolidated Statements of Cash Flows. The guidance is effective for annual periods beginning after December 15, 2018. The adoption of this guidance did not materially impact the cash flows of the Corporation.

In January 2016, FASB issued new guidance requiring all equity investments, other than those accounted for under the equity method or those that result in the consolidation of the investee, to be measured at fair value with changes in the fair value recognized through net income. The new guidance also eliminates the requirement to disclose the fair value of financial instruments measured at amortized cost for non-public business entities. The new guidance is effective for fiscal years beginning after December 15, 2018. Effective January 1, 2019, the results of operations include the changes in fair value of these financial instruments.

In May 2014, FASB issued new guidance related to revenue recognition (“ASC 606”) for contracts with customers. This new guidance removes most industry-specific revenue recognition requirements and requires that an entity recognize revenue for the transfer of goods or services to a customer at an amount that reflects the consideration to which an entity expects to be entitled in exchange for the goods or services. The new guidance also requires additional disclosures regarding the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts. The new guidance is effective for fiscal years beginning after December 15, 2018. The Corporation adopted ASC 606 effective January 1, 2019, using the modified retrospective approach. The impact of adoption is provided in more detail in the Services Revenue, Vision Revenue and Net Patient Service Revenue sections below.

Insurance contracts are excluded from this guidance. Accordingly, premium revenue, affiliate income, and net assets released from restriction, collectively representing approximately 73% of the Corporation’s consolidated external revenues for the year ended December 31, 2019, are not included in the scope of the new guidance.

Upon the adoption of ASC 606, the accounting treatment of service revenue for administrative fees received under non-risk administrative arrangements and pharmacy rebates did not materially differ from pre-existing accounting treatment. Additionally, the adoption of ASC 606 did not materially impact net patient service revenue.

(in thousands of dollars)

Also as part of the adoption, the Corporation evaluated contracted fees received for the administration of the UCCI Active Duty Dental Plan ("ADDP") contract. The revenue received from the Defense Health Agency ("DHA") under this contract is a contracted fixed fee amount based upon the number of dental services provided during the contractual coverage period. The fee is inclusive of the cost of service to the dental provider. The fees are billed as services are provided and are included in the month the services were incurred. Prior to adoption of ASC 606, fees for services were reported in premium revenue and dental provider payments related to this contract were reported in claims and claim adjustment expenses in the Consolidated Statements of Operations. Upon the adoption of ASC 606, the fees are netted against the dental provider payments related to this contract in service revenue in the Consolidated Statements of Operations.

The Corporation applied ASC 606 using the modified retrospective method, which involves recognizing the cumulative effect of initially applying ASC 606 as an adjustment to the Corporation's opening total net assets as of January 1, 2019. Therefore, comparative information has not been adjusted and continues to be reported under Topic 605. As a result of applying the modified retrospective method to adopt the new standard, the following adjustments were made to accounts on the Consolidated Balance Sheets as of January 1, 2019:

	Impact of Change in Accounting Policy		
	As Reported December 31, 2018	Adjustments	Adjusted January 1, 2019
Consolidated Balance Sheets:			
Other assets	$ 544,510	$ 32,927	$ 577,437
Deferred tax assets	160,076	(1,336)	158,740
Total assets	14,456,169	31,591	14,487,760
Unearned revenue	200,601	26,604	227,205
Total liabilities	7,804,634	26,604	7,831,238
Net assets without donor restrictions - Highmark Health	6,242,973	4,987	6,247,960
Total net assets without donor restrictions	6,363,968	4,987	6,368,955
Total liabilities and net assets	14,456,169	31,591	14,487,760

(in thousands of dollars)

The following tables summarize the impact of the Corporation's adoption of the new guidance related to revenue recognition on its Consolidated Financial Statements for the year ended December 31, 2019:

	Impact of Change in Accounting Policy		
	As Reported As of/For the Year Ended December 31, 2019	Adjustments	Adjusted Without Adoption of ASC 606
Consolidated Statements of Operations:			
Premium revenue, net	$ 13,172,276	$ 108,972	$ 13,281,248
Service revenue	1,541,322	798	1,542,120
Total revenue and other support	18,098,181	109,770	18,207,951
Claims and claim adjustment expenses	10,756,960	99,433	10,856,393
Other operating expenses, net	1,951,529	2,999	1,954,528
Total operating expenses	17,988,629	102,432	18,091,061
Operating gain	109,552	7,337	116,889
Excess of revenue over expenses before income taxes	955,167	7,337	962,504
Income tax provision	131,098	41	131,139
Excess of revenue over expenses before noncontrolling interest	824,069	7,296	831,365
Excess of revenue over expenses attributable to Highmark Health	843,191	7,296	850,487
Consolidated Balance Sheets:			
Deferred tax assets	$ 29,637	$ 1,287	$ 30,924
Other assets	653,935	(39,401)	614,534
Total assets	15,437,761	(38,114)	15,399,647
Unearned revenue	237,063	(40,423)	196,640
Total liabilities	7,844,663	(40,423)	7,804,240
Net assets without donor restrictions - Highmark Health	7,233,154	2,309	7,235,463
Total net assets without donor restrictions	7,259,906	2,309	7,262,215
Total net assets	7,593,098	2,309	7,595,407
Total liabilities and net assets	15,437,761	(38,114)	15,399,647
Consolidated Statements of Cash Flows:			
Increase in net assets	$ 941,563	$ 2,309	$ 943,872
Deferred income tax provision	107,898	41	107,939
(Decrease) increase due to change in:			
Other assets	(90,949)	(2,350)	(93,299)
Other liabilities	294,153	(40,423)	253,730

Under Evaluation

In August 2018, FASB issued new guidance regarding contributions received and contributions made. The guidance clarifies whether a transfer of assets is a contribution or an exchange transaction. The new guidance is effective for transactions in which the entity serves as the resource recipient for fiscal years beginning after December 15, 2018. The new guidance is effective for transactions in which the entity serves as the resource provider for fiscal years beginning after December 15, 2019. The adoption of this new guidance for resource recipients did not materially impact the financial position, results of operations and cash flows of the Corporation. The Corporation is evaluating the impact of the new guidance for resource providers on its financial position, results of operations and cash flows.

In February 2016, FASB issued new guidance regarding the recognition of leases. The new guidance requires lessees to recognize a lease liability and a lease asset for all leases, including operating leases, with a term greater than 12 months on its balance sheet. The guidance also expands the required quantitative and qualitative disclosures surrounding leases. The new guidance is effective for fiscal years beginning after December 15, 2020. The Corporation is evaluating the impact of the new guidance on its financial position, results of operations and cash flows.

Use of Estimates
The preparation of the Corporation's Consolidated Financial Statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the Consolidated Financial Statements and accompanying notes. Actual results could differ from those estimates.

Cash and Cash Equivalents
The Corporation considers all highly liquid investments with maturities of three months or less when purchased, excluding assets limited or restricted as to use, to be cash equivalents.

Accounts Receivable
In the normal course of business, the Corporation grants credit to its customers under various contractual arrangements. The Corporation carries its accounts receivable at estimated net realizable value, which reflects the impact of potential credit losses.

Insurance accounts receivable is specific to Highmark business and includes amounts related to health, dental, vision, stop-loss and government business accounts receivable. An allowance for doubtful accounts is based on a number of factors, including economic experience, past history, trends, coverage type and other indicators. When it is determined an accounts receivable balance is not collectible, it is written off.

Patient service accounts receivable is specific to AHN business and includes amounts receivable from patients, third-party payors and others for services as they are rendered, at an amount that reflects implicit price concessions based upon historical collection rates.

Other accounts receivable primarily includes receivables from affiliates, accrued interest revenue, receivables from securities sold and other receivables not associated with the Corporation's core business.

Concentrations of credit risk, excluding government payors, are limited due to the large number of Highmark Health customers.

Investments
Debt securities classified as available-for-sale are carried at fair value (based on quoted or estimated market prices). Unrealized gains and losses on available-for-sale debt securities are reported in net assets without donor restrictions, net of deferred income taxes. Derivatives embedded within convertible debt securities are bifurcated, with changes in fair value included in earnings; any remaining unrealized gains or losses of the convertible bonds are reported in net assets without donor restrictions, net of deferred income taxes. Premiums and discounts are amortized using the effective interest method. Realized gains and losses on debt securities are based on amortized cost. Realized gains and losses on available-for-sale debt securities are reported in net investment income in the Consolidated Statements of Operations.

The Corporation monitors its available-for-sale investments portfolio for unrealized losses that appear to be other-than-temporary. In determining if an available-for-sale debt security is other-than-temporarily impaired, the Corporation considers whether it has intent to sell the available-for-sale debt security or whether it is more likely than not that the Corporation will be required to sell the available-for-sale debt security before recovery of its amortized cost basis, which may be at maturity. If the Corporation intends to sell the debt security or it is more likely than not that the Corporation will be required to sell the debt security before recovery of its amortized cost basis, an other-than-temporary impairment is recorded as a realized loss in net investment income in the Consolidated Statements of Operations for the difference between fair value and amortized cost.

If the Corporation does not have the intent to sell and it does not believe that it is more likely than not that it will be required to sell the debt security before recovery of its amortized cost, the Corporation performs a detailed review to determine the underlying cause of the unrealized loss and whether an other-than-temporary impairment is warranted. At the time a debt security is determined to be other-than-temporarily impaired, the credit component of the other-than-temporary impairment is recognized in income in the Consolidated Statements of Operations and the non-credit component of the other-than-temporary investment is recognized in the Consolidated Statement of Changes in Net Assets, net of deferred income taxes.

Equity securities are carried at fair value based on quoted or estimated market prices; except for certain available-for-sale equity investments, which are valued at net asset value (“NAV”) as a practical expedient to fair value. Beginning in 2019, changes in the fair value of equity securities are reported in net investment income on the Consolidated Statement of Operations. In 2018, changes in the fair value of equity securities were reported in net assets without donor restrictions, net of deferred income taxes. Realized gains and losses on equity securities are based on cost (specific identification method) and are reported in net investment income on the Consolidated Statement of Operations.

Board designated, restricted and other investments include assets whose use is contractually limited by external parties and assets set aside by the Board of Directors for future capital improvements or liquidity, over which the Board retains control and may, at its discretion, subsequently use for other purposes, as well as assets held by trustees under indenture agreements. Other investments consist primarily of marketable debt and equity securities and marketable securities maintained in a master trust fund. Investment income or loss (including realized gains and losses, interest and dividends, and unrealized gains and losses) is recorded in net investment income in the Consolidated Statements of Operations unless restricted by donor or law. Investment income related to restricted gifts is recorded based on donor restriction as part of net assets with donor restrictions in the Consolidated Statements of Changes in Net Assets.

Other investments include investments in private limited partnerships, private equities, real estate trusts, limited liability companies and mortgage loans. Private limited partnerships are accounted for under the equity method. The Corporation has committed $232,853 and $229,571 to various private limited partnership investments at December 31, 2019 and 2018, respectively. These commitments are due upon capital calls by the general partners of the partnerships. Real estate investment trusts are valued at NAV as a practical expedient to fair value and are approximated based on trustee estimates. Private equities and limited liability companies are accounted for under the cost or equity method, dependent on certain factors including ownership of a controlling percentage and the ability to exercise significant influence. Mortgage loans are carried at the lower of amortized cost or fair value. Interest income and amortization amounts are recognized as adjustments of yield and are included in investment income. The Corporation monitors its other investments for unrealized losses that appear to be other-than-temporary. At the time an investment is determined to be other-than-temporarily impaired, the Corporation reduces the book value to the current market value and records a realized loss in net investment income in the Consolidated Statements of Operations.

The Corporation participates in securities lending transactions, which are accounted for as secured borrowings. The Corporation utilizes a custodian as a lending agent, maintains effective control over the loaned securities and requires collateral initially equal to at least 102% of loaned domestic securities and 105% of loaned international securities at the loan date. Collateral received consists of cash and fixed-income securities. Non-cash collateral is not recorded in the Consolidated Balance Sheets, as the Corporation does not have the right to sell, pledge or otherwise reinvest the non-cash collateral. Cash collateral is invested in short-term debt securities and is carried at fair value. Changes in fair value are reported as unrealized gains and losses within net assets without donor restrictions.

The fair value of securities held as invested collateral was $386,784 and $320,052 at December 31, 2019 and 2018, respectively. The corresponding liability that represents the Corporation's obligation to return the collateral was $386,764 and $320,053 at December 31, 2019 and 2018, respectively.

The potential risks associated with the transactions include counterparty credit risk, non-cash collateral security risk, lending agent operational risk, and cash collateral reinvestment risk, including the risk that the reinvested collateral would be illiquid, insufficient to repay borrowers, would differ in maturity, or be otherwise unavailable to return the cash collateral to counterparties.

The Corporation and its lending agent mitigate those risks by limiting the amount of investments available for loan, limiting the amount of borrowings by any one counterparty, maintaining effective control over loaned securities, evaluating the credit of counterparties, maintaining a list of approved borrowers, requiring overcollateralization, placing limitations, including duration and credit quality, on the investment of cash collateral, conducting daily mark-to-market pricing of securities, collateral and invested collateral, and maintaining a written agreement with the lending agent that includes certain protections.

The Corporation's assets are invested in a variety of financial instruments. Accordingly, the related values as presented in the Consolidated Financial Statements are subject to various market fluctuations, which include changes in the interest rate environment, equity markets and general economic conditions.

Reinsurance
In the normal course of business, the Corporation seeks to reduce losses that may arise from risks or occurrences of an unexpected nature that may cause unfavorable underwriting results by reinsuring certain levels of risk in various areas of exposure with other insurance enterprises or reinsurers. Reinsurance premiums and benefits paid or provided are accounted for in a manner consistent with the original policies issued and the terms of the reinsurance contracts. The Corporation also assumes risks from other insurance companies. Such assumed reinsurance activity is recorded principally on the basis of reports received from the ceding companies.

Inventory, Net
Inventory consists primarily of health care delivery related drugs, medical supplies and surgical supplies as well as vision related eyewear components through 2018. Vision related eyewear components include frames, lenses and cases, contact lenses and solutions, laboratory supplies, and packaging materials. Inventory is stated at the lower of cost or market. Vision related inventory cost is determined using the weighted average or first-in first-out basis. Health care delivery related inventory cost is determined using the first-in first-out basis. Obsolescence reserves were $2,424 and $8,856 at December 31, 2019 and 2018, respectively.

Property and Equipment, Net
Property and equipment is recorded at cost, net of accumulated depreciation and amortization. If a donor contributes property and equipment, it is recorded at the fair market value on the date contributed. Maintenance, repairs and minor improvements are expensed as incurred. Certain costs related to the internal development of software or software purchased for internal use are capitalized. Gains or losses on sales or disposals of property and equipment are included in operations.

Depreciation is computed under the straight-line method by annual charges to expense over the estimated useful lives of the various asset types as follows: buildings and building or land improvements, up to 40 years; leasehold improvements, lesser of lease term or useful life; office furniture and equipment, 3 to 30 years; and capitalized software, 3 to 10 years.

Property and equipment is reviewed for impairment whenever changes in circumstances indicate that the carrying value of the assets may not be recoverable. Impairment losses are recognized to the extent the carrying amount of an asset exceeds the undiscounted future cash flows expected to result from the use of the asset and its eventual disposal. Impairment losses of $3,298 and $8,615 were recorded in 2019 and 2018, respectively. These impairment losses are reflected in operating expenses in the Consolidated Statements of Operations.

Goodwill and Other Intangible Assets, Net
Intangible assets with definite lives are amortized using the straight-line method over their estimated lives, which range from 3 to 25 years. Intangible assets with indefinite useful lives, including goodwill, are not amortized, but are tested for impairment at least annually and more frequently if events or changes in circumstances indicate that an asset may be impaired. If the fair value is less than the carrying value, the asset is adjusted to the fair value and an impairment loss is recorded in the Consolidated Statements of Operations. Management tested goodwill and other intangible assets with indefinite lives for impairment and concluded that a goodwill and intangible impairment existed at December 31, 2019 (see Note 9). No impairment existed at December 31, 2018.

Other Assets
Other assets primarily include prepaid expenses, pharmacy rebates receivable, insurance recoveries associated with medical malpractice, notes receivable, contract assets, and cash surrender values of corporate-owned life insurance policies held in grantor trusts.

Pharmacy rebates receivable, and the related customer liabilities, is an actuarial estimate based on prescriptions filled and terms of rebate contracts. The actuarial estimates are continually reviewed and any resulting adjustments are included in current operations. The Corporation carries its notes receivable at estimated net realizable value, which reflects the impact of potential credit losses. Changes in cash surrender value are reported in net investment income in the Consolidated Statements of Operations.

Claims and Claim Adjustment Expenses Outstanding
Claims and claim adjustment expenses outstanding include claims reported and adjudicated but unpaid as well as an estimate of incurred but not reported ("IBNR") claims. The liability for IBNR claims is an actuarial estimate based on historical claims paid data, modified for current conditions and coverage changes. The methods to determine the estimate of IBNR claims use past experience adjusted for current trends. The methods and assumptions are continually reviewed and any resulting adjustments are included in current operations. Corresponding administrative costs to process outstanding claims are estimated and accrued and are also included in claims and claim adjustment expenses outstanding.

The Corporation records certain non-risk administrative arrangements in claims liabilities. The non-risk administrative receivable is included in insurance accounts receivable and the corresponding provider liability is included in claims and claim adjustment expenses outstanding in the Consolidated Balance Sheets.

Amounts Held for Others
Amounts held for others include reserves for refunds and deposits received from groups for non-risk administrative arrangements. Amounts held for others also include amounts related to the BlueCard program, which allows the Highmark members to access other Blue Cross and Blue Shield plans' provider networks.

Other Liabilities
Other liabilities include medical malpractice reserves, deferred grant revenue, asset retirement obligations, book overdraft and interest rate swap liabilities.

The provision for medical malpractice claims includes estimates of the ultimate costs for both reported claims and claims incurred but not reported, including costs associated with litigating or settling claims. Anticipated insurance recoveries associated with reported and unreported claims are reported in other assets in the Consolidated Balance Sheets at net realizable value.

The Corporation records deferred grant revenue for grant monies received until the revenue is earned or related costs have been incurred. Governmental grant monies received for the acquisition of property and equipment are deferred until the asset is provided or until depreciation expense is recognized.

(in thousands of dollars)

Net Assets Without Donor Restrictions
Net assets without donor restrictions include investments and board designated assets set aside by the Corporation for future capital improvements or liquidity, over which the Corporation retains control and may at its discretion subsequently use for other purposes.

Net assets without donor restrictions for the years ended December 31, 2019 and 2018 include:

	2019	2018
Undesignated - Highmark Health	$ 7,198,516	$ 6,209,776
Undesignated - Noncontrolling interest	26,752	120,995
Board designated assets:		
Capital improvements	34,638	33,197
Total net assets without donor restrictions	$ 7,259,906	$ 6,363,968

Net Assets With Donor Restrictions
Net assets with donor restrictions include those whose use is limited by donor-imposed stipulations, including some that either expire with the passage of time or can be fulfilled and removed by actions of the Corporation pursuant to those stipulations. Additionally, net assets with donor restrictions include those whose use is limited by donor-imposed stipulations that neither expire with the passage of time nor can be fulfilled or otherwise removed by the actions of the Corporation. Investment earnings from net assets with donor restrictions may be donor restricted for capital or operating needs depending upon the original intent of the donor.

Net assets are released from donor restrictions by incurring expenses satisfying the restricted purposes of being placed-in-service, incurred, or by occurrence of other events specified by donors. Net assets released from restrictions and used for operations are recorded in net assets released from restriction. Net assets released from restriction and used for capital purposes are recorded as change in net assets without donor restrictions in the Consolidated Statements of Changes in Net Assets.

Insurance Revenue Recognition
Highmark's business consists of at-risk insurance arrangements and non-risk administrative arrangements. Risk business includes all insurance contracts, which are report as premium revenue. Premium revenue is generally billed in advance of the contractual coverage periods and is included in premium revenue as it is earned during the coverage period. The unearned portion of premiums collected is reflected in the Consolidated Balance Sheets as unearned revenue. Premium revenue is received from the federal government and certain states according to government specified payment rates and various contractual terms. Changes in revenues from Medicare, ACA and Medicaid products resulting from the periodic changes in risk-adjustment scores derived from medical diagnoses for the Highmark's membership are recognized when the amounts become determinable and the collectability is reasonably assured.

Service Revenue
The administrative fees received under non-risk administrative arrangements are included in service revenue and recognized in the period in which the related services are performed, net of estimated uncollectible amounts. Administrative fees are calculated by multiplying the membership covered under the various contracts by the contractual rates. This also includes fees for management of medical services, claims processing and access to provider networks. Under non-risk administrative arrangements, the customer assumes the risk of funding claims. The Corporation does not record premium revenue or claims incurred on non-risk administrative arrangements. The expenses associated with administering the risk and non-risk business are included in salaries, wages and fringe benefits and other operating expenses in the Consolidated Statements of Operations. The Corporation routinely monitors the collectability of specific accounts, the aging of receivables, as well as prevailing and anticipated economic conditions, and reflect any required adjustments in current operations. The Corporation considers services provided under non-risk administrative contracts to be a combined performance obligation with benefits provided over the contract period.

Revenue related to the information technology platform services (access and build-out/enhancement services), application service provider (ASP) and business process outsourcing (BPO) services, data centering hosting (telephone and data network services), and print management is also included in service revenue. Platform access, ASP and BPO services, data centering hosting, and print management services are recognized on a transaction basis. The Corporation recognizes revenue when persuasive evidence of an arrangement exists, the sales price is fixed or determinable, services have been rendered and collectability is reasonably assured. Revenues are recognized as the services are provided.

Prior to the adoption of ASC 606, revenue from the platform build-out and subsequent enhancement and development of the platform was recognized in accordance with the percentage-of-completion method. The input (effort or cost expended) method had been used to measure progress towards completion as there was a direct relationship between input and productivity. The Corporation accrued for revenue and unbilled receivables for the services rendered between the last billing date and the balance sheet date. Provisions for estimated losses, if any, on uncompleted contracts were recorded in the period in which such losses become probable based on the current contract estimates.

Upon the adoption of ASC 606, the Corporation has changed its accounting policy for revenue recognition related to the information technology platform services. The Corporation recognizes revenue when the promised services are delivered to customers for an amount that reflects the consideration to which the Corporation expects to be entitled in exchange for those services. Revenues from services rendered under the transaction basis are recognized as the services are provided, consistent with its treatment prior to adoption of ASC 606. The Corporation's platform build-out and enhancement services include application development, maintenance and support services. Revenues and related direct expenses from the platform build-out and enhancement services are deferred until a "go live" date or a date in which the platform build-out and enhancement services are available to the customer for use and recognized ratably over the term of the contract.

Service revenue also includes pharmacy rebates retained in lieu of fees charged for non-risk administrative arrangements, grants, contributions, physician stipends, Medicare and Medicaid electronic health record incentive payments and other ancillary hospital services revenue such as parking, cafeteria, tuition and rent. The Corporation recognizes revenue for these revenue streams when the promised goods or services are delivered to customers for an amount that reflects the consideration to which the Corporation expects to be entitled. This recognition pattern aligns with the benefits from services provided to clients.

The Corporation's customer contracts may also include incentive payments received for discrete benefits delivered or promised to be delivered to clients or service level agreements that could result in credits or refunds to the client. Revenues relating to such arrangements are accounted for as variable consideration when the amount of revenue to be recognized can be estimated to the extent that it is probable that a significant reversal of any incremental revenue will not occur. Such amounts are estimated at contract inception and are adjusted at the end of each reporting period as additional information becomes available.

The Corporation often enters into contracts with clients that include promises to transfer multiple products and services to the client. Determining whether products and services are considered distinct performance obligations that should be accounted for separately rather than together may require significant judgment. Judgment is also required to determine the standalone selling price for each distinct performance obligation. In instances where the standalone selling price is not directly observable, it is determined using information that may include market conditions and other observable inputs.

Vision Revenue
Vision revenue includes sales from optical retail stores through September 2019. The Corporation recognizes revenue when the promised goods and services are delivered to customers for an amount that reflects the consideration to which the Corporation expects to be entitled in exchange for those sales. Upon the adoption of ASC 606, the accounting treatment of vision revenue did not materially differ from pre-existing accounting treatment.

Net Patient Service Revenue
Revenues consist primarily of patient service revenues that are recorded based upon established billing rates less contractual adjustments and discounts. Revenues are recorded during the period the healthcare services are provided, based upon the estimated amounts due from the patients and third-party payers. Third-party payers include federal and state agencies (under the Medicare and Medicaid programs), managed care health plans and commercial insurance companies (including plans offered through the health insurance exchanges), and employers. Estimates of contractual adjustments are based upon the payment terms specified in the related contractual agreements. Contractual payment terms are generally based upon predetermined rates per diagnosis, per diem rates or discounted fee-for-service rates. Revenues related to uninsured patients and uninsured copayment and deductible amounts for patients who have health care coverage may have discounts applied (uninsured discounts and contractual discounts).

Upon the adoption of ASC 606, the Corporation records its patient service revenue at the transaction price estimated to reflect the total consideration due from patients and third-party payors in exchange for providing healthcare services. Retroactive settlements with third-party payors are a result of cost report filings, audits, and other investigations and are realized through patient service revenue in the period they are identified. Healthcare services are considered to be a single performance obligation and have a duration of less than one year. Revenues are recognized as these performance obligations are fulfilled. Revenue for performance obligations satisfied over time are recognized based on actual charges incurred in relation to total expected charges. The Corporation believes this method provides a faithful depiction of the transfer of services over the term of the performance obligation based on the inputs needed to satisfy the obligation. The Corporation measures inpatient care, which is the performance obligation from admission into the hospital to the point when it is no longer required to provide services to that patient, generally at the time of discharge. Outpatient performance obligations are measured from patient registration to the point where care is no longer required to be provided. Revenue for performance obligations satisfied at a point in time is generally recognized when goods are provided to patients and the Corporation does not believe it has additional obligations to the patient.

The transaction price, which involves significant estimates, is determined based on standard charges for the goods and services provided, with a reduction recorded for price concessions related to third party contractual arrangements as well as patient discounts and patient price concessions. Any revision in estimates is recognized in the period in which the estimates are revised. Amounts are billed to patients and third-party payors after the performance obligation is satisfied and payment is expected within a reasonable period of time, though settlement may occur well after the healthcare service is provided. The Corporation would provide refunds to patients and third-party payors once it is identified that overpayments have occurred.

The transaction price for the Corporation's healthcare services is variable due to the existence of price concessions due to various agreements with insurance, governmental payors, and self-pay patients. The transaction price reflects the expectations about the consideration that the Corporation is entitled to receive from the patient or third-party. The transaction price is determined by using portfolios of accounts that have similar payment methodologies and performance experience.

Upon the Corporation's adoption of ASC 606 all of what was previously classified as a provision for bad debts in the statements of operations is now reflected as an implicit price concession (as defined in ASC 606) and considered an adjustment to arrive at patient service revenue. The implicit price concession is determined based upon historical collection rates. Due to the adoption of ASC 606, the Corporation did not record any provision for bad debts for the year ended December 31, 2019. Additionally, the allowance for doubtful accounts of $54,884 as of January 1, 2019 was reclassified as a component of patient service accounts receivable. As a result, the adoption of ASC 606 related to net patient service revenue did not have a material impact on the consolidated results of operations for the year ended December 31, 2019.

(in thousands of dollars)

The Corporation's patient service revenues, by major payor, are as follows for the year ended December 31, 2019 (December 31, 2018 is consistent with the presentation prior to the adoption of ASC 606 on January 1, 2019):

	2019	2018
Medicare	$ 1,138,274	$ 1,087,758
Medical assistance	285,932	225,940
Blue Cross Blue Shield payors	512,710	528,544
Other third-party payors	603,806	586,651
Patients and residents	28,795	32,984
Total patient service revenue, net of contractual allowances and discounts	2,569,517	2,461,877
Less: Provision for doubtful accounts	-	(78,574)
Total net patient service revenue	$ 2,569,517	$ 2,383,303

In 2019, revenue from Medicare and Medical Assistance programs accounted for 44% and 11%, respectively, of patient service revenue, net of contractual allowances and discounts. In 2018, revenue from Medicare and Medical Assistance programs accounted for 44% and 9%, respectively, of patient service revenue, net of contractual allowances and discounts. Laws and regulations governing Medicare and Medical Assistance programs are complex and subject to interpretation and there is at least a reasonable possibility that actual results could differ from revenue recognized.

Charity Care
AHN hospitals provide services to all patients regardless of ability to pay. AHN hospitals each have a charity care policy under which they provide care to patients at no charge or at discounted rates, provided the patients meet the eligibility requirements stipulated in their policies. AHN does not pursue collection of amounts determined to qualify for charity care; therefore, charity care amounts are not recorded as revenue or deducted from gross patient service revenue in arriving at net patient service revenue.

Affiliates Income
Affiliate income includes the Corporation's proportionate share of affiliate earnings.

Contributions with Donor Restrictions
Unconditional promises to give cash and other assets to the Corporation are reported at fair value at the date the promise is received as unrestricted gifts within service revenue in the Consolidated Statements of Operations. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. The gifts are reported as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the Consolidated Statements of Operations as net assets released from restrictions. Donor restricted contributions whose restrictions are met within the same year are reported as net assets released from restriction in the accompanying Consolidated Financial Statements.

Income Taxes
Highmark Health and certain of the entities within AHN are tax-exempt organizations under Section 501(c)(3) of the Internal Revenue Code ("IRC") and are exempt from federal income taxes on exempt purpose income. These tax-exempt organizations are subject to federal taxes on unrelated business income under section 511 of the IRC.

Highmark Inc., Highmark WV and Highmark DE are subject to federal income taxes, although they remain exempt from state and local taxes. Highmark Inc., Highmark WV and Highmark DE file separate consolidated federal income tax returns. Non-insurance subsidiaries and health maintenance organizations of Highmark Inc., Highmark WV and Highmark DE are subject to state income taxes. Certain insurance subsidiaries are subject to state premium taxes. Provisions for the applicable tax liabilities have been made in the Consolidated Financial Statements.

Deferred tax assets and liabilities are determined based on differences between the financial reporting and tax basis of assets and liabilities and are measured using tax rates and laws that are expected to be in effect when the difference is reversed. The Corporation records a valuation allowance against its deferred tax assets when it determines that it is more likely than not that some portion or all of the deferred tax asset will not be realized.

Excess of Revenue Over Expenses
The Consolidated Statements of Operations include an excess of revenue over expenses. Changes in net assets without donor restrictions which are excluded from the excess of revenue over expenses, consistent with industry practice, include unrealized gains and losses on available-for-sale securities, benefit plan asset and liability changes, contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets) and certain tax benefits.

Subsequent Events
In connection with the preparation of the Consolidated Financial Statements, the Corporation evaluated events subsequent to the balance sheet date of December 31, 2019 through March 18, 2020, which is also the date the financial statements were available to be issued, and has determined that all material transactions have been recorded and disclosed properly.

4. Insurance Regulation

Highmark Inc. and its insurance subsidiaries and affiliates file financial statements with insurance departments in their states of domicile. These financial statements are prepared in accordance with statutory accounting principles prescribed by such regulatory authorities. Prescribed statutory accounting principles include state laws, regulations and general administrative rules, as well as a variety of publications of the National Association of Insurance Commissioners ("NAIC"). Permitted statutory accounting practices encompass all accounting practices not prescribed.

Financial statements prepared for state insurance departments in accordance with statutory accounting principles differ from the Consolidated Financial Statements prepared in accordance with GAAP. The principal differences in statutory accounting are: (1) certain assets, such as accounts receivable aged more than 90 days, office furniture and equipment, non-operating software, certain provider advances, certain intangible assets and certain prepaid expenses, are excluded from statutory reserves; (2) pharmaceutical rebates receivable are limited based on the timing of billing and collection activities; (3) bonds are carried at amortized cost or fair value, not fair value as required under GAAP; (4) change in fair value of unaffiliated common stock is recorded directly to surplus rather than in results of operations as required under GAAP effective January 1, 2019; (5) equity income or loss of subsidiaries, affiliates and limited partnerships is recorded directly to surplus rather than in results of operations as required under GAAP, with dividends or distributions recognized in statutory net income when declared; (6) investments in, and earnings from, the Corporation's controlled affiliates, HDE and HWV, are not recognized; (7) certain assets and liabilities pertaining to reinsurance transactions are reported net of reinsurance; (8) deferred tax asset ("DTA") recognition is limited; (9) changes in deferred taxes are recorded directly to surplus rather than in the results of operations as required under GAAP; (10) tax benefits associated with uncertain tax positions are only recognized if the probability is greater than 50%; (11) the amount of expense recognized for pension and postretirement plans differs from GAAP primarily due to the required timing of the recognition of certain inputs for statutory accounting; (12) noncontrolling interest consolidated for GAAP purposes is not recognized; (13) mergers are accounted for at historical statutory amounts, as if the merger occurred at the beginning of the earliest presented fiscal year; and (14) certain equity transfers to affiliates are expensed.

As a result of the foregoing, statutory reserves at December 31, 2019 and 2018 and statutory net loss for the years then ended was:

	2019	2018
Highmark Inc. (excluding Highmark WV and Highmark DE)		
Statutory reserves	$ 3,676,442	$ 3,704,173
Statutory net income	$ 33,971	$ 163,308
Highmark WV		
Statutory reserves	$ 560,697	$ 473,265
Statutory net income	$ 49,963	$ 95,011
Highmark DE		
Statutory reserves	$ 410,381	$ 304,194
Statutory net income	$ 98,101	$ 85,197

Highmark Inc. and its insurance subsidiaries and affiliate are subject to minimum risk-based capital ("RBC") requirements that were developed by the NAIC and adopted by various state legislatures. The formula for determining the amount of RBC specifies various weighting factors that are applied to financial balances and various levels of activity based on perceived degrees of risk.

The RBC ratios of Highmark Inc. and its insurance subsidiaries and affiliates are compared to authorized control levels established by the NAIC. Companies below specific ratio thresholds may be required to take specific corrective actions. At December 31, 2019 and 2018, Highmark Inc. and its insurance subsidiaries and affiliates exceeded their respective minimum RBC requirements.

The Pennsylvania Insurance Commissioner "Commissioner" has determined that an appropriate sufficient operating surplus range for Highmark Inc. is 550% - 750% of the health RBC ratio or the Commissioner's consolidated risk factor ratio, whichever is lower. As long as Highmark Inc. operates above the 550% ratio, it is not permitted to include a risk and contingency factor in its filed premium rates. If Highmark Inc.'s ratio exceeds 750%, it will be required to justify its surplus level and could be required to submit a plan to bring its surplus within the designated appropriate sufficient operating surplus range. At December 31, 2019 and 2018, Highmark Inc.'s health RBC ratio was within the appropriate sufficient operating surplus range determined by the Commissioner.

The ACA enacted significant reforms to various aspects of the U.S. health insurance industry. Certain of these reforms became effective January 1, 2014, including the establishment of federally-facilitated or state-based exchanges which provide individuals and small businesses access to affordable and quality health insurance. The Corporation participates in the Pennsylvania, West Virginia and Delaware markets.

The ACA imposes an annual premium-based fee on health insurers for each calendar year beginning on or after January 1, 2014, which is not deductible for tax purposes. The health insurer fee was effective for 2018; the aggregate annual fee for all insurers was $14,300,000. The health insurer fee was temporarily suspended in 2019. The health insurer fee was apportioned among all insurers based on a ratio designated to reflect relative market share of U.S. health insurance business. The fee is based on the ratio of the Corporation's applicable net written premium to total applicable net premiums for all such issuers. The Corporation is required to estimate a liability for the health insurer fee and record it in full once qualifying insurance coverage is provided in the applicable calendar year in which the fee is payable with a corresponding deferred cost that is amortized ratably to expense over the same calendar year. In September 2018, the Corporation paid the federal government $153,545 for its portion of the health insurer fee.

The ACA also established three premium stabilization programs effective January 1, 2014. These risk spreading programs are applicable to certain commercial medical insurance products. In the aggregate, the Corporation's commercial medical insurance products subject to the premium stabilization programs represented approximately 8% of the total premiums for the years ending December 31, 2019 and 2018, respectively. These programs, commonly referred to as the "3Rs", include permanent risk adjustment program, a temporary risk corridor program and a transitional reinsurance program designed to more evenly spread the financial risk borne by issuers and to mitigate the risk that issuers would have mispriced products. The transitional reinsurance and risk corridor programs were available for years 2014 through 2016.

The permanent risk adjustment program adjusts the premiums that commercial individual and small group health insurance issuers receive based on the demographic factors and health status of each member as derived from current year medical diagnosis as reported throughout the year. This program transfers funds from lower risk plans to higher risk plans in the same state. The risk adjustment program is applicable to commercial individual and small group health plans (except certain exempt, grandfathered and grandmothered plans) operating both inside and outside of the health insurance exchanges established under the ACA. Under the risk adjustment program, a risk score is assigned to each covered member to determine an average risk score at the individual and small group level by legal entity in a particular market in a state. Additionally, an average risk score is determined for the entire subject population for each market in each state. Settlement amounts are determined by utilizing the Centers for Medicare and Medicaid Services ("CMS") risk transfer formula which averages all risk scores in risk adjustment covered plans and uses the plan average risk scores combined with other factors to calculate the settlement. Settlements are determined on a net basis by legal entity and state.

Prior to the settlement, the estimate of amounts receivable or payable under the risk adjustment program is based on an estimate of both the Corporation's and the state average risk scores. Assumptions used in these estimates include but are not limited to historical market experience, member demographics including age and gender, pricing models, membership data, the mix of previously underwritten membership as compared to new members in plans compliant with the ACA, published third party studies and other publicly available data including regulatory plan filings. The Corporation generally relies on providers to appropriately document all medical data, including the diagnosis data submitted with claims, as the basis for risk scores under the program.

The Corporation records receivables or payables for the risk adjustment program as adjustments to premium revenue based on year-to-date experience when the amounts are reasonably estimable and collection is reasonably assured. Final settlements are determined by CMS in the year following the policy year. Under the risk adjustment program, the Corporation received net payments of $34,459 in 2019 to settle the 2018 plan year and $54,251 in 2018 to settle the 2017 plan year.

The temporary risk corridor program applied to qualifying individual and small group Qualified Health Plans, as defined by CMS, operating both inside and outside of the exchanges. The risk corridor provisions limited issuer gains and losses by comparing allowable medical costs to a target amount, defined by CMS, and sharing the risk for allowable costs with the federal government. Allowable medical costs are adjusted for risk adjustment settlements, transitional reinsurance recoveries and cost sharing reductions received from CMS. Variances from the target exceeding certain thresholds may result in CMS making additional payments to the Corporation or require the Corporation to refund CMS a portion of the premiums received.

For the temporary risk corridor program, the Corporation records receivables upon communication by CMS of funds available that it intends to pay. Highmark recorded no risk corridor premium revenue in 2018 or 2019 for the 2014 to 2016 benefit years as collection is not reasonable assured. However, the Corporation continues to believe that CMS has a binding obligation to satisfy amounts due to the Corporation on the risk corridor.

For the 3Rs, the Corporation recorded a risk adjustment receivable of $1,030 to accounts receivable, insurance, and a payable of $18,579 to other payables and accrued expenses in the Consolidated Balance Sheets for the years ended December 31, 2019 and 2018, respectively. There were no amounts recorded related to risk corridor and reinsurance at December 31, 2019, and minimal amounts were recorded as of December 31, 2018.

In addition to the 3Rs ACA established a cost-sharing reduction ("CSR") program that requires Qualified Health Plans to provide reduced cost sharing for essential health benefits to eligible enrollees. Under the CSR program issuers must ensure eligible enrollees pay only the cost sharing required for applicable covered services. Issuers are then required to notify CMS of cost-sharing reductions provided on behalf of eligible enrollees. Monthly, CMS makes payments estimated to be the value of cost-sharing reductions provided by the issuers. In the subsequent benefit year, CMS reconciles the estimated payments to the cost-sharing reductions provided and a final settlement is made. The CSR program was terminated in November 2017. In 2018, the Corporation settled the 2017 CSR program benefit year resulting in a reduction to claims incurred of $12,386. No activity was recorded in 2019.

Highmark is subject to a Community Health Reinvestment ("CHR") Agreement with the Commissioner, which establishes an annual CHR commitment for Highmark based on direct written health premiums. Highmark met its minimum social mission commitment of $77,482 in 2019 and in 2018. The 2020 commitment is expected to approximate the 2019 and 2018 amounts. Highmark has the ability to direct the funds related to the CHR endeavors provided that the funds are used to provide the following health care coverage for persons who are uninsured or unable to pay for coverage, to fund programs for the prevention and treatment of disease or injury, including mental health counseling, the promotion of health or wellness, to fund the prevention of conditions, behavior or activities that are adverse to good health or donations for the benefit of health care providers in furtherance of any of the foregoing purposes.

Highmark is not eligible to participate in a Pennsylvania-sponsored guarantee fund, and a result it has established and funded a trust in order to meet a licensing requirement of BCBSA. The fair value of the trust was $389,426 and $358,324 at December 31, 2019 and 2018, respectively, and was reported as debt securities in the Consolidated Balance Sheets.

The Corporation offers Medicare Advantage and Medicare Part D Prescription Drug Plan products under contracts with CMS, which accounted for 23% and 25% of total premiums for the years ended December 31, 2019 and 2018, respectively.

Participation in government sponsored health care programs subjects the Corporation to a variety of federal laws and regulations and risks associated with audits conducted under these programs. These audits may occur in years subsequent to the Corporation providing the relevant services under audit. These risks may include reimbursement claims as well as potential fines and penalties. With respect to the Corporation's Medicare Advantage business, CMS regularly audits the Corporation's performance to determine compliance with CMS's regulations and contracts with CMS and to assess the quality of services provided to Medicare Advantage beneficiaries. CMS uses various payment mechanisms to allocate and adjust premium payments to the Corporation's Medicare Advantage plan by considering the applicable health status of Medicare Advantage members as supported by information prepared, maintained and provided by health care providers. The Corporation collects claim and encounter data from providers and generally rely on providers to appropriately code their submissions and document their medical records, including the diagnosis data submitted to the Corporation with claims. CMS pays increased premiums to Medicare Advantage plans and prescription drug program plans for members who have certain medical conditions identified with specific diagnosis codes. Federal regulators review and audit the providers' medical records to determine whether those records support the related diagnosis codes that determine the members' health status and the resulting risk-adjusted premium payments to the Corporation. In that regard, federal regulators have initiated contract-level risk adjustment data validation audits of certain plans within the Corporation for certain periods to validate coding practices and supporting medical record documentation maintained by health care providers and the resulting risk adjusted premium payments to such plans. CMS may require Corporation to refund premium payments if the Corporation's risk adjusted premiums are not properly supported by medical record data and are outside of acceptable error thresholds. The Corporation is unable to estimate the financial impact, if any, at this time.

5. Investments

The cost or amortized cost, gross unrealized gains and losses and fair value of investments in securities classified as available-for-sale at December 31, 2019 were as follows:

	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Debt securities				
U.S. Treasury and agency obligations	$ 1,885,324	$ 28,896	$ (5,497)	$ 1,908,723
Agency mortgage-backed securities	704,126	8,745	(1,860)	711,011
State and political obligations	7,443	940	(3)	8,380
Mortgage-backed securities	145,573	2,866	(202)	148,237
Asset-backed securities	170,942	2,993	(96)	173,839
Corporate and other debt securities	1,907,338	80,883	(6,171)	1,982,050
Total	$ 4,820,746	$ 125,323	$ (13,829)	$ 4,932,240

Upon the implementation of a new accounting pronouncement in 2019, equity securities that have a readily determined fair value are not considered available-for-sale and changes to fair value are reported in net investment income expenses in the Consolidated Statements of Operations. At December 31, 2019, the fair value of these securities was $1,699,895.

(in thousands of dollars)

The cost or amortized cost, gross unrealized gains and losses and fair value of investments in securities classified as available-for-sale at December 31, 2018 were as follows:

	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Debt securities				
U.S. Treasury and agency obligations	$ 1,200,112	$ 3,767	$ (21,146)	$ 1,182,733
Agency mortgage-backed securities	652,159	819	(14,333)	638,645
State and political obligations	10,221	613	(72)	10,762
Mortgage-backed securities	70,887	159	(787)	70,259
Asset-backed securities	168,340	1,347	(425)	169,262
Corporate and other debt securities	1,971,404	16,328	(56,453)	1,931,279
Total debt securities	4,073,123	23,033	(93,216)	4,002,940
Equity securities				
Domestic	528,080	151,678	(32,958)	646,800
Foreign	868,087	35,238	(90,212)	813,113
Total equity securities	1,396,167	186,916	(123,170)	1,459,913
Total	$ 5,469,290	$ 209,949	$ (216,386)	$ 5,462,853

The gross unrealized losses and fair value of investments classified as available-for-sale securities by investment category and length of time an individual security was in a continuous unrealized loss position at December 31, 2019 were as follows:

	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Debt securities						
U.S. Treasury and agency obligations	$ 584,621	$ (5,338)	$ 27,699	$ (159)	$ 612,320	$ (5,497)
Agency mortgage-backed securities	79,234	(397)	135,128	(1,463)	214,362	(1,860)
State and political obligations	511	(3)	-	-	511	(3)
Mortgage-backed securities	47,174	(186)	3,154	(16)	50,328	(202)
Asset-backed securities	10,816	(24)	5,830	(72)	16,646	(96)
Corporate and other debt securities	124,284	(2,313)	95,591	(3,858)	219,875	(6,171)
Total	$ 846,640	$ (8,261)	$ 267,402	$ (5,568)	$1,114,042	$ (13,829)

(in thousands of dollars)

The gross unrealized losses and fair value of investments classified as available-for-sale securities by investment category and length of time an individual security was in a continuous unrealized loss position at December 31, 2018 were as follows:

	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Debt securities						
U.S. Treasury and agency obligations	$ 412,227	$ (1,996)	$ 413,697	$ (19,150)	$ 825,924	$ (21,146)
Agency mortgage-backed securities	204,098	(2,121)	307,915	(12,212)	512,013	(14,333)
State and political obligations	2,420	(42)	1,098	(30)	3,518	(72)
Mortgage-backed securities	42,360	(622)	8,022	(165)	50,382	(787)
Asset-backed securities	17,837	(147)	15,895	(278)	33,732	(425)
Corporate and other debt securities	1,093,710	(40,205)	383,403	(16,248)	1,477,113	(56,453)
Total debt securities	1,772,652	(45,133)	1,130,030	(48,083)	2,902,682	(93,216)
Equity securities						
Domestic	228,713	(31,469)	6,159	(1,489)	234,872	(32,958)
Foreign	694,119	(88,473)	5,493	(1,739)	699,612	(90,212)
Total equity securities	922,832	(119,942)	11,652	(3,228)	934,484	(123,170)
Total	$ 2,695,484	$ (165,075)	$ 1,141,682	$ (51,311)	$ 3,837,166	$ (216,386)

At December 31, 2019 and 2018, the Corporation held available-for-sale debt securities with gross unrealized losses of $13,829 and $93,216, respectively. Management evaluated the unrealized losses and determined that they were due primarily to volatility in the interest rate environment and market conditions. The Corporation does not intend to sell the related debt securities and it is not likely that the Corporation will be required to sell the debt securities before recovery of their amortized cost basis, which may be maturity. Therefore, management does not consider the available-for-sale debt securities to be other-than-temporarily impaired as of December 31, 2019 and 2018.

The amortized cost and fair value of available-for-sale debt securities at December 31, 2019 are shown below by contractual maturity. Expected maturities could differ from contractual maturities as borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
Due within one year or less	$ 345,865	$ 346,728
Due after one year through five years	1,705,077	1,731,486
Due after five years through ten years	1,078,654	1,110,464
Due after ten years	670,510	710,475
Mortgage and asset-backed securities	1,020,640	1,033,087
Total debt securities	$ 4,820,746	$ 4,932,240

(in thousands of dollars)

Board designated, restricted and other investments by investment type at December 31, 2019 and 2018 consisted of the following:

	2019	2018
Cash and cash equivalents	$ 44,620	$ 210,924
Debt securities		
U.S. Treasury and agency obligations	263,328	95,217
Agency mortgage-backed securities	3,495	4,422
Asset and mortgage-backed securities	2,779	2,928
Corporate and other debt securities	77,381	88,992
Total debt securities	346,983	191,559
Equity securities		
Domestic	160,382	118,952
Foreign	123,266	88,002
Beneficial interest in perpetual trusts	263,002	228,266
Common collective trust interests	7,744	6,373
Total board designated, restricted and other investments	$ 945,997	$ 844,076

Board designated, restricted and other investments consist of the following components at December 31, 2019 and 2018:

	2019	2018
Without donor restrictions		
Other investments	$ 505,099	$ 332,584
Board designated		
Foundation	34,638	33,197
Capital project funds	55,445	167,752
Self-insurance reserves	1,926	2,629
Grant funds and other	22,874	25,857
Total without donor restrictions	619,982	562,019
With donor restrictions	326,015	282,057
Total board designated, restricted and other investments	$ 945,997	$ 844,076

The following is a summary of net investment income for the year ended December 31, 2019:

	Without Donor Restrictions	With Donor Restrictions
Interest and dividends, net	$ 246,269	$ 6,798
Net realized gains on investments	57,328	6,658
Net market value holding gains on equity securities	265,321	-
Net unrealized gains on board designated, restricted and other investments	39,760	37,022
Total net investment income	$ 608,678	$ 50,478

(in thousands of dollars)

The following is a summary of net investment income (loss) for the year ended December 31, 2018:

	Without Donor Restrictions	With Donor Restrictions
Interest and dividends, net	$ 181,528	$ 6,185
Net realized gains on investments	58,870	14,698
Net unrealized losses on board designated, restricted and other investments	(26,639)	(35,310)
Loss on extinguishment of debt (Note 12)	(7,495)	-
Total net investment income (loss)	$ 206,264	$ (14,427)

Net realized gains on investments without donor restrictions include $1,441 and $7,431 in 2019 and 2018, respectively, in other-than-temporary impairment charges on available-for-sale securities. Other-than-temporary impairments recognized in 2019 and 2018 resulted from the extent and duration of fair value declines due to market conditions, along with credit related concerns in certain instances. Impaired securities included mainly debt securities within the domestic financial services, commodity and energy business sectors, along with international market holdings.

The recognition of unrealized gains and losses on investments that are restricted as to use are recorded directly to net assets with donor restrictions as required by donor or regulation. These investments consist primarily of equity securities, agency mortgage-backed securities, corporate debt securities and U.S. Treasury obligations. All unrealized gains and losses on marketable unrestricted board designated and other investments are recognized in net investment income on the Consolidated Statements of Operations.

Certain investment partnership and trust vehicles of the Corporation have redemption restrictions relating to both timing and amounts of withdrawals. Generally, the amounts are available for withdrawal subject to a 30 days' notice requirement. At December 31, 2019 and 2018, these investments totaled $461,784 and $394,813, respectively.

Certain other private equity limited partnership interests of the Corporation have redemption restrictions relating to both timing and amounts of withdrawals. Distributions are received as the underlying investments generate income or are liquidated. The Corporation estimates that the underlying assets of certain other private equity limited partnership interests will be liquidated over the next ten to twelve years, and the Corporation assumes that the interests will be held until liquidation. At December 31, 2019 and 2018, these investments totaled $279,483 and $225,311, respectively.

(in thousands of dollars)

The Corporation's mortgage loans are collateralized by commercial real estate. At December 31, 2019 and 2018, the carrying amounts of $53,995 and $3,333, respectively, were considered current. The Corporation assesses mortgage loans on a regular basis for credit quality, taking into consideration investment management agreements that detail investment objectives, guidelines and restrictions. Loan quality is targeted at the NAIC rating category of CM2 upon origination, with a minimum quality rating of CM3. Loan-to-value ("LTV") ratios are also used to assess credit quality, with a targeted LTV of 60% or less, not to exceed 70%. Based upon the most recent assessments at December 31, 2019, the Company's mortgage loans were given the following credit quality indicators:

	2019			2018		
	Number of loans	Carrying Value	Average LTV	Number of loans	Carrying Value	Average LTV
Credit Rating						
CM2	6	41,995	54%	1	3,333	64%
CM3	1	12,000	57%	-	-	0%

The following is a summary of the remaining contractual maturity of securities lending transactions accounted for as secured borrowings as of December 31, 2019:

	Remaining Contractual Maturity of the Agreements				
	Overnight and Continuous	Up to 30 days	30-90 days	Greater than 90 days	Total
Securities Lending Transactions					
Corporate fixed income securities	$ -	$ 2,500	$ 10,620	$ 7,505	$ 20,625
International fixed income securities	-	37,560	85,351	87,034	209,945
Other	68,339	51,295	32,060	4,500	156,194
Total borrowings	$ 68,339	$ 91,355	$ 128,031	$ 99,039	$ 386,764

The following is a summary of the remaining contractual maturity of securities lending transactions accounted for as secured borrowings as of December 31, 2018:

	Remaining Contractual Maturity of the Agreements				
	Overnight and Continuous	Up to 30 days	30-90 days	Greater than 90 days	Total
Securities Lending Transactions					
Corporate fixed income securities	$ -	$ 3,178	$ 6,313	$ 15,884	$ 25,375
International fixed income securities	-	14,318	88,483	98,077	200,878
Other	(212)	81,912	11,800	300	93,800
Total borrowings	$ (212)	$ 99,408	$ 106,596	$ 114,261	$ 320,053

The Corporation is required to maintain investments on deposit with state departments of insurance or other regulatory bodies. At December 31, 2019 and 2018 investments on deposit with regulatory bodies were $21,861 and $21,457, respectively.

(in thousands of dollars)

6. Fair Value of Financial Instruments

Input levels, as defined by FASB, are as follows:

Level 1: Pricing inputs are based on unadjusted quoted market prices for identical financial assets or liabilities in active markets. Active markets are those in which transactions occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2: Pricing inputs include observable inputs other than Level 1 pricing inputs, such as quoted prices in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3: Pricing inputs include observable inputs that are supported by little or no market activity and that reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date.

Net asset value as a practical expedient to fair value (NAV): Certain investments without readily determinable fair values measure fair value on the basis of the NAV per share (or equivalent) without any additional adjustments. The underlying assets of these investments are measured at fair value as of the reporting date. These investments, if sold, are probable of being sold at amounts equal to NAV per share. A summary of the nature of the investments using NAV as a practical expedient to fair value can be found on the redemption table.

The following methods and assumptions were used to determine the fair value of each class of the following assets and liabilities recorded at fair value in the Consolidated Balance Sheets:

Cash and cash equivalents: Cash is designated as Level 1. Cash equivalents include exempt and other money market mutual funds, commercial paper, discount notes, and securities with a maturity 3 months or less. The fair value of exempt and other money market mutual funds is based on publicly available NAV per share. The fair values of all other cash equivalents are obtained from a third party pricing service that primarily uses Level 1 or Level 2 inputs. They are designated as Level 1 or Level 2, depending on the inputs, structure and the extent of credit-related features.

Debt securities, available-for-sale: Fair values of available-for-sale debt securities are based on quoted market prices, where available. These fair values are obtained primarily from a third party pricing service, which generally use Level 1 or Level 2 inputs, for the determination of fair value to facilitate fair value measurements and disclosures. U.S. Treasury securities generally are designated Level 1 securities, while Level 2 securities generally include corporate securities, state and political obligations, mortgage-backed securities, asset-backed securities, and private debt. Level 2 inputs that are often used in the valuation methodologies include, but are not limited to, broker quotes, benchmark yields, credit spreads, default rates, prepayment speeds, and discounted cash flow models that use observable inputs. The Corporation has certain fixed maturity, bank loans, corporate and other debt securities, which are designated as Level 3 securities. For these securities, the valuation methodologies may incorporate broker quotes or assumptions for benchmark yields, credit spreads, default rates and prepayment speeds that are not observable in the markets.

Equity securities: Fair values of equity securities are generally designated as Level 1 and are based on quoted market prices for identical assets in active markets. The Corporation also has certain private equity securities that do not have readily determinable fair values and are carried at cost or equity method and are excluded from the fair value hierarchy. In prior years, these private equity securities were designated Level 3 and the fair value was estimated based on each security's current condition and future cash flow projections or based on the Corporation's share of the entities' undistributed earnings, which approximated fair value. Certain limited liability company investments that operate similar to mutual funds, are classified as common stock and are valued at NAV as a practical expedient to fair value.

Board designated, restricted and other investments: Board designated, investments with donor restrictions include cash equivalents, debt securities and equity securities that follow the same methods and assumptions and fair value designations described above. The fair value for endowments managed by donor selected trustees are designated as Level 3 securities with the interest in these trusts based on the fair value of the underlying trust investments, which approximates the present value of the expected future cash flows for which the Corporation is an income beneficiary. Certain board designated, restricted and other investments are valued at NAV as a practical expedient to fair value.

Other Investments: The fair values of real estate trusts are approximated based on trustee estimates. Limited partnerships and limited liability companies are accounted for using the equity method, and are based on the estimated fair values from the financial statements obtained from the investment vehicle.

Mortgage Loans: Fair values of mortgage loans are obtained from a third party pricing service, whose valuation is based on the present value of expected future cash flows discounted at the appropriate LIBOR rate, plus an appropriate credit spread. Mortgage loans are designated as Level 3.

Securities lending invested collateral: Fair values of securities lending collateral are based on quoted market prices, where available. These fair values are obtained primarily from third party pricing services, which generally use Level 1 or Level 2 inputs for the determination of fair value to facilitate fair value measurements and disclosures.

The Corporation uses a third party pricing service to obtain quoted prices for each security. The third party service provides pricing based on recent trades of the specific security or like securities, as well as a variety of valuation methodologies for those securities where an observable market price may not exist. The third party service may derive pricing for Level 2 securities from market corroborated pricing, matrix pricing, discounted cash flow analyses and inputs such as yield curves and indices. Pricing for Level 3 securities may be obtained from investment managers for private placements or derived from discounted cash flows, or ratio analysis and price comparisons of similar companies. Securities that use NAV as a practical expedient to fair value carry underlying investments that, if sold, are probable to being sold at amounts equal to NAV per share.

(in thousands of dollars)

The Corporation performs an analysis of reasonableness of the prices received for fair value by monitoring month-to-month fluctuations and determining reasons for significant differences, selectively testing fair values against prices obtained from other sources, and comparing the consolidated fair value of a class of assets against an appropriate index benchmark. The Corporation did not make adjustments to the quoted market prices obtained from third party pricing services that were material to the Consolidated Financial Statements.

The following table summarizes fair value measurements by level at December 31, 2019 for financial assets measured at fair value on a recurring basis:

		Fair Value Measurements Using			Net Asset	
	Total	Level 1	Level 2	Level 3	Value	Other
Assets						
Cash and cash equivalents	$ 664,695	$ 637,667	$ 27,028	$ -	$ -	$ -
Investments						
Debt securities, available-for-sale						
U.S. treasury and agency obligations	1,908,723	1,746,893	161,830	-	-	-
Agency mortgage-backed securities	711,011	-	711,011	-	-	-
State and political obligations	8,380	-	8,380	-	-	-
Mortgage-backed securities	148,237	-	148,237	-	-	-
Asset-backed securities	173,839	-	173,839	-	-	-
Corporate and other debt securities	1,982,050	-	1,868,633	113,417	-	-
Total debt securities	4,932,240	1,746,893	3,071,930	113,417	-	-
Equity securities						
Domestic	755,230	755,230	-	-	-	-
Foreign	460,567	460,567	-	-	-	-
Equity securities other than fair value	484,098	-	-	-	449,475	34,623
Total equity securities	1,699,895	1,215,797	-	-	449,475	34,623
Board designated, restricted and other investments						
Cash and cash equivalents	44,620	44,620	-	-	-	-
Debt securities						
U.S. Treasury and agency obligations	263,328	262,327	1,001	-	-	-
Agency mortgage-backed securities	3,495	-	3,495	-	-	-
Mortgage-backed securities	1,059	-	1,059	-	-	-
Asset-backed securities	1,720	-	1,720	-	-	-
Corporate and other debt securities	77,381	-	77,381	-	-	-
Equity securities						
Domestic	152,883	152,883	-	-	-	-
Foreign	123,266	123,266	-	-	-	-
Equity securities other than fair value	7,499	-	-	-	-	7,499
Beneficial interest in perpetual trusts	263,002	-	-	263,002	-	-
Common collective trust interests other than fair value	7,744	-	-	-	7,744	-
Total board designated, restricted and other investments	945,997	583,096	84,656	263,002	7,744	7,499
Other investments						
Mortgage loans	12,116	-	-	12,116	-	-
Other investments other than fair value	333,671	-	-	-	291,792	41,879
Total other investments	345,787	-	-	12,116	291,792	41,879
457(b) assets	42,177	42,177	-	-	-	-
Securities lending invested collateral	386,784	-	386,784	-	-	-
Total assets	$ 9,017,575	$ 4,225,630	$ 3,570,398	$ 388,535	$ 749,011	$ 84,001

(in thousands of dollars)

The following table summarizes fair value measurements by level at December 31, 2018 for financial assets measured at fair value on a recurring basis:

		Fair Value Measurements Using			Net Asset
	Total	Level 1	Level 2	Level 3	Value
Assets					
Cash and cash equivalents	$ 886,043	$ 862,333	$ 23,710	$ -	$ -
Investments					
Debt securities, available-for-sale					
U.S. treasury and agency obligations	1,182,733	655,962	526,771	-	-
Agency mortgage-backed securities	638,645	-	638,645	-	-
State and political obligations	10,762	-	10,762	-	-
Mortgage-backed securities	70,259	-	70,259	-	-
Asset-backed securities	169,262	-	169,262	-	-
Corporate and other debt securities	1,931,279	-	1,824,793	106,486	-
Total debt securities	4,002,940	655,962	3,240,492	106,486	-
Equity securities					
Domestic	646,800	616,613	-	30,187	-
Foreign	429,793	429,793	-	-	-
Equity securities other than fair value	383,320	-	-	-	383,320
Total equity securities	1,459,913	1,046,406	-	30,187	383,320
Board designated, restricted and other investments					
Cash and cash equivalents	210,924	210,924	-	-	-
Debt securities					
U.S. Treasury and agency obligations	95,217	49,307	45,910	-	-
Agency mortgage-backed securities	4,422	-	4,422	-	-
Mortgage-backed securities	1,037	-	1,037	-	-
Asset-backed securities	1,891	-	1,891	-	-
Corporate and other debt securities	88,992	-	88,992	-	-
Equity securities					
Domestic	118,952	111,453	-	7,499	-
Foreign	88,002	88,002	-	-	-
Equity securities other than fair value	-	-	-	-	-
Beneficial interest in perpetual trusts	228,266	-	-	228,266	-
Common collective trust interests other than fair value	6,373	-	-	-	6,373
Total board designated, restricted and other investments	844,076	459,686	142,252	235,765	6,373
Other investments					
Mortgage loans	3,333	-	-	3,333	-
Other investments other than fair value	236,804	-	-	-	236,804
Total other investments	240,137	-	-	3,333	236,804
457(b) assets	32,353	32,353	-	-	-
Securities lending invested collateral	320,052	-	320,052	-	-
Total assets	$ 7,785,514	$ 3,056,740	$ 3,726,506	$ 375,771	$ 626,497

Transfers between levels, if any, are recorded annually as of the end of the reporting period unless, with respect to a particular issue, a significant event occurred that necessitated the transfer be reported at the date of the event.

There were no material transfers between Levels 1 and 2 during the years ended December 31, 2019 and 2018.

(in thousands of dollars)

Beginning in 2019, certain private equity securities are no longer carried at fair value. Private equity securities of $37,686 were included in the Level 3 amount as of December 31, 2018 and are included in the 2019 transfers out of Level 3 amount. The carrying amount of equities without readily determinable fair values at December 31, 2019 was $84,001. No impairments or adjustments for observable price changes on equities without readily determinable fair values occurred during 2019.

The changes in fair value for assets measured using significant unobservable inputs (Level 3) for the year ended December 31, 2019 was as follows:

	Corporate and other debt securities	Equity securities	Beneficial interest in perpetual trusts	Mortgage loans	Total
Balance at January 1	$ 106,486	$ 37,686	$ 228,266	$ 3,333	$ 375,771
Net unrealized gains	4,144	-	32,656	2	36,802
Net realized (losses) gains	(474)	-	11,805	(5)	11,326
Purchases	34,151	-	-	10,140	44,291
Sales	(30,890)	(2,181)	(9,725)	(1,354)	(44,150)
Transfers out	-	(35,505)	-	-	(35,505)
Balance at December 31	$ 113,417	$ -	$ 263,002	$ 12,116	$ 388,535

The changes in fair value for assets measured using significant unobservable inputs (Level 3) for the year ended December 31, 2018 was as follows:

	Corporate and other debt securities	Equity securities	Beneficial interest in perpetual trrusts	Mortgage loans	Total
Balance at January 1	$ 45,552	$ 40,937	$ 251,177	$ -	$ 337,666
Net unrealized losses	(5,843)	-	(33,030)	(4)	(38,877)
Net realized gains	391	9,646	19,332	7	29,376
Purchases	99,350	115	-	3,330	102,795
Sales	(32,964)	(13,012)	(9,213)	-	(55,189)
Balance at December 31	$ 106,486	$ 37,686	$ 228,266	$ 3,333	$ 375,771

The following table summarizes the nature of the funds valued based on net asset value as a practical expedient for fair value as of December 31, 2019:

	Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period
Equity securities	$ 449,475	$ -	Daily, Quarterly, Monthly	1-120 Days
Common collective trust interests	7,744	-		
Real estate investment trust	12,309	-		
Private limited partnerships	279,483	232,853		
Total	$ 749,011	$ 232,853		

(in thousands of dollars)

The following table summarizes the nature of the funds valued based on net asset value as a practical expedient for fair value as of December 31, 2018:

	Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period
Equity securities	$ 383,320	$ -	Daily, Quarterly, Monthly	1-120 Days
Common collective trust interests	6,373	-		
Real estate investment trust	11,493	-		
Private limited partnerships	225,311	229,571		
Total	$ 626,497	$ 229,571		

Fair Value Option

The Corporation elected the fair value option for its AHN held unrestricted investments, with the exception of the securities held by Palladium Risk Retention Group Inc., AHN's captive insurance company. At December 31, 2019 and 2018, AHN reported unrestricted investments of $619,982 and $562,019 respectively under the fair value option within the Board designated, restricted and other investments at fair value on the Consolidated Balance Sheets. AHN has recorded unrealized gains of $39,760 and unrealized losses of $26,639 (included in net investment income on the Consolidated Statements of Operations) for the years ended December 31, 2019 and 2018, respectively.

7. Equity Method Investments

The Corporation and its subsidiaries have ownership interests in various ventures which were formed to reduce the costs and increase effectiveness in providing community service benefits. These include ventures which provide laboratory, ambulance, oncology and other services and are accounted for under the equity method of accounting. The accompanying Consolidated Balance Sheets reflect equity investments as follows for December 31:

	2019		2018	
	Ownership Interest	Investment Balance	Ownership Interest	Investment Balance
Penn State Health	20.0%	$ 265,553	20.0%	$ 233,490
Gateway, LP	50.0%	201,748	50.0%	193,612
Associated Clinical Labs	12.3%	9,316	12.3%	9,152
Vantage Holding Company	52.3%	7,452	52.3%	7,092
AHN-LECOM JV, LLC	50.0%	5,279	50.0%	4,670
Jefferson Medical Associates	43.8%	5,181	43.8%	5,024
Regional Cancer Center	50.0%	5,000	50.0%	6,676
SDLC Partners, LP	20.0%	4,795	20.0%	4,264
Geisinger-HM Joint Venture, LLC	40.0%	4,400	0.0%	-
EmergyCare, Inc.	50.0%	3,297	50.0%	3,134
Other (a)	various	11,978	various	8,848
		$ 523,999		$ 475,962

(a) Consists of various individually immaterial investments of varying ownership interests (ranging from 0.5% to 50%).

(in thousands of dollars)

8. Property and Equipment, Net

Property and equipment at December 31, 2019 and 2018 was comprised of the following:

	2019	2018
Land, buildings and leasehold improvements	$ 1,503,514	$ 1,658,045
Office furniture and equipment	1,094,949	1,271,381
Capitalized software	964,461	877,692
Construction in progress	437,966	303,429
	4,000,890	4,110,547
Less accumulated depreciation and amortization	(1,949,026)	(2,125,664)
Property and equipment, net	$ 2,051,864	$ 1,984,883

Depreciation and amortization expense related to property and equipment amounted to $314,725 and $319,239 for 2019 and 2018, respectively.

9. Goodwill and Other Intangible Assets, Net

The changes in the carrying amount of goodwill for the years ended December 31, 2019 and 2018 are as follows:

	Gross Goodwill	Impairment Losses	Net Carrying Amount
Balance at January 1, 2018	$ 1,019,627	$ (588,735)	$ 430,892
Other adjustments	9,734	-	9,734
Balance at December 31, 2018	1,029,361	(588,735)	440,626
Sale of subsidiary	(548,502)	277,738	(270,764)
Goodwill impairment	-	(14,880)	(14,880)
Balance at December 31, 2019	$ 480,859	$ (325,877)	$ 154,982

As part of the annual impairment analysis, a goodwill impairment charge of $14,880 was recorded in 2019 within the Consolidated Statements of Operations. The impairment charge represents the excess of the book value of the subsidiary over the fair value. No impairment charges were recorded in 2018.

(in thousands of dollars)

The gross carrying amount of intangible assets and accumulated amortization in 2019 and 2018 was as follows:

	2019				2018		
	Gross Carrying Amount	Accumulated Amortization	Impairment	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Customer relationships	$ 60,412	$ 23,495	$ (15,815)	$ 21,102	$ 60,412	$ 21,276	$ 39,136
Trademarks	9,507	6,541	(2,966)	-	20,575	12,214	8,361
Patient records	7,009	2,803	-	4,206	10,268	5,758	4,510
Other	52,824	27,518	(7,588)	17,718	46,137	22,925	23,212
Total	$ 129,752	$ 60,357	$ (26,369)	$ 43,026	$ 137,392	$ 62,173	$ 75,219

Amortization expense related to intangible assets was $5,865 and $5,344 in 2019 and 2018, respectively. The Corporation finalized the sale of Visionworks in 2019, which included the sale of trademarks with a gross carrying value of $8,097 and accumulated amortization of $7,681. In 2019, as part of the annual impairment analysis, an intangible asset impairment charge of $26,369 was recorded within the Consolidated Statements of Operations related to a subsidiary. The assets impaired were member relationships, provider contracts and a trademark/tradename at a subsidiary that did not renew a contract that represented its primary revenue stream. The impairment charge represents the excess of the book value of the subsidiary over the fair value.

At December 31, 2019, estimated future amortization expense for the intangible assets, excluding insurance licenses with indefinite lives of $3,916, was as follows:

Years ending December 31,	
2020	$ 3,962
2021	3,935
2022	3,901
2023	3,901
2024	2,892
Thereafter	20,519
Total	$ 39,110

10. Claims and Claim Adjustment Expenses Outstanding

The Corporation's insurance business has three business segments, which are referred to as Commercial business, Government business and Diversified business. The Commercial business segment is a combination of fully-insured business and self-funded business. The Government business includes fully-insured health business such as Medicare products, Medicaid products, pre-65 individual including ACA products and Small Group products. The Diversified business includes Vision through September 2019, Dental and Stop-loss insurance product offerings.

(in thousands of dollars)

A reconciliation of the beginning and ending balance for claims and claim adjustment expenses outstanding, by segment, for the year ended December 31, 2019 is as follows:

	Commercial	Government	Diversified	Total
Claims and claim adjustment expenses outstanding, beginning of year	$ 1,416,463	$ 719,074	$ 444,747	$ 2,580,284
Provider advances, beginning of year	37,929	5,641	-	43,570
Reinsurance recoverables, beginning of year	(36,533)	(4,595)	(70,976)	(112,104)
Non-risk claim liabilities, beginning of year	(1,079,442)	-	(35,937)	(1,115,379)
Net balance, beginning of year	338,417	720,120	337,834	1,396,371
Net incurred claims				
Current year	3,863,922	5,240,781	1,805,507	10,910,210
Prior year	(22,423)	(72,058)	(58,769)	(153,250)
Total net incurred claims	3,841,499	5,168,723	1,746,738	10,756,960
Net payments attributable to:				
Current year	(3,536,832)	(4,592,816)	(1,497,824)	(9,627,472)
Prior year	(304,265)	(621,325)	(241,369)	(1,166,959)
Total net payments	(3,841,097)	(5,214,141)	(1,739,193)	(10,794,431)
Net claims payable, end of year	338,819	674,702	345,379	1,358,900
Provider advances, end of year	(37,194)	(3,544)	-	(40,738)
Reinsurance recoverables, end of year	40,803	4,053	67,225	112,081
Non-risk claim liabilities, end of year	1,246,961	-	31,989	1,278,950
Claims and claim adjustment expenses outstanding, end of year	$ 1,589,389	$ 675,211	$ 444,593	$ 2,709,193

A reconciliation of the beginning and ending balance for claims and claim adjustment expenses outstanding, by segment, for the year ended December 31, 2018 is as follows:

	Commercial	Government	Diversified	Total
Claims and claim adjustment expenses outstanding, beginning of year	$ 1,426,336	$ 658,972	$ 486,168	$ 2,571,476
Provider advances, beginning of year	39,909	-	-	39,909
Reinsurance recoverables, beginning of year	(34,749)	(16,953)	(65,321)	(117,023)
Non-risk claim liabilities, beginning of year	(1,029,738)	-	(31,557)	(1,061,295)
Net balance, beginning of year	401,758	642,019	389,290	1,433,067
Net incurred claims				
Current year	3,715,527	5,903,056	1,761,983	11,380,566
Prior year	(26,113)	(79,253)	(54,683)	(160,049)
Total net incurred claims	3,689,414	5,823,803	1,707,300	11,220,517
Net payments attributable to:				
Current year	(3,390,288)	(5,203,824)	(1,455,315)	(10,049,427)
Prior year	(362,467)	(541,878)	(303,441)	(1,207,786)
Total net payments	(3,752,755)	(5,745,702)	(1,758,756)	(11,257,213)
Net claims payable, end of year	338,417	720,120	337,834	1,396,371
Provider advances, end of year	(37,929)	(5,641)	-	(43,570)
Reinsurance recoverables, end of year	36,533	4,595	70,976	112,104
Non-risk claim liabilities, end of year	1,079,442	-	35,937	1,115,379
Claims and claim adjustment expenses outstanding, end of year	$ 1,416,463	$ 719,074	$ 444,747	$ 2,580,284

Amounts incurred related to prior years vary from previously estimated liabilities as the claims ultimately are settled. Negative amounts reported for incurred related to prior years result from claims being ultimately settled for amounts less than originally estimated (favorable development). The cumulative number of reported claims for each claim year for each segment has been developed using historical data captured by our enterprise data warehouse.

(in thousands of dollars)

Incurred and paid claims development, net of reinsurance, for the Commercial Business for the years ended December 31, 2017 through 2019 is as follows:

Commercial	Cumulative Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance			As of December 31, 2019	
Claim Year	2017 (Unaudited)	2018 (Unaudited)	2019	Total of Incurred-but-Not-Reported Liabilities Plus Expected Development on Reported Claims	Cumulative Number of Reported Claims
2017	$ 3,532,325	$ 3,509,676	$ 3,507,957	$ 1,100	12,007
2018		3,715,527	3,694,823	$ 7,219	12,250
2019			3,863,922	$ 344,145	12,735
Total			$ 11,066,702		

Commercial	Cumulative Paid Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance		
Claim Year	2017 (Unaudited)	2018 (Unaudited)	2019
2017	$ 3,149,273	$ 3,496,498	$ 3,505,918
2018		3,390,288	3,685,133
2019			3,536,832
Total			$ 10,727,883

Incurred and paid claims development, net of reinsurance, for the Government Business as of and for the years ended December 31, 2017 through 2019 is as follows:

Government	Cumulative Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance			As of December 31, 2019	
Claim Year	2017 (Unaudited)	2018 (Unaudited)	2019	Total of Incurred-but-Not-Reported Liabilities Plus Expected Development on Reported Claims	Cumulative Number of Reported Claims
2017	$ 5,600,385	$ 5,526,507	$ 5,518,450	$ 1,412	25,013
2018		5,903,056	5,839,055	$ 16,042	23,051
2019			5,240,781	$ 552,429	20,541
Total			$ 16,598,286		

Government	Cumulative Paid Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance		
Claim Year	2017 (Unaudited)	2018 (Unaudited)	2019
2017	$ 5,036,986	$ 5,505,619	$ 5,509,211
2018		5,203,824	5,821,557
2019			4,592,816
Total			$ 15,923,584

(in thousands of dollars)

Incurred and paid claims development, net of reinsurance, for the Diversified Business as of and for the years ended December 31, 2017 through 2019 is as follows:

Diversified	Cumulative Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance			As of December 31, 2019	
Claim Year	2017 (Unaudited)	2018 (Unaudited)	2019	Total of Incurred-but-Not-Reported Liabilities Plus Expected Development on Reported Claims	Cumulative Number of Reported Claims
2017	$ 1,922,561	$ 1,867,788	$ 1,856,613	$ 4	8,420
2018		1,761,983	1,714,389	$ 14,468	8,571
2019			1,805,507	$ 325,341	9,147
Total			$ 5,376,509		

Diversified	Cumulative Paid Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance		
Claim Year	2017 (Unaudited)	2018 (Unaudited)	2019
2017	$ 1,549,669	$ 1,836,622	$ 1,851,774
2018		1,455,315	1,681,532
2019			1,497,824
Total			$ 5,031,130

The reconciliation of the Commercial, Government, and Diversified Businesses incurred and paid claims development information, reflected in the tables above, to the consolidated ending balance for claims outstanding, as of December 31, 2019, is as follows:

	Commercial	Government	Diversified	Total
Cumulative incurred claims and allocated claim adjustment expenses, net of reinsurance	$ 11,066,702	$ 16,598,286	$ 5,376,509	$ 33,041,497
Less: cumulative paid claims and allocated claim adjustment expenses, net of reinsurance	10,727,883	15,923,584	5,031,130	31,682,597
Net claims payable, end of year	$ 338,819	$ 674,702	$ 345,379	$ 1,358,900

(in thousands of dollars)

11. Employee Benefit Plans

The Corporation covers certain employees meeting age and service requirements through multiple non-contributory defined benefit pension plans (the "pension plans"); the Highmark Retirement Plan ("Highmark pension plan"), the Retirement Plan for Eligible Employees of the West Penn Allegheny Health System (the "WPAHS pension plan"), the Jefferson Retirement Plan (the "JRMC pension plan"), and the Saint Vincent Health System Pension Plan (the "SVHS pension plan"). The Highmark and WPAHS pension plans provide participants with a frozen legacy benefit as well as a cash-balance account consisting of pay credits, based on age and years of service, interest credits and limited transition credits. Effective December 31, 2018, the West Penn Retirement Plan for Eligible Represented Employees was merged with the West Penn Retirement Plan for Eligible Non-Represented Employees, creating the WPAHS pension plan. Effective July 1, 2019, the JRMC and SVHS pension plans merged. Effective December 31, 2019, as approved by the Pennsylvania Insurance Department, the Highmark, WPAHS, and newly merged JRMC and SVHS pension plans were merged into a single plan, sponsored by the Corporation. The mergers had no impact on participant benefit accruals. The WPAHS, JRMC, and SVHS pension plans are frozen. The Highmark pension plan was closed to new participants effective June 30, 2017, and benefit accruals will freeze effective December 31, 2020.

The Corporation funds its pension plans according to minimum funding requirements of the Employee Retirement Income Security Act of 1974 ("ERISA"), as amended. During 2020, the Corporation expects to contribute $71,000 to the pension plan.

Highmark Inc. sponsors a defined benefit other postretirement plan; the Highmark Postretirement Welfare Benefits Plan (the "welfare plan"). The welfare plan provides various postretirement health and life insurance benefits to retirees of participating subsidiaries and affiliates. The welfare plan is closed to new employees and benefit accruals were frozen as of December 31, 2016. The life insurance benefit has been discontinued to participants retiring after December 31, 2016.

Highmark Inc. uses voluntary employees' beneficiary association ("VEBA") trusts and a 401(h) account to fund the welfare plan and expects to contribute $2,000 to the VEBA trusts and 401(h) account in 2020.

(in thousands of dollars)

The amounts recognized in the Consolidated Balance Sheets were as follows:

	Pension Benefits		Other Postretirement Benefits	
	2019	2018	2019	2018
Change in benefit obligations				
Benefit obligations at beginning of year	$ 3,424,174	$ 3,685,620	$ 490,871	$ 540,457
Service cost	52,876	58,962	452	519
Interest cost	127,803	113,524	16,897	15,224
Plan amendments	-	-	-	(1,457)
Participant contributions	12	16	4,337	5,081
Benefit payments	(195,378)	(183,039)	(28,881)	(29,720)
Curtailment gain	-	(247)	-	-
Actuarial loss (gain)	414,445	(250,662)	20,405	(39,233)
Benefit obligations at end of year	$ 3,823,932	$ 3,424,174	$ 504,081	$ 490,871
Change in plan assets				
Net plan assets at beginning of year	$ 3,004,028	$ 3,135,162	$ 305,914	$ 350,804
Actual return (loss) on plan assets	590,961	(163,082)	58,792	(24,471)
Participant contributions	12	16	4,337	5,081
Employer contributions	196,539	214,972	4,488	4,357
Benefit payments	(195,378)	(183,040)	(28,916)	(29,857)
Net plan assets at end of year	$ 3,596,162	$ 3,004,028	$ 344,615	$ 305,914
Amounts recognized in the consolidated balance sheets				
Benefit plan liabilities	$ (227,770)	$ (420,146)	$ (159,466)	$ (184,957)
Amounts included in net assets without donor restrictions				
Prior service credit	$ 27,253	$ 54,570	$ 6,340	$ 9,067
Actuarial loss	(905,830)	(891,621)	(95,816)	(120,332)
Net amounts recognized	$ (878,577)	$ (837,051)	$ (89,476)	$ (111,265)

The estimated prior service credit and actuarial loss for the pension plans that will be amortized from net assets in 2020 are $27,300 and $50,000, respectively. The estimated prior service credit and actuarial loss for the welfare plan that will be amortized from net assets in 2020 are $1,000 and $3,100, respectively.

The following table provides the components of net periodic benefit (income) cost for the years ended December 31, 2019 and 2018:

	Pension Benefits		Other Postretirement Benefits	
	2019	2018	2019	2018
Interest cost	127,803	113,524	16,897	15,224
Expected return on plan assets	(222,274)	(216,318)	(15,485)	(16,109)
Amortization of:				
Prior service credit	(27,317)	(27,363)	(1,254)	(1,254)
Actuarial loss	28,505	41,686	1,414	2,980
Curtailment gain	-	-	(1,473)	-
Settlement loss	3,043	822	-	-
Net periodic benefit (income) costs	$ (90,240)	$ (87,649)	$ 99	$ 841

(in thousands of dollars)

For pension benefits, the service cost was $52,876, and $58,962 for the years ended December 31, 2019 and 2018, respectively. For other postretirement benefits, the service cost was $452 and $519 for the years ended December 31, 2019 and 2018, respectively.

In 2019, lump-sum benefit payments of $34,129 resulted in recognition of settlement losses of $3,043 for the WPAHS plan.

The Corporation's weighted-average assumptions related to the calculation of the pension benefit obligations and net periodic benefit cost for the pension and other postretirement plans are presented in the table below:

	Pension Benefits		Other Postretirement Benefits	
	2019	**2018**	**2019**	**2018**
Weighted-average assumptions				
Discount rate - benefit obligations	3.14%	4.16%	2.82%	3.94%
Discount rate - net periodic costs	4.16%	3.56%	3.96%	3.26%
Expected return on plan assets	7.10%	7.10%	5.00%	5.00%
Rate of compensation increase	2.45 - 7.50%	2.45 - 7.50%	N/A	N/A

The discount rate - benefit obligations and the discount rate - net periodic costs is developed based on corresponding spot rates as of the measurement date.

The expected return on pension plan assets is developed using inflation expectations, risk factors and input from actuaries to arrive at a long-term nominal expected return for each asset class. The nominal expected return for each asset class is then weighted based on the target asset allocation to develop the expected long-term rate of return on plan assets.

The expected return on other postretirement plan assets is developed based on historical returns and the future expectations for returns for each asset class as well as the asset allocation of the other postretirement plan assets.

For measurement purposes, at December 31, 2019, the assumed annual rate of increase in the per capita costs of covered health care benefits of the other postretirement plans was 6.26% in 2020, gradually decreasing to 4.50% by the year 2039 and remaining at that level thereafter.

Assumed health care cost trend rates have a significant effect on the amounts reported for the other postretirement plans. At December 31, 2019, a one-percentage-point change in assumed health care cost trend rates would have had the following effects:

	One-Percentage-Point	
	Increase	**Decrease**
Effect on total of service and interest cost components	$ 400	$ (300)
Effect on other postretirement benefit plan obligations	$ 10,000	$ (10,000)

(in thousands of dollars)

Estimated benefit payments are expected as follows:

	Pension Benefits	Other Postretirement Benefits
2020	$ 261,000	$ 32,000
2021	$ 208,000	$ 34,000
2022	$ 215,000	$ 36,000
2023	$ 219,000	$ 38,000
2024	$ 224,000	$ 39,000
2025-2029	$ 1,108,000	$ 199,000

Highmark pension plans primarily set an investment strategy to achieve a mix of 70% of long-duration fixed income securities meant to hedge the benefit obligations, 26% of investments for long-term growth and 4% for near-term benefit payments with a diversification of asset types, fund strategies and fund managers. The target allocations for Highmark pension plan assets are approximately 70% fixed income securities, 16% equity securities, 10% alternative investments and 4% cash equivalents. The Allegheny Health pension plans primarily set an investment strategy to achieve a mix of 25% of long-duration fixed income securities meant to hedge the benefit obligations, 73% of investments for long-term growth and 2% for near-term benefit payments with a diversification of asset types, fund strategies and fund managers. The target allocations for Allegheny Health plan assets are approximately 25% fixed income securities, 60% equity securities, 13% alternative investments and 2% cash equivalents. Equity securities primarily include stock investments in U.S. developed and emerging market corporations. Fixed income securities primarily include bonds of domestic and foreign companies from diversified industries, domestic mortgage-backed securities and bonds of U.S. and foreign governments and agencies. Alternative investments include investments in real estate and private equity funds that follow several different strategies.

For the welfare plan, the Corporation's overall investment strategy is to achieve a mix of 95% of investments for long-term growth and 5% for near-term benefit payments with a diversification of asset types, fund strategies and fund managers. The target allocations for plan assets are 60% equity securities, 35% fixed income securities and 5% cash equivalents. Equity securities primarily include stock investments in U.S., developed and emerging market corporations. Fixed income securities primarily include bonds of domestic and foreign companies from diversified industries and bonds of U.S. and foreign governments and agencies.

The pension plans' and welfare plan's overall investment strategies are determined by the plans' investment committees, investment advisors and plan administrators. Overall, the goals of the Corporation are to achieve sufficient diversification of asset types, fund strategies and fund managers in order to minimize volatility and maximize returns over the long term, while still having sufficient funds to pay those benefits due in the near term.

(in thousands of dollars)

The following table summarizes the fair value measurements by level at December 31, 2019:

	Total	Fair Value Measurements Using Level 1	Level 2	Level 3	Net Asset Value
Pension plan assets					
Cash and cash equivalents	$ 649	$ 649	$ -	$ -	$ -
Debt securities:					
U.S. Treasury and agency obligations	786,570	782,573	3,997	-	-
Agency mortgage-backed securities	14,779	-	14,779	-	-
State and political obligations	9,570	-	9,570	-	-
Commercial mortgage-backed securities	3,231	-	3,095	136	-
Residential mortgage-backed securities	321	-	321	-	-
Asset-backed securities	14,210	-	13,360	850	-
Corporate and other debt securities	1,086,659	-	1,086,659	-	-
Total debt securities	1,915,340	782,573	1,131,781	986	-
Equity securities:					
Domestic	253,191	253,188	3	-	-
Foreign	140,306	140,306	-	-	-
Total equity securities	393,497	393,494	3	-	-
Registered investment company shares	681,772	662,930	18,842	-	-
Other investments other than fair value	597,082	-	-	-	597,082
Total	$ 3,588,340	$ 1,839,646	$ 1,150,626	$ 986	$ 597,082
Other postretirement plan assets					
U.S. Treasury and agency obligations	$ 43,292	$ 43,292	$ -	$ -	$ -
Agency mortgage backed securities	25,095	-	25,095	-	-
Commercial mortgage backed securities	1,120	-	1,120	-	-
Asset backed securities	4,049	-	4,049	-	-
Corporate and other debt securities	47,354	-	47,354	-	-
Domestic equity securities	62,514	62,514	-	-	-
Foreign equity securities	3,784	3,784	-	-	-
Registered investment company shares	149,370	149,370	-	-	-
Other investments other than fair value	7,955	-	-	-	7,955
Total	$ 344,533	$ 258,960	$ 77,618	$ -	$ 7,955

At December 31, 2019, the fair value of pension plan assets excluded guaranteed insurance contract assets of $1,809, carried at contract value, as well as accrued interest and other receivables of $6,013.

At December 31, 2019, the fair value of other postretirement plan assets excluded accrued interest and other receivables of $82.

(in thousands of dollars)

The following table summarizes the nature of the funds valued based on net asset value as a practical expedient for fair value as of December 31, 2019:

Pension plan assets

	Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period
Private equity limited partnerships	$ 291,917	$ 239,000	Quarterly, N/A	30 Days, N/A
Common collective trust funds	305,165	-	Daily, Monthly	1-15 Days
Total	$ 597,082	$ 239,000		

Other postretirement plan assets

	Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period
Common collective trust funds	$ 7,955	$ -	Daily	1 Day
Total	$ 7,955	$ -		

The following table summarizes the fair value measurements by level at December 31, 2018:

	Total	Fair Value Measurements Using Level 1	Level 2	Level 3	Net Asset Value
Pension plan assets					
Cash and cash equivalents	$ 815	$ 815	$ -	$ -	$ -
Debt securities:					
U.S. Treasury and agency obligations	659,423	654,834	4,589	-	-
Agency mortgage-backed securities	12,372	-	12,372	-	-
State and political obligations	10,513	-	10,513	-	-
Corporate and other debt securities	795,010	-	794,760	250	-
Total debt securities	1,477,318	654,834	822,234	250	-
Equity securities:					
Domestic	225,825	225,354	339	132	-
Foreign	144,255	144,255	-	-	-
Total equity securities	370,080	369,609	339	132	-
Registered investment company shares	565,014	565,014	-	-	-
Common collective trust interests	699	-	699	-	
Other investments other than fair value	575,605	-	-	-	575,605
Total	$ 2,989,531	$ 1,590,272	$ 823,272	$ 382	$ 575,605
Other postretirement plan assets					
U.S. Treasury and agency obligations	$ 23,148	$ 23,148	$ -	$ -	$ -
Agency mortgage backed securities	23,596	-	23,596	-	-
Corporate and other debt securities	46,706	-	46,706	-	-
Domestic equity securities	47,297	47,297	-	-	-
Foreign equity securities	2,904	2,904	-	-	-
Registered investment company shares	154,343	154,343	-	-	-
Other investments other than fair value	7,175	-	-	-	7,175
Total	$ 305,169	$ 227,692	$ 70,302	$ -	$ 7,175

At December 31, 2018, the fair value of pension plan assets excluded guaranteed insurance contract assets of $2,066, carried at contract value as well as accrued interest and other receivables of $12,431.

(in thousands of dollars)

At December 31, 2018, the fair value of other postretirement plan assets excluded accrued interest and other receivables of $745.

The following table summarizes the nature of the funds valued based on net asset value as a practical expedient for fair value as of December 31, 2018:

Pension plan assets

	Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period
Private equity limited partnerships	$ 241,119	$ 241,119	Quarterly, N/A	30 Days, NA
Common collective trust funds	334,486	-	Daily, Monthly	1-15 Days
Total	$ 575,605	$ 241,119		

Other postretirement plan assets

	Fair Value	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period
Common collective trust funds	$ 7,175	$ -	Daily	1 Day
Total	$ 7,175	$ -		

The changes in fair value for pension plan and other postretirement assets measured using significant unobservable inputs (Level 3) for the years ended December 31, 2019 and 2018 were as follows:

	2019	2018
Balance at January 1,	$ 382	$ 500
Realized net losses on investments	(8)	9
Purchases	100	250
Sales	(242)	(259)
Transfers in (when applicable)	886	132
Transfers out (when applicable)	(132)	(250)
Balance at December 31,	$ 986	$ 382

The Corporation sponsors several defined contribution savings plans (the “savings plans”), covering substantially all of the Corporation’s employees and employees of certain participating affiliates. The savings plans allow participating employees to contribute a percentage of their annual salaries, subject to current Internal Revenue Service (“IRS”) limitations. Employee contributions are matched by the Corporation at various percentages. Effective January 1, 2018, a new 401(k) plan was established for the benefit of eligible employees at AHN and existing 401(k) and 403(b) plans sponsored by the AHN hospitals and their subsidiaries were frozen effective December 31, 2017. The Corporation recognized expense associated with its contributions to the savings plans of $90,552 and $76,054 for the years ended December 31, 2019 and 2018, respectively.

The Corporation also sponsors deferred compensation plans for certain eligible employees. Participating employees may contribute a certain amount of their annual compensation to these plans. Certain deferred compensation plans provide for matching contributions based on employee deferrals. The deferred compensation plans pay interest on the deferrals at various rates. The Corporation made matching contributions to the deferred compensation plans of $378 and $381 in 2019 and 2018, respectively. The Corporation also sponsors IRC 457 plans for certain eligible employees of Highmark Health and Allegheny Health. The 457 plans are nonqualified benefit plans that provide supplemental benefits to participants in the form of employer contributions. The Corporation made contributions to the 457 plans of $3,241 and $3,027 in 2019 and 2018, respectively. Deferred compensation and 457 plan liabilities of $96,877 and $81,130 were recorded in other payables and accrued expenses in the Consolidated Balance Sheets at December 31, 2019 and 2018, respectively. Changes in the liabilities are reported in other operating expenses in the Consolidated Statements of Operations.

The Corporation also sponsors an unfunded nonqualified supplemental retirement plan (the "nonqualified retirement plan") covering certain eligible employees. The weighted-average assumptions used in the measurement of the nonqualified plan liabilities were consistent with the assumptions used in the measurement of the pension plans and adjusted, when needed, for nonqualified plan specific characteristics. The nonqualified retirement plan liabilities recorded in other payables and accrued expenses in the Consolidated Balance Sheets at December 31, 2019 and 2018 were $55,501 and $53,901, respectively.

12. Debt

The Corporation's total debt at December 31, 2019 and 2018 consisted of the following:

	2019	2018
Unsecured Senior Notes due May 15, 2021	$ 349,434	$ 349,023
Unsecured Senior Notes due May 15, 2041	238,099	237,967
AHN Series 2018 revenue bonds	985,858	991,069
Revolving credit facility with maximum available for for draw of $85,000 terminated October 2019	-	10,000
Saint Vincent Health System mortgage loan, due March 15, 2032, interest at 6.00%	21,351	22,059
Capital leases due through 2023 at varying interest rates	12,082	12,338
Mortgage and other loans due through 2024 at varying interest rates	6,403	6,521
Total debt	$ 1,613,227	$ 1,628,977

(in thousands of dollars)

A summary of scheduled principal repayments on debt for the next five years and thereafter is as follows:

Years ending December 31,		
2020	$	12,640
2021		361,184
2022		27,296
2023		26,425
2024		25,849
Thereafter		1,159,833
Total	$	1,613,227

Unsecured Notes
At December 31, 2019 and 2018, Highmark Inc. had outstanding unsecured Senior Notes of $349,434 and $349,023, respectively, due May 15, 2021 with interest payable semi-annually at 4.75%. The unamortized discount was $194 and $335 at December 31, 2019 and 2018, respectively. The debt issuance costs were $371 and $641 at December 31, 2019 and 2018, respectively.

At December 31, 2019 and 2018, Highmark Inc. also had outstanding unsecured Senior Notes of $238,099 and $237,967, respectively, due May 15, 2041 with interest payable semi-annually at 6.125%. The unamortized discount was $1,065 and $1,118 at December 31, 2019 and 2018, respectively. The debt issuance costs were $1,712 and $1,792 at December 31, 2019 and 2018, respectively.

AHN Allegheny County Hospital Development Authority Bond ("AHN Authority Bonds")

Series 2018 Revenue Bonds
In August 2018, AHN issued tax exempt revenue bonds with a par value of $943,365 (Series 2018A) through the Allegheny County Hospital Development Authority ("ACHDA") at a premium of $56,639 for total proceeds of $1,000,004. The Series 2018 Revenue Bonds consist of both serial and term bonds scheduled to mature at various dates through April 2047. Interest rates are fixed and range from 4.00% to 5.00%. AHN is required to pay interest only through 2021, with level debt service thereafter consisting of principal and interest. The unamortized premium was $49,372 and $54,823 at December 31, 2019 and 2018, respectively. In 2018 deferred bond issuance costs of $7,199 were recognized in association with the issuance and reported on the Consolidated Balance Sheets with debt. The bonds are collateralized by the gross receivables and other property of AHN.

The proceeds on the Series 2018 Revenue Bonds were used to refund the Series 2017 Revenue Bonds. With the refunding of the Series 2017 Revenue Bonds, the unamortized balance of the deferred bond issuance costs were recognized resulting in a loss on debt extinguishment of $7,495 reported on the Consolidated Statements of Operations for the year ended December 31, 2018.

Revolving Credit Facilities

Highmark holds a $275,000 revolving credit facility with four financial institutions expiring on June 7, 2021. Amounts borrowed under this facility bear interest at variable interest rates. As of December 31, 2019 and 2018, there were no amounts outstanding.

On December 1, 2017, Visionworks entered into a revolving credit and security agreement with a total commitment of $85,000 and an expiration date of December 1, 2022. This revolving credit facility also provides for a swing loan subfacility of up to $8,500 and a letter of credit subfacility of up to $5,000. Amounts borrowed under this agreement bear interest at variable interest rates. As of December 31, 2018, $10,000, was outstanding on the revolving credit and security agreement. The revolving credit facility was terminated upon the sale of Visionworks in October 2019.

In addition to the arrangements set forth in the table above, Highmark also has a revolving credit facility that provides for total borrowings of $15,000. As of December 31, 2019 and 2018, there were no amounts outstanding.

Other Debt

Saint Vincent Health System has an outstanding mortgage loan of $21,351 and $22,059 at December 31, 2019 and 2018, respectively, related to a medical office building. The mortgage note matures on March 15, 2032 and requires monthly principal and interest payments. The note is secured by the related medical office building.

Several of the debt agreements referred to above contain covenants, including covenants relating to debt service coverage and financial reporting. At December 31, 2019 and 2018, the Corporation was in compliance with all debt covenants that could affect the financial position or results from operations of the Corporation.

(in thousands of dollars)

13. Income Taxes

The components of the income tax provision for the years ended December 31, 2019 and 2018 were as follows:

	2019	2018
Federal		
Current	$ 20,153	$ (69,796)
Deferred	110,025	157,368
Total federal	130,178	87,572
Foreign		
Current	2,328	1,263
State		
Current	3,321	8,501
Deferred	(4,729)	(1,466)
Total state	(1,408)	7,035
Total income tax provision	$ 131,098	$ 95,870

A reconciliation of income tax expense recorded in the Consolidated Statements of Operations and amounts computed at the statutory federal rate for the years ended December 31, 2019 and 2018 was as follows:

	2019	2018
Income taxes at statutory rate	$ 200,600	$ 139,698
Gain on sale of subsidiary	(31,409)	11,385
Income from tax exempt entities	(25,121)	(7,148)
IRC section 833(b) deduction	(16,855)	(70,266)
Change in valuation allowance	(8,317)	(12,662)
Nondeductible compensation	7,353	8,437
State taxes, net of federal tax benefit	(2,106)	5,558
Health insurance providers fee	-	32,244
Other impacts of tax reform	-	(15,348)
Other	6,953	3,972
Total income tax provision	$ 131,098	$ 95,870

(in thousands of dollars)

Prior to January 1, 1987, the Corporation was exempt from federal income taxes. With the enactment of the Tax Reform Act of 1986 (the "Act"), the Corporation, and all other Blue Cross and Blue Shield plans, became subject to federal income tax. Among other provisions of the Internal Revenue Code, these plans were granted a deduction under Code Section 833(b) (the "special deduction") for regular tax calculation purposes. The special deduction is calculated as the excess of 25% of incurred claims and claim adjustment expenses for the tax year over adjusted surplus, as defined, limited to taxable income. The amount of taxable income before the special deduction has the effect of increasing the adjusted surplus balance used in calculating the special deduction. Once the cumulative adjusted surplus balance exceeds 25% of incurred claims and claim adjustment expenses for the current taxable year, the deduction is eliminated. Little technical guidance has been issued by the taxing authorities regarding the special deduction and therefore some uncertainty exists in its calculation. In 2011, the Corporation requested refunds of approximately $185,000 (plus interest) for the 2004 through 2007 tax years related to the Special Deduction that have not yet been received. On June 30, 2017 the Corporation filed suit in the United States Court of Federal Claims requesting the refund. In the opinion of management, an adequate reserve against the requested refunds receivable has been made in the financial statements related to this matter, and the amount that is ultimately received is not expected to materially affect the financial position of the Corporation. In addition, a portion of the alternative minimum tax credit carryforwards monetized as part of the Tax Cuts and Jobs Act of 2017 ("TCJA") are unrecognized due to the impact of the uncertainty associated with the special deduction calculation described here. See further discussion below. Future adjustments may be made to the Corporation's estimated tax benefit as additional information becomes available.

The components of deferred income taxes at December 31, 2019 and 2018 were as follows:

	2019	2018
Deferred tax assets		
Net operating loss carryforwards	$ 99,995	$ 102,625
Other payables and accrued expenses	59,507	74,156
Benefit plan liabilities	29,595	65,691
Tax credit carryforwards	23,267	78,732
Contribution carryforwards	8,201	34,949
Allowance for doubtful accounts	3,860	9,802
Other	15,711	13,022
Total deferred tax assets	240,136	378,977
Less valuation allowance	(88,675)	(181,274)
Total deferred tax assets, net of valuation allowance	151,461	197,703
Deferred tax liabilities		
Net unrealized gains on available-for-sale securities	99,697	6,367
Investment in partnerships/affiliates	21,936	16,076
Property and equipment	12,540	11,980
Other	521	3,204
Total deferred tax liabilities	134,694	37,627
Deferred income taxes, net	$ 16,767	$ 160,076

(in thousands of dollars)

The classifications of deferred income taxes at December 31, 2019 and 2018 were as follows:

	2019	2018
Classified as		
Deferred tax assets	$ 29,637	$ 160,076
Deferred tax liabilities	12,870	-
	$ 16,767	$ 160,076

In addition to the income tax provision, the deferred tax asset decreased by $37,745 in 2019 and increased by $58,782 in 2018, primarily related to net holding losses on investments and changes in benefit plan assets and liabilities. As these changes were recorded within net assets, they did not impact the income tax provision.

The TCJA signed into law on December 22, 2017, reduced the federal income tax rate of the Corporation from 35% to 21% for periods beginning after December 31, 2017. This change resulted in a decrease in the value of the Corporation's net deferred tax assets due to the reduced deferred benefit of deductible temporary differences reversing in future periods. During the period ended December 31, 2018, the Corporation finalized their evaluation of, and related accounting for, the income tax effects of the TCJA, resulting in a decrease to the provisional amount of $15,348.

The realization of net deferred tax assets is dependent on the Corporation's ability to generate sufficient taxable income in future periods. The amount of deferred tax assets considered realizable, however, could change if estimates of future taxable income change. During the year, due to change in estimates and the result of favorable operations, Highmark WV and Highmark DE released a valuation allowance of $24,268 as of the beginning of the year. The impact of the valuation allowance release is reflected in the Consolidated Statement of Operations.

At December 31, 2019, the Corporation had non-expiring alternative minimum tax credit carryforwards related to Highmark, Highmark WV and Highmark DE of $16,813, $6,043, and $339, respectively, recognized in deferred income taxes. As of December 31, 2018, the Corporation had non-expiring alternative minimum tax credit carryforwards related to Highmark, Highmark WV and Highmark DE of $39,944, $17,182 and $21,138, respectively.

Various subsidiaries and affiliates of the Corporation had federal net operating loss carryforwards of $333,078 and $329,571 as of December 31, 2019 and 2018, respectively. The net operating loss carryforwards expire in various amounts through 2039. The utilization of the federal net operating loss carryforwards is subject to certain limitations; therefore, the Corporation recognized a valuation allowance for that portion of the federal net operating loss carryforward not expected to be utilized.

The Corporation had charitable contributions carryforwards of $39,050 and $166,541 as of December 31, 2019 and 2018, respectively, which expire in various amounts through 2024. The utilization of the charitable contributions carryforwards is subject to certain limitations; therefore, the Corporation recognized a valuation allowance for that portion of the charitable contributions carryforward not expected to be utilized.

(in thousands of dollars)

Various subsidiaries and affiliates of the Corporation had state net operating loss carryforwards totaling $380,243 and $425,581 as of December 31, 2019 and 2018, respectively that are available to offset future state taxable income of the subsidiary that generated the loss carryforward which will generally expire between 2020 and 2039. The utilization of the state net operating loss carryforwards is subject to certain limitations; therefore, the Corporation recognized a valuation allowance for that portion of the state net operating loss carryforward not expected to be utilized.

The changes in the carrying amount of gross unrecognized tax benefits from uncertain tax positions in 2019 and 2018 were as follows:

	2019	2018
Balance at January 1	$ 219,174	$ 163,219
Additions for tax positions related to		
Current year	2,015	47,880
Prior years	50,558	8,410
Reductions to balance relating to		
Changes in tax positions of prior years	(14,486)	-
Statute of limitation expiration	(230)	(34)
Settlements	(42)	(301)
Balance at December 31	$ 256,989	$ 219,174

Most of the additions for the period ended December 31, 2019 relate to unrecognized tax benefits associated with the alternative minimum tax credit carryforwards monetized as part of the TCJA. As discussed earlier, the uncertainty is associated with the special deduction calculation.

At December 31, 2019 and 2018, gross unrecognized tax benefits (excluding the federal benefit received from state positions) were $109,177 and $216,365, respectively, and, if recognized, would have impacted the effective tax rate.

At December 31, 2019 and 2018, the Corporation recorded no significant potential interest and penalties receivable or payable in net income tax recoverable in the Consolidated Balance Sheets.

Except for the impact on the alternative minimum tax credit carryforwards described earlier, the Corporation does not anticipate that any significant increase or decrease to unrecognized tax benefits will be recorded in 2020.

Highmark has been examined by the IRS through 2016; therefore it is open for examination for its 2017 through 2019 tax years. The remaining subsidiaries and affiliates are open for IRS assessment for the three year statutory limitation period.

(in thousands of dollars)

14. Net Assets With Donor Restrictions

Nets assets with donor restrictions are restricted for the following purposes or periods for the years ended December 31, 2019 and 2018 include:

	2019	2018
Subject to expenditure for specific purpose:		
Capital improvements	$ 631	$ 743
Education and Scholarships	1,730	1,140
Research	5,650	4,493
Healthcare services	26,365	18,966
	34,376	25,342
Subject to the Corporations' policy and appropriation		
Investment in perpetuity, the income of which is expendable to support:		
Healthcare services	298,816	262,225
Total net assets with donor restrictions	$ 333,192	$ 287,567

15. Liquidity and Availability of Financial Assets

The Corporation's working capital and cash flows are subject to variability during the year attributable to variations in volume and cash receipts. To manage liquidity, the Corporation maintains unrestricted investments portfolios to manage fluctuations in cash flow.

The following table reflects the Corporation's financial assets reduced by amounts not available for general use within one year because of contractual or donor-imposed restrictions or internal designations. Amounts available include donor-restricted amounts that are available for general expenditures. Amounts not available include amounts set aside for operating and other reserves that could be drawn upon if the Board of Directors approves the action.

The financial assets available to meet cash needs for general expenditures within one year at December 31, 2019 and 2018 were as follows:

	2019	2018
Cash and cash equivalents	$ 664,695	$ 886,043
Investments	8,447,918	7,023,028
Receivables	2,767,545	2,651,907
Total financial assets	11,880,158	10,560,978
Contractual or donor-imposed restrictions:		
Beneficial interests in perpetual trusts	(263,002)	(228,266)
Endowment funds	(63,013)	(53,791)
Equity method investments	(46,118)	(43,334)
Grant funds	(22,874)	(25,857)
Bond project funds	(55,445)	(167,752)
Board designations:		
Capital improvements	(34,638)	(33,197)
Financial assets available to meet cash needs for general expenditures within one year	$ 11,395,068	$ 10,008,781

(in thousands of dollars)

16. Leases

Several noncancellable operating leases, primarily for EDP equipment and office space, were in effect at December 31, 2019. Rental expense is recognized on a straight-line basis over the lease term. Aggregate future rental commitments for all operating leases having initial or remaining noncancellable lease terms in excess of one year with commitments in one or more of the next five years and thereafter are shown in the following table:

	Operating Lease Commitments
Years ending December 31,	
2020	$ 103,578
2021	85,705
2022	71,788
2023	56,355
2024	49,160
Thereafter	303,200
Total	$ 669,786

Rent expense of $156,299 and $203,636 in 2019 and 2018, respectively, was recorded in other operating expenses in the accompanying Consolidated Statements of Operations.

17. Contingencies

On October 1, 2014, Cole's Wexford Hotel, Inc., on behalf of small group purchasers which obtained health insurance coverage from July 2010 through March 2012, filed a third amended class action complaint in the United States District Court for the Western District of Pennsylvania alleging that the Corporation and UPMC Health System violated antitrust laws by entering into an illegal agreement to restrain trade and by conspiring to create monopolies in the Western Pennsylvania health insurance market. On December 19, 2019, the parties entered into a Settlement Agreement to resolve this litigation. On December 20, 2019, the parties filed a Joint Motion for Preliminary Approval of the Settlement. The court issued an order preliminarily approving the settlement on February 11, 2020. A hearing was scheduled for May 4, 2020 to consider final approval of the settlement. Should the settlement ultimately not be approved, the Corporation believes, based on consultation with legal counsel, that it has meritorious defenses to the claims in this matter.

A number of class action lawsuits filed throughout the United States against various Blue Cross and/or Blue Shield plans (the "BCBS Plans"), including the Corporation, have been consolidated in a multidistrict litigation in the U.S. District Court for the Northern District of Alabama under the caption In re: Blue Cross Blue Shield Antitrust Litigation. The lawsuits state that they were filed on behalf of (i) health care providers in the United States who have provided services to any patient insured by or who was a member or beneficiary of any BCBS Plan and/or (ii) members and subscribers of any BCBS Plan. The lawsuits primarily deal with alleged conspiracy and price fixing by and among the BCBS Plans and the BCBSA, the competitive impact of exclusive service areas granted by BCBSA, and alleged contract provisions of the BCBS Plans. Plaintiffs generally seek a judgment that the defendants have violated Section 1 of the Sherman Act, an injunction prohibiting defendants from entering into agreements that restrict the territories in which any BCBS Plan may compete, and an award of treble damages. The District Court has found that the exclusive service areas licensed to the BCBS Plans in conjunction with the national "best efforts" requirements and other applicable BCBSA rules constitute per se violations of federal antitrust laws and that the "Blue Card" system providing for the BCBS Plans' payment of out of area claims would be subject to a rule of reason analysis. The Corporation believes, based on consultation with legal counsel, that it has meritorious defenses to the claims in this matter.

Cyndie Nordi, a direct pay subscriber, brought a class action lawsuit in Allegheny County Orphan's Court on September 26, 2014 which has been subsequently transferred to the Civil Division of the Allegheny County Court of Common Pleas. The complaint seeks relief from the Corporation's alleged unlawful conduct on behalf of policyholders. The case challenges the Corporation's operations and accumulation of surplus funds following a February 2005 Determination ("Determination") by the Department that set parameters for an appropriate, sufficient operating surplus. The plaintiff alleges that, despite acceptance of the Determination, the Corporation unlawfully continues to generate significant underwriting gains. Ms. Nordi seeks relief in the form of monetary damages up to disgorging the Corporation of all profits unjustly received and retained. A Petition to intervene by three other prospective plaintiffs was granted on August 7, 2017 and the plaintiffs filed a First Amended Class Action Complaint on September 6, 2017. The Corporation believes, based on consultation with legal counsel, that it has meritorious defenses to the claims in this matter, but it is unable to predict the outcome of the matter or to reasonably estimate a range of possible loss.

Presque Isle Colon and Rectal Surgery, on behalf of all independent physicians and physician practices in Pennsylvania, filed a class action complaint in the United States District Court for the Western District of Pennsylvania against the Corporation. The plaintiffs filed an amended complaint on December 3, 2018 containing federal and common law antitrust and restraint of trade, unjust enrichment, breach of contract, breach of implied covenant of good faith and fair dealing, and reformation/rescission claims based on allegations relating to reduced reimbursement rates and the requirement that plaintiff participate in all products of the Corporation. The Corporation filed a Motion to Dismiss the amended complaint on January 10, 2019 which was granted in part and denied in part. On October 31, 2019, the parties entered into a Settlement Agreement to resolve this litigation. The plaintiff filed an unopposed motion for preliminary approval of the class action settlement on November 11, 2019. The court issued an order granting preliminary approval of the class action settlement, provisionally certifying the settlement class, directing notice to the settlement class, and scheduling a fairness hearing on November 12, 2019. The court issued an order granting final approval of the class action settlement and certifying a settlement class at the fairness hearing on February 25, 2020.

Burk Physical Therapy & Rehabilitation, P.C., on behalf of itself and all similarly-impacted physical therapists and chiropractors, filed a class action complaint against the Corporation on April 30, 2019 in the Court of Common Pleas in Allegheny County, Pennsylvania. The plaintiff alleges that the placement of certain physical therapists and chiropractors in lower tiers in certain products offered or administered by the Corporation, and the exclusion of certain physical therapists and chiropractors as in-network providers in certain products offered or administered by the Corporation, violate the terms of its participating provider contracts. The Corporation filed preliminary objections to the complaint on June 27, 2019 which remain outstanding. The Corporation believes, based on consultation with legal counsel, that it has meritorious defenses to the claims in this matter, but it is unable to predict the outcome of the matter or to reasonably estimate a range of possible loss.

The Corporation filed a complaint against Med-Test Laboratories, LLC (“MedTest”) and its owners and operators on October 5, 2018 regarding alleged improper billing for laboratory services not performed by MedTest. On April 8, 2019, the defendants filed a counterclaim and third party complaint against the Corporation and all other BCBS Plans. MedTest asserts breach of contract, negligence and fraudulent misrepresentation claims related to the BCBS Plans’ national networks, as well as antitrust conspiracy claims and joint action by the BCBS Plans in inducing MedTest to perform lab services without compensation. The Corporation believes, based on consultation with legal counsel, that it has meritorious defenses to the counterclaims in this matter, but it is unable to predict the outcome of the matter or to reasonably estimate a range of possible loss.

Participation in government sponsored health care programs subjects the Corporation to a variety of federal laws and regulations and risks associated with audits conducted under these programs. These audits may occur in years subsequent to the Corporation providing the relevant services under audit. These risks may include reimbursement claims as well as potential fines and penalties. The Corporation believes, based on consultation with legal counsel, adequate provision has been made in the financial statements for any potential liability related to these matters, and the amount of ultimate liability is not expected to materially affect the financial position or results from operations of the Corporation.

The Corporation is subject to various other contingencies, including legal and compliance actions and proceedings that arise in the ordinary course of its business. Due to the complex nature of these actions and proceedings, the timing of the ultimate resolution of these matters is uncertain. In the opinion of management, based on consultation with legal counsel, adequate provision has been made in the financial statements for any potential liability related to these matters, and the amount of ultimate liability is not expected to materially affect the financial position or results of operations of the Corporation.

Report of Independent Auditors

To the Board of Directors of Highmark Health

We have audited the consolidated financial statements of Highmark Health and its subsidiaries as of and for the year ended December 31, 2019 and our report thereon appears on page one of this document. That audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The consolidating information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated, in all material respects, in relation to the consolidated financial statements taken as a whole. The consolidating information is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations and cash flows of the individual companies and is not a required part of the consolidated financial statements. Accordingly, we do not express an opinion on the financial position, results of operations and cash flows of the individual companies.

PricewaterhouseCoopers LLP

Philadelphia, Pennsylvania
March 18, 2020

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Highmark Health
Consolidating Balance Sheet
Year Ended December 31, 2019

(in thousands of dollars)

	Highmark Health	Highmark Inc.	HM Health Solutions	HM Health Holding Co.	Allegheny Health	Eliminations	Total
Assets							
Cash and cash equivalents	$ 12,160	$ 451,565	$ 38,270	$ 2,521	$ 160,179	$ -	$ 664,695
Accounts receivable							
Insurance, less allowance for doubtful accounts of $15,118	-	2,343,599	-	-	-	-	2,343,599
Patient service	-	-	-	-	396,948	(176,716)	220,232
Other	81,217	198,990	133,979	1,426	54,040	(265,938)	203,714
Investments							
Debt securities, available-for-sale at fair value	24,793	4,827,002	-	-	80,445	-	4,932,240
Equity securities	-	1,686,158	-	-	13,737	-	1,699,895
Board designated, restricted and other investments at fair value	-	-	-	-	945,997	-	945,997
Investment in affiliates	7,423,445	203,013	4,795	101	46,118	(7,153,473)	523,999
Other	-	345,787	-	-	-	-	345,787
Reinsurance recoverables	-	112,081	-	-	-	-	112,081
Securities lending invested collateral	-	386,784	-	-	-	-	386,784
Inventory, net	-	2,868	-	-	71,995	-	74,863
Income tax recoverable	294	46,576	3,172	-	389	-	50,431
Deferred tax asset	-	16,068	9,257	56	4,256	-	29,637
Property and equipment, net	132,634	313,590	14,202	917	1,590,521	-	2,051,864
Goodwill and other intangible assets, net	-	75,332	-	-	122,676	-	198,008
Benefit plan asset	-	60,810	-	-	-	(60,810)	-
Other assets	14,137	513,963	25,405	-	117,456	(17,026)	653,935
Total assets	$ 7,688,680	$ 11,584,186	$ 229,080	$ 5,021	$ 3,604,757	$ (7,673,963)	$ 15,437,761
Liabilities and Net Assets							
Claims and claim adjustment expenses outstanding	$ -	$ 2,875,604	$ -	$ -	$ -	$ (166,411)	$ 2,709,193
Unearned revenue	-	167,338	69,725	-	-	-	237,063
Amounts held for others	-	627,469	-	-	-	-	627,469
Accrued salaries and benefits	72,644	169,650	42,331	1,716	153,833	-	440,174
Other payables and accrued expenses	49,690	912,131	110,444	1,154	346,567	(245,630)	1,174,356
Income tax payable	-	66,028	134	43	-	-	66,205
Deferred tax payable	-	12,870	-	-	-	-	12,870
Securities lending payable	-	386,764	-	-	-	-	386,764
Benefit plan liabilities, net	-	159,466	-	-	288,580	(60,810)	387,236
Debt	-	591,247	20,905	-	1,017,725	(16,650)	1,613,227
Other liabilities	-	30,587	-	-	190,508	(30,989)	190,106
Total liabilities	122,334	5,999,154	243,539	2,913	1,997,213	(520,490)	7,844,663
Net Assets							
Without donor restrictions - Highmark Health	7,233,154	5,585,032	(14,560)	2,108	1,247,600	(6,820,180)	7,233,154
Without donor restrictions - noncontrolling interest	-	-	101	-	26,752	(101)	26,752
Total net assets without donor restrictions	7,233,154	5,585,032	(14,459)	2,108	1,274,352	(6,820,281)	7,259,906
With donor restrictions	333,192	-	-	-	333,192	(333,192)	333,192
Total net assets	7,566,346	5,585,032	(14,459)	2,108	1,607,544	(7,153,473)	7,593,098
Total liabilities and net assets	$ 7,688,680	$ 11,584,186	$ 229,080	$ 5,021	$ 3,604,757	$ (7,673,963)	$ 15,437,761

The schedules of supplemental consolidating financial information are prepared in accordance with accounting policies described in the accompanying notes to the consolidated financial statements. These schedules are not intended to be a presentation in accordance with accounting principles generally accepted in the United States of America as a result of the exclusion of all required disclosures, as well as the information included within the “Eliminations” column.

Highmark Health
Consolidating Statement of Operations
Year Ended December 31, 2019

(in thousands of dollars)

	Highmark Health	Highmark Inc.	HM Health Solutions	HM Health Holding Co.	Allegheny Health	Eliminations	Total
Revenue and other support							
Premium revenue, net	$ -	$ 13,172,276	$ -	$ -	$ -	$ -	$ 13,172,276
Net patient service revenue	-	-	-	-	3,366,287	(796,770)	2,569,517
Vision revenue	-	756,833	-	-	-	-	756,833
Service revenue	32,592	1,106,571	876,354	1,170	200,049	(675,414)	1,541,322
Affiliates revenue	47,288	4,839	992	-	-	-	53,119
Net assets released from restrictions	-	-	-	-	5,114	-	5,114
Total revenue and other support	79,880	15,040,519	877,346	1,170	3,571,450	(1,472,184)	18,098,181
Expenses							
Claims and claim adjustment expenses	-	11,490,538	-	-	-	(733,578)	10,756,960
Salaries, wages and fringe benefits	236,872	1,550,151	434,130	9,627	1,958,518	(15,266)	4,174,032
Patient care supplies	-	-	-	-	741,997	-	741,997
Depreciation and amortization	25,315	132,868	5,266	83	159,330	-	322,862
Other operating expenses, net	(199,595)	1,760,365	434,731	(9,587)	688,955	(723,340)	1,951,529
Goodwill and intangible impairment	-	41,249	-	-	-	-	41,249
Total operating expenses	62,592	14,975,171	874,127	123	3,548,800	(1,472,184)	17,988,629
Operating gain	17,288	65,348	3,219	1,047	22,650	-	109,552
Net investment income, including net realized gains on investments	584	535,912	656	2	72,242	(718)	608,678
Interest expense	-	(33,638)	(834)	-	(27,022)	718	(60,776)
Gain on sale of subsidiary	-	196,610	-	-	-	-	196,610
Equity gains of subsidiaries	825,319	-	-	38	-	(825,357)	-
Other components of net periodic benefit cost	-	71,197	-	-	18,944	-	90,141
Net assets acquired through affiliations	-	-	-	-	10,962	-	10,962
Excess of revenues over expenses before income taxes	843,191	835,429	3,041	1,087	97,776	(825,357)	955,167
Income tax provision (benefit)	-	131,175	3,680	312	(4,069)	-	131,098
Excess (deficit) of revenues over expenses before noncontrolling interest	843,191	704,254	(639)	775	101,845	(825,357)	824,069
(Deficit) excess of revenue over expenses attributable to noncontrolling interest	-	(22,817)	38	-	3,695	(38)	(19,122)
Excess (deficit) of revenue over expenses attributable to Highmark Health	$ 843,191	$ 727,071	$ (677)	$ 775	$ 98,150	$ (825,319)	$ 843,191

The schedules of supplemental consolidating financial information are prepared in accordance with accounting policies described in the accompanying notes to the consolidated financial statements. These schedules are not intended to be a presentation in accordance with accounting principles generally accepted in the United States of America as a result of the exclusion of all required disclosures, as well as the information included within the “Eliminations” column.