



Allina Health

**Quarterly Financial Disclosure Statement
Three Months Ended
March 31, 2019**

*For additional information please visit www.AllinaHealth.org.
For past quarterly and annual disclosures please visit www.dacbond.com or EMMA www.emma.msrb.org.
Direct questions regarding disclosure information to treasury@allina.com.*

Allina Health System
Quarterly Financial Disclosure Statement
March 31, 2019

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ALLINA HEALTH SYSTEM
Quarterly Financial Disclosure Statement
Three Months Ended March 31, 2019

OFFICER's CERTIFICATE

I, the undersigned, being the Executive Vice President and Chief Financial Officer of Allina Health System (“Allina Health”), a Minnesota non-profit corporation, do hereby certify and declare that the accompanying interim consolidated financial statements of the Allina Health System and the Allina Obligated Group for the three months ended March 31, 2019, have been prepared in reasonable detail and are accurate in accordance with generally accepted accounting principles applied on a basis consistent with the accounting practices reflected in the annual financial statements.

These interim financial statements were developed by Allina Health and were not audited by an independent accounting firm.

Dated: May 15, 2019

By: [/S/ Richard Magnuson](#)

Richard Magnuson
Executive Vice President – Chief Financial Officer
Allina Health System

ALLINA HEALTH SYSTEM
Quarterly Financial Disclosure Statement
Three Months Ended March 31, 2019

OVERVIEW OF THE SYSTEM

Introduction

Allina Health System, doing business as Allina Health, is a Minnesota nonprofit corporation that delivers health care services to patients in Minnesota and western Wisconsin. As a mission-driven organization, Allina Health is committed to improving the health of the communities it serves. With nearly than 27,700 full and part-time employees, Allina Health is one of the largest employers in Minnesota. Allina Health consolidated net revenue for the three months ended March 31, 2019 was \$1.1 billion. As an integrated health system that includes hospitals; employed physicians; emergency, ambulatory, homecare and hospice services; and an automated electronic medical record system, Allina Health is positioned as a leader in health care in the Minneapolis/St. Paul area and greater Minnesota and is well-positioned for the continued evolution of health care delivery.

Allina Health owns and operates eleven hospitals and jointly owns and operates one other hospital. These include urban tertiary care, suburban community and rural hospitals. Allina Health hospitals provided more than 25,400 inpatient admissions and 337,300 outpatient visits during the three months ended March 31, 2019. As of March 31, 2019, Allina Health hospitals had licensed bed capacity of 2,451 acute care beds, 1,791 of which were staffed for inpatient services.

Allina Health provides clinical services through its Allina Health Group and hospital-based physicians and employs 1,410 physicians. These physicians include approximately 770 in the Allina Health Group, which controls and operates 65 clinics and operates the clinical services lines. They include approximately 230 hospitalists in three hospitalist programs operated by Allina Health on the Abbott Northwestern, United, and Mercy hospital campuses. They include approximately 90 physicians consisting of cardiologists, cardiothoracic and vascular surgeons within Allina Specialty Associates, Inc. ("ASA"), operating under the name Minneapolis Heart Institute®. In addition, these physicians include approximately 320 specialty physicians including intensivists, perinatologists, and psychiatrists in the Allina Health hospitals. Allina Health physicians and allied professionals generated nearly 1,996,700 work RVUs¹ during the three months ended March 31, 2019. The Allina Integrated Medical ("AIM") Network aligns Allina Health physicians, 2,000 independent medical physicians, and over 20 hospitals to deliver market-leading quality and efficiency in patient care. Allina Health is a comprehensive health care system and has one of the largest physician networks in Minnesota.

The Minneapolis/Saint Paul metropolitan market has experienced stable population growth for the past several years. Allina Health continues to have a stable and leading market share in the metropolitan area, with a 31.2% inpatient market share as of June 30, 2018.

¹ Relative Value Unit ("RVU") is a measure of relative resource utilization.

Executive Leadership Team

Following are the Executive Leadership Team members and their biographies:

Penny Wheeler, M.D. (60) – *President and Chief Executive Officer*

Dr. Wheeler is the President and Chief Executive Officer. Prior to her appointment as CEO, effective January 1, 2015, she served as the Chief Clinical Officer, a position she held since March 2006. As a board-certified obstetrician/gynecologist, Dr. Wheeler has served patients at Women's Health Consultants in Minneapolis and taught as an associate professor of obstetrics and gynecology at the University of Minnesota. She has served as President of Abbott Northwestern Hospital's medical staff, as Chair and Vice-Chair of the hospital's obstetrics and gynecology department and on numerous committees. Dr. Wheeler served on the Allina Health Board of Directors from 2002 until 2006, where she was Chair of the Quality Committee. Her educational background includes an undergraduate degree with honors from the University of Minnesota, and Doctor of Medicine from the University of Minnesota Medical School.

Richard Magnuson (56) – *Executive Vice President, Chief Financial Officer*

Mr. Magnuson was appointed Chief Financial Officer in January, 2017. Prior to joining Allina Health, Mr. Magnuson was the Chief Financial Officer of City of Hope based in California. Mr. Magnuson previously held various finance and executive positions with Group Health in Seattle, Washington, and Fletcher Allen Health Care in Burlington, Vermont. Mr. Magnuson also served Allina Health from 1987 to 2004 in a variety of financial leadership roles. Mr. Magnuson received his Bachelor's Degree in Accounting and Finance from Augsburg College in Minneapolis, and a master's degree from the University of St. Thomas in Minneapolis. In addition to Finance, Mr. Magnuson also has operational responsibility for Strategy and Business Development, Payer Relations and Contracting, Supply Chain Management and Revenue Cycle Management.

Lisa Shannon (53) – *Executive Vice President, Chief Operating Officer*

Ms. Shannon joined Allina Health as Chief Operating Officer in July, 2017. Prior to joining Allina Health, Ms. Shannon was the President, Health System Delivery of KentuckyOne Health. Prior to joining KentuckyOne, Ms. Shannon held various executive positions with Spectrum Health in Grand Rapids, Michigan, including three years as Chief Operating Officer. Ms. Shannon also served as Vice President, Ambulatory Services at OhioHealth in Columbus, Ohio. Ms. Shannon received her Bachelor's Degree from Bowling Green State University in Ohio, and a Master of Business Administration from Franklin University in Columbus, Ohio. The Chief Operating Officer has oversight responsibility for Allina Health's hospitals, primary and specialty care divisions, and information systems.

Chris Bent (49) – *Senior Vice President, Allina Health Group*

Ms. Bent leads the Allina Health Group, responsible for integrating primary care, specialty care and clinical service line capabilities to better serve the patients of Allina Health. Earlier in her career, Ms. Bent was the chief operating officer of the Minneapolis Heart Institute® where, in conjunction with the physician president, she provided professional management to the 125-bed Heart Hospital within Abbott Northwestern Hospital and Minneapolis Heart Institute®'s extensive outreach program. Her background is in physician practice management in both independent practices and integrated health care delivery systems. Ms. Bent graduated from Carleton College in Northfield, Minnesota with a Bachelor's Degree in Psychology and obtained her Master of Health Services Administration from the University of Minnesota.

Elizabeth Truesdell Smith (56) – *Senior Vice President, General Counsel*

Ms. Smith assumed the role of General Counsel in February 2009. She joined the Allina Health Legal and Risk Management department in 2000. In 2007, Ms. Smith began leading Allina Health's medical-legal team as its Vice President. Before coming to Allina Health, Ms. Smith practiced as a trial lawyer for eight years with a focus on hospital and health law, medical professional liability and medical products liability litigation. She has worked in biomedical laboratory research at Harvard Medical School and in biomedical ethics at Boston University and the University of Minnesota. Ms. Smith earned a Master's of Public Health with a health law and bioethics concentration from Boston University School of Public Health and a Juris Doctor from the University of Minnesota Law School. Ms. Smith also has operational responsibility for Risk Services.

Ann Madden Rice (61) – *Senior Vice President, Allina Health Operations and President of Abbott Northwestern Hospital*

Ms. Rice was appointed President of Abbott Northwestern Hospital in October 2018. Ms. Rice came to Allina Health from the University of California, Davis, Medical Center in Sacramento, California, where she was chief executive officer. She previously served as CFO and CEO for the University of Iowa Hospitals and Clinics. Ms. Rice has a Bachelor's Degree in Industrial Administration from Iowa State University and a Master's degree in Accounting from the University of Iowa.

Sara J. Criger (58) – *Senior Vice President, Allina Health Operations and President, Mercy Hospital and United Hospital*
Ms. Criger was appointed President of Mercy Hospital in July 2012. Prior to joining Allina Health, Ms. Criger was Vice President, HealthEast Care System and Chief Executive Officer, St. Joseph's Hospital, both based in St. Paul, Minnesota, for five years. Ms. Criger has more than 28 years of experience in managing large hospitals and clinics. Ms. Criger holds a Bachelor's Degree in Business Administration from Western Connecticut State University and a Master of Health Services Administration from the University of St. Francis. Ms. Criger also has operational responsibility for Buffalo, Cambridge, and St. Francis Hospitals, Mental Health Services and patient experience.

Christine Moore (49) – *Senior Vice President, Chief Human Resource Officer*
Ms. Moore joined Allina Health as Senior Vice President, Chief Human Resource Officer in August 2015. Prior to joining Allina Health, Ms. Moore was Vice President of Talent and Organization Development of Ecolab. Ms. Moore holds a Bachelor Degree in Economics from Scripps College and a doctorate in organizational psychology from Claremont Graduate University.

Jonathan Shoemaker (48) – *Senior Vice President, Chief Information and Improvement Officer*
Mr. Shoemaker was appointed Senior Vice President, Chief Information Officer in November 2016. He joined Allina Health in 2005. Prior to joining Allina Health, Mr. Shoemaker held information services roles within hospital and ambulatory settings. He also worked with a national consulting firm focusing on information technology. Mr. Shoemaker holds a Bachelor Degree in History from the University of Minnesota and a Master of Public Administration from the University of Minnesota. Mr. Shoemaker has operational responsibility for information services, clinical equipment services, and health information management.

Jeffrey Shoemate (52) – *Senior Vice President, Chief Marketing and Communications Officer*
Mr. Shoemate joined Allina Health as Senior Vice President, Chief Marketing and Communications Officer in March 2018. Prior to joining Allina Health, Mr. Shoemate was Chief Marketing Officer of Harken Health. He has also held leadership positions in marketing and communications at UnitedHealth Group and Best Buy. Mr. Shoemate holds a Bachelor Degree in History from Union College in Schenectady, New York and a Master of Business Administration from the University of Minnesota.

Timothy Sielaff, M.D. (56) – *Chief Medical Officer and Senior Vice President, Specialty Care and Research*
Dr. Sielaff was appointed Chief Medical Officer and Senior Vice President, Specialty Care and Research in February 2015. Dr. Sielaff has been a hepatopancreatobiliary surgeon for 15 years. Dr. Sielaff's educational background includes a Bachelor of Science Degree from the University of Wisconsin-Madison, a Doctor of Medicine from the Medical College of Virginia, a Doctor of Philosophy from the University of Minnesota-Department of Surgery, and a Master of Health Care Administration from the University of St. Thomas.

Recent Initiatives and Developments

2019 Debt Issuance

Allina Health plans to issue \$300 million in fixed rate taxable bonds for the purpose of funding new projects and strategic initiatives by the end May 2019.

Abbott Northwestern Hospital Infrastructure Update

The Allina Health Board of Directors approved \$122 million of capital expenditures for infrastructure updates at Abbott to maintain its status as the premier quaternary hospital in the Allina Health system. While the capital expenditures have been approved for these projects, actual cash flow may not occur for up to two years as additional planning is done. It is expected that the projects will be completed in approximately three years once they are initiated.

Abbott Northwestern Hospital Neuroscience Inpatient Unit

In December 2017, the Allina Health Board of Directors approved a capital investment to develop a Neuroscience Inpatient Unit. The capital cost of this project is \$29.2 million, of which Allina Health will fund \$21.7 million. The remaining \$7.5 million will be funded through philanthropic funds that have been raised for the project. The project is in the design phase with construction beginning in 2019 and the expected completion date to be determined.

Allina Health and Aetna Health Plan

In January 2017, Allina Health and Aetna created a jointly owned health plan company, Allina Health and Aetna Insurance Company (“AHAIC”), which will provide an innovative health care option for employers and consumers in the greater Minneapolis-St. Paul area. This jointly owned health plan will fully align the incentives and capabilities of a national insurer and major local health system in ways that will lead to improved health outcomes and cost management. Ownership structure for the new partnership is designed to streamline the patient experience by combining the power of insurer and provider data, coordinating integrated care teams and providing health insurance benefits and administrative services.

The Minnesota Department of Commerce issued a Certificate of Authority for AHAIC in August 2017, which makes AHAIC an officially licensed health insurance provider and the first new insurance company to enter the Minnesota market in many years. AHAIC began offering large group (51 or more members) products in 2018 and a Medicare Advantage product in 2019.

Credit Ratings

In May 2019, Moody’s Investor Services affirmed Allina Health’s bond rating of Aa3. The outlook is stable.

In May 2019, Fitch Ratings affirmed Allina Health’s bond rating of AA-. The outlook is stable.

In May 2019, Standard & Poor’s Ratings Services affirmed the AA- rating of Allina Health. The outlook is negative.

The complete rating agency reports are available at www.dacbond.com; www.moodys.com; www.fitchratings.com; or www.standardandpoors.com.

ALLINA HEALTH SYSTEM
Consolidated Balance Sheets
(Unaudited)
(Dollars in thousands)

	March 31 2019	December 31 2018
Assets		
Current assets:		
Cash and cash equivalents	\$ 44,301	\$ 135,580
Short-term investments	293,647	278,587
Patient accounts receivable, net	561,789	511,662
Inventories	72,822	72,552
Other current assets	158,845	112,728
	1,131,404	1,111,109
Long-term investments	1,831,059	1,824,119
Investments with limited uses	158,588	153,813
Land, buildings, and equipment, net	1,215,379	1,223,828
Operating lease right of use assets, net	176,090	-
Other assets	326,123	325,148
Total assets	\$ 4,838,643	\$ 4,638,017
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 413,396	\$ 453,622
Current portion - long-term debt	27,746	27,491
Current portion - operating lease liabilities	24,048	-
Other current liabilities	81,078	110,174
	546,268	591,287
Long-term debt	920,088	920,885
Long-term portion operating lease liabilities	171,449	-
Other liabilities	382,364	405,249
	2,020,169	1,917,421
Net assets:		
Without donor restriction	2,654,732	2,565,547
With donor restriction	163,742	155,049
Total net assets	2,818,474	2,720,596
Total liabilities and net assets	\$ 4,838,643	\$ 4,638,017

ALLINA HEALTH SYSTEM
Consolidated Statements of Operations and Changes in Net Assets
(Unaudited)
(Dollars in thousands)

	Three Months Ended	
	March 31 2019	March 31 2018
Revenue:		
Net patient service revenue	990,837	988,500
Other operating revenue	70,009	70,903
Total revenues	1,060,846	1,059,403
Expenses:		
Salaries and benefits	684,815	674,491
Supplies and services	244,278	231,612
Depreciation and amortization	46,041	45,014
Financing costs	10,657	10,369
State assessments and taxes	24,702	23,536
Utilities and maintenance	19,436	17,192
Other operating expenses	48,163	47,789
Total expenses	1,078,092	1,050,003
Operating (loss) income	(17,246)	9,400
Nonoperating:		
Investment return	108,774	(7,146)
Interest rate swap agreements	(8,244)	8,792
Other	(1,615)	(1,317)
Excess of revenues over expenses	\$ 81,669	\$ 9,729

Continued on next page.

ALLINA HEALTH SYSTEM
Consolidated Statements of Operations and Changes in Net Assets (continued)
(Unaudited)
(Dollars in thousands)

	Three Months Ended	
	March 31 2019	March 31 2018
Net assets without donor restrictions		
Excess of revenue over expenses	\$ 81,669	\$ 9,729
Net assets released from restrictions for capital purposes	729	129
Amortization of unrealized loss on interest rate swap agreement	218	218
Other	6,569	(392)
Increase in net assets without donor restrictions	89,185	9,684
Net assets with donor restrictions		
Contributions	3,154	2,433
Investment return	8,214	(396)
Net assets released from restrictions	(2,544)	(1,593)
Other	(131)	(1,528)
Increase (decrease) in net assets with donor restrictions	8,693	(1,084)
Increase in net assets	97,878	8,600
Net assets at beginning of period	2,720,596	2,701,919
Net assets at end of period	\$ 2,818,474	\$ 2,710,519

See accompanying notes.

ALLINA HEALTH SYSTEM
Consolidated Statement of Cash Flows
(Unaudited)
(Dollars in thousands)

	Three Months Ended	
	March 31 2019	March 31 2018
Operating activities		
Increase in net assets	\$ 97,878	\$ 8,600
Adjustments to reconcile increase in net assets to net cash and cash equivalents provided by operating activities:		
Depreciation and amortization	46,041	45,014
Gain on sale of properties	(420)	(42)
Unrealized loss (gain) on interest rate swaps, net	6,109	(11,332)
Realized and unrealized (gain) loss on investments, net	(108,260)	17,704
Restricted contributions	(3,138)	(2,367)
Restricted contributions of cash for long-lived assets	(16)	(66)
Earnings on equity investments	(3,496)	(2,319)
Distributions received from equity investments	1,680	1,182
Change in assets and liabilities net of impact from acquisitions:		
Accounts receivable	(50,127)	(21,267)
Other current assets	(46,387)	(45,410)
Accounts payable and other current liabilities	(66,075)	(68,252)
Other assets and liabilities	(3,556)	7,071
Net cash and cash equivalents provided by operating activities	(129,767)	(71,484)
Investing activities		
Proceeds from sales of properties	2,751	6,612
Purchases of land, buildings, and equipment	(48,545)	(36,554)
Contributions of cash for long-lived assets	16	66
Purchases and sales of investments classified as trading, net	82,597	16,019
Purchases and sales of investments with limited uses, net	(1,112)	2,912
Net cash and cash equivalents used in investing activities	35,707	(10,945)
Financing activities		
Restricted contributions	3,138	2,367
Principal payments of long-term debt	(357)	(626)
Net cash and cash equivalents provided by financing activities	2,781	1,741
Decrease in cash and cash equivalents	(91,279)	(80,688)
Cash and cash equivalents at beginning of year	135,580	147,520
Cash and cash equivalents at end of period	\$ 44,301	\$ 66,832
Schedule of noncash activities		
Operating leases	\$ 201,010	\$ -

ALLINA HEALTH SYSTEM
Abridged Notes to Consolidated Financial Statements
Three months ended March 31, 2019 and 2018
(Unaudited)
(Dollars in thousands)

1. Recently Adopted and Issued Accounting Standards

Allina Health adopted Accounting Standards Codification (ASC) 842 – Leases effective January 1, 2019. ASC 842 requires lessees to recognize leases on the balance sheet and disclose key information about leasing arrangements. The new standard establishes a right-of-use (ROU) model that requires a lessee to recognize an ROU asset and lease liability on the balance sheet for all leases with a term longer than 12 months. Leases are classified as finance or operating, with classification affecting the pattern and classification of the expense recognition in the statement of operations. As of January 1, 2019, Allina Health recorded ROU assets of \$201 million and corresponding leasing obligations of the same amount as part of the adoption. Allina Health also derecognized assets of \$8.6 million and a financing obligation of \$17.0 million for a historical build-to-suit transaction that had a failed sale-leaseback as part of the adoption within other on the statement of changes in net assets without donor restrictions.

Allina Health elected to early adopt Accounting Standards Update (ASU) 2018-15 - Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract, effective January 1, 2019. ASU 2018-15 addresses how a customer should account for the costs of implementing a cloud computing service arrangement and which costs should be capitalized and the term to use when amortizing capitalized costs. Allina Health has applied the capitalization guidance on a prospective basis.

2. Net Patient Revenue and Accounts Receivable

Net patient service revenue is reported at the amount that reflects the consideration to which Allina Health expects to be entitled in exchange for providing patient care. These amounts are due from patients, third-party payers (managed care and government programs), and others and includes variable consideration for retroactive revenue adjustments due to settlement of audits, reviews, and investigations. Revenue is recognized as performance obligations are satisfied.

Performance obligations are determined based on the nature of the services provided. Revenue for performance obligations satisfied over time is recognized based on actual charges incurred in relation to total charges. Performance obligations satisfied over time relate to inpatient acute care services. Revenue for performance obligations satisfied at a point in time is recognized when goods or services are provided and Allina Health does not believe it is required to provide additional goods or services to the patient. Performance obligations for patients that are in house at period end generally complete within days or possibly weeks of period end, therefore are estimated on a pro rata basis.

Allina Health determines the transaction price based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payers, discounts provided to uninsured patients in accordance with Allina Health policy, and /or implicit price concessions provided to uninsured patients. Estimates of contractual adjustments and discounts are based on contractual agreements, discount policy, and historical experience. Estimate of implicit price concessions are based on historical collection experience with this class of patients.

Agreements with third-party payers typically provide for payments at amounts less than established charges. Payment arrangements with major third-party payers included Medicare, Medicaid and managed care payers.

Laws and regulations concerning government programs, including Medicare and Medicaid, are complex and subject to interpretation. Compliance with such laws and regulations may also be subject to future government review and interpretation as well as significant regulatory action, including fines, penalties, and potential exclusion from the related programs. There can be no assurance that regulatory authorities will not challenge Allina Health's compliance with these laws and regulations, and it is not possible to determine the impact (if any) such claims or penalties would have upon Allina Health. In addition, contracts with commercial payers also provide for retroactive audit and review of claims.

Settlements with third-party payers for retroactive adjustments due to audits, reviews, or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care.

ALLINA HEALTH SYSTEM
Abridged Notes to Consolidated Financial Statements
Three months ended March 31, 2019 and 2018
(Unaudited)
(Dollars in thousands)

These settlements are estimated based on the terms of the payment agreement with the payer, correspondence from the payer and historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known, or as years are settled or are no longer subject to such audits, reviews, and investigations. Allina Health utilizes a process to identify and appeal certain settlements by government payers. Additional reimbursement is recorded in the year the appeal is successful.

Generally patients who are covered by third-party payers are responsible for related deductibles and coinsurance, which vary in amount. Allina Health also provides service to uninsured patients, and offers those uninsured patients a discount, either by policy or law, from standard charges. Allina Health estimates the transaction price for patients with deductibles and coinsurance and from those who are uninsured based on historical experience and current market conditions. The initial estimate of the transaction price is determined by reducing the standard charge by any contractual adjustments, discounts, and implicit price concessions. Subsequent changes to the estimate of the transaction price are generally recorded as adjustments to patient service revenue in the period of the change.

Allina Health provides care to patients regardless of their ability to pay. Therefore, Allina Health has determined it has provided implicit price concessions to uninsured patients and patients with other uninsured balances. The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amounts Allina Health expects to collect based on its collection history with those patients.

Patients who meet Allina Health's criteria for charity care are provided care without charge or at amounts less than established rates. Such amounts determined to qualify as charity care are not reported as revenue.

3. Fair Value Disclosures

Allina Health determines the fair value of its financial instruments based on the fair value hierarchy established in the Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurements*, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value.

Level 1 Inputs: quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 Inputs: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly through corroboration with observable market data.

Level 3 Inputs: unobservable inputs for the asset or liability, that is, inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing an asset or liability (including risk assumptions) developed based on the best information available in the circumstances.

Inputs and valuation techniques for significant other observable and significant unobservable inputs are:

For level 2 and level 3 cash equivalents and fixed income assets that rely on significant other observable inputs and significant unobservable inputs, Allina Health employs multiple third-party information providers to help determine the fair value of the assets. Level 2 and level 3 securities in separately managed accounts are held at Bank of New York Mellon ("BNYMellon"), who acts as Trustee and Custodian for the assets. As Custodian, BNYMellon uses multiple pricing services to value the assets. The investment managers utilize their own pricing services and valuation processes. Any significant discrepancies between Custodian and investment manager values are reconciled on a monthly basis by the managers and BNYMellon. Allina Health also employs an investment consultant who researches significant pricing differences between the manager and custodian on a security by security basis. The consultant will notify the Custodian of any significant pricing issues.

For limited partnership assets and commingled monthly valued funds, Allina Health utilizes net asset value per share or its equivalent to determine the fair value of the assets. Allina Health has the ability to redeem its investment with the investee at net asset value per share (or its equivalent) at the measurement date, subject to notification period and other requirements specific to each investee.

ALLINA HEALTH SYSTEM
Abridged Notes to Consolidated Financial Statements
Three months ended March 31, 2019 and 2018
(Unaudited)
(Dollars in thousands)

3. Fair Value Disclosures (continued)

Allina Health's financial assets and liabilities that are measured at fair value on a recurring basis were recorded using the fair value hierarchy at March 31, 2019 as displayed in the table below. Certain investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in the table are intended to permit reconciliation of the fair value hierarchy to amounts presented in the statements of consolidated balance sheets.

	Total	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Cash and Cash Equivalents				
Cash	\$ 27,816	27,816	-	-
Money Market Funds	16,485	16,485	-	-
Total Cash and Cash Equivalents	\$ 44,301	44,301	-	-
Investments - Trading Securities				
Short-Term Fixed Income	2,179	2,005	174	-
Money Market Fund	12,170	12,170	-	-
Total Short-Term Fixed and Money Market	14,349	14,175	174	-
Equity				
Financials	25,518	25,518	-	-
Consumer	12,657	12,657	-	-
Industrials	9,961	9,961	-	-
Technology	1,818	1,818	-	-
Healthcare	2,047	2,047	-	-
Global Equity Funds (Mutual & RDFV Funds)	264,736	101,912	162,824	-
Other Equity	17,145	15,090	2,055	-
Total Equity	333,882	169,003	164,879	-
Fixed Income				
U.S. Treasury Securities	141,566	141,566	-	-
U.S. Agency Securities	165,891	-	165,891	-
Corporate Bonds	158,444	-	158,444	-
Mortgage, Commercial, & Asset Backed Securities	67,585	-	67,585	-
Sovereigns	3,272	-	3,272	-
Term Loan/Private Placements	72,947	-	72,371	576
Unconstrained Fixed Income Mutual Funds	342,556	342,556	-	-
Other Fixed Income	24,054	41	24,013	-
Total Fixed Income	976,315	484,163	491,576	576
Other Investments				
Real Return Mutual Funds	145,993	145,993	-	-
Total Other Investments	145,993	145,993	-	-
Investments Accounted for at Net Asset Value	654,167			
Total Investments - Trading Securities	\$ 2,124,706	813,334	656,629	576
Total Unrestricted Cash and Investments	\$ 2,169,007	857,635	656,629	576

ALLINA HEALTH SYSTEM
Abridged Notes to Consolidated Financial Statements
Three months ended March 31, 2019 and 2018
(Unaudited)
(Dollars in thousands)

3. Fair Value Disclosures (continued)

	Total	Fair value measurements using		
		Level 1	Level 2	Level 3
Investments with Limited Uses - Trading Securities				
Short-Term Fixed Income	\$ 130	118	12	-
Money Market Fund	10,414	10,414	-	-
Equity	22,178	11,226	10,952	-
Fixed Income	64,848	32,158	32,652	38
Real Return Mutual Funds	9,697	9,697	-	-
Investments Accounted for at Net Asset Value	43,452			
Restricted Foundation Trusts	7,811	-	7,811	-
Total Investments with Limited Uses - Trading Securities	158,530	63,613	51,427	38
Investments with Limited Uses - Available-for-Sale Securities				
Money Market Fund	58	58	-	-
Total Investments with Limited Uses - Available-for-Sale Securities	58	58	-	-
Total Investments with Limited Uses	\$ 158,588	63,671	51,427	38
Total Cash and Investments	\$ 2,327,595	921,306	708,056	614
Liabilities:				
Interest Rate Swaps	\$ 74,790	-	74,790	-

	Fair Value Measurements, Level 3	
	Term Loan	
Balance December 31, 2018	\$	790
Total Realized and Unrealized Gains (Losses)		(10)
Purchases		-
Sales		(166)
Balance March 31, 2019	\$	614

ALLINA HEALTH SYSTEM
Abridged Notes to Consolidated Financial Statements
Three months ended March 31, 2019 and 2018
(Unaudited)
(Dollars in thousands)

3. Fair Value Disclosures (continued)

Fair value measurements of investments in certain entities that calculate net asset value per share (or its equivalent) as of March 31, 2019, is as follows:

	Net Asset Value*	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period	Redemption Settlement Period
Global Bond Fund	\$ 98,248	-	Monthly	15 Days	Up to 30 days
Emerging Markets Equity Fund	86,155	-	Daily/Weekly	5/10 Days	Up to 7-10 days
Global Equity Fund	127,888	-	Bi-Monthly	10 Days	Up to 10 days
Private Capital Funds	76,318	\$ 168,187	Not redeemable	NA	NA
Equity Long/Short Hedge Funds	94,587	-	Monthly/Quarterly	5-90 Days	Up to 10-90 days
Emerging Market Debt Fund	36,000	-	Daily	Same Day	Up to 15 days
Opportunistic Fixed Income Hedge Funds	178,423	-	Quarterly/Semi-An	45-90 Days	1-90 days
	<u>\$ 697,619</u>	<u>\$ 168,187</u>			

* Includes restricted and unrestricted assets

The Global Bond Fund invests in fixed and floating rate debt securities of governments and government-related entities, as well as derivatives. The net asset value of the fund has been estimated using the net asset value per share of the investment. The fund provides full disclosure of the underlying holdings.

The Emerging Markets Equity Fund category includes two funds that invest in emerging market equities. The net asset value of the fund has been estimated using the net asset value per share of the investments. The funds provide full disclosure of the underlying holdings.

The Global Equity Fund category includes one fund that invests in global equities. The net asset value of the fund has been estimated using the net asset value per share of the investment. The fund provides full disclosure of the underlying holdings.

The Private Capital Funds include two limited partnership investments that focus on healthcare services and information technology companies, a limited partnership that makes venture capital investments in healthcare companies, a limited partnership that makes investments in early growth stage healthcare private equity investments, a limited partnership that makes direct real estate investments through senior secured and floating rate direct lending to middle market U.S. companies, a limited partnership that co-invests in intermediate-term opportunities sourced by absolute return, private capital, and real asset managers, a limited partnership that invests in special situation and other opportunistic situations, a limited partnership that invests in value-add and opportunistic real estate, a limited partnership that invests in technology companies, a limited partnership that takes minority equity stakes in asset managers, a limited partnership that is seeks out special situation and other opportunistic investments, as well as two limited partnerships that invest in distressed and opportunistic real estate investments. The fair value of the portfolio companies is determined using valuation techniques and procedures in accordance with recommendations by the AICPA for valuing private companies.

Equity Long/Short Hedge Funds include six investments in hedge funds that invest both long and short in primarily U.S. and global common stocks through a hedge funds structure. This category also includes one market neutral hedge fund and one option writing strategy. The value of the investments in this category has been estimated using the net asset value per share of the investments.

The Emerging Market Debt Fund is an investment in a fund that invests in emerging market debt. The net asset value of the fund has been estimated using the net asset value per share of the investment.

Opportunistic Fixed Income Hedge Funds include investments in strategic fixed income and distressed debt hedge fund managers. These managers have the ability to invest across the capital structure and around the globe. The value of the investments in this category has been estimated using the net asset value per share of the investment.

ALLINA HEALTH SYSTEM
Abridged Notes to Consolidated Financial Statements
Three months ended March 31, 2019 and 2018
(Unaudited)
(Dollars in thousands)

4. Derivative Instruments

Allina Health uses interest rate swaps as a part of its risk management strategy to manage exposure to fluctuations in interest rates and to manage the overall cost of its debt. Four of the five interest rate swaps are used to hedge identified debt and interest rate exposures and are not used for speculative purposes. One of the interest rate swaps was issued in advance of an expected debt issuance and is not tied directly to any outstanding debt. Interest rate swaps are recognized as either other long-term assets or other long-term liabilities in accordance with the netting provisions in the counterparty agreement and are measured at fair value.

Allina Health accounts for its interest rate swaps as required by accounting guidance for derivatives and hedging. Allina Health's interest rate swaps are not designated as effective hedges for accounting purposes. Gains or losses resulting from changes in the fair values of the interest rate swaps are reported as non-operating gains or losses. Any differences between interest received and paid under non-hedged swap agreements are reported with the change in fair value of the swaps as non-operating gains or losses.

The following tables provide details regarding Allina Health's fair value of the derivative instruments:

Swap	Balance Sheet Location	Fair Value Liability	Notional Outstanding	Rate Paid	Rate Received	Counterparty
2009B & C	Other liabilities	29,395	123,394	3.73%	% of Libor	JP Morgan
2009B & C	Other liabilities	9,823	41,131	3.74%	% of Libor	Wells Fargo
2007C	Other liabilities	20,648	118,300	3.58%	% of Libor	US Bank
2001	Other liabilities	14,238	50,000	5.17%	SIFMA	Goldman Sachs
1998A	Other liabilities	686	15,075	4.44%	SIFMA	Goldman Sachs
Total		\$ 74,790	\$ 347,900			

As of March 31, 2019 Allina Health had \$1,110 collateral posted related to the swaps.

Fair value swap valuations require non-performance risk (i.e. credit risk) to be included in the valuation. Non-performance risk is defined as the risk that the obligation will not be fulfilled and affects the value at which the liability is transferred. This non-performance risk is determined by adjusting the discounting rate by a credit spread as of the reporting date. The addition of the credit spread to the discounting rate reduces the reported liability. The fair value reported liability of the swaps is approximately \$1,016 less than the mark-to-market valuations.

ALLINA HEALTH SYSTEM
Abridged Notes to Consolidated Financial Statements
Three months ended March 31, 2019 and 2018
(Unaudited)
(Dollars in thousands)

4. Derivative Instruments (continued)

The following table provides details regarding the gains and (losses) from Allina Health's derivative instruments in the consolidated statements of operations, none of which are currently designated as hedging instruments. The 1998A swap was designated as a hedging instrument until December 31, 2008.

	Amount of gain (loss) on change in fair value recognized as non-operating: interest rate swap agreements		Amount of loss reclassified from unrestricted net assets into revenues over expenses as non-operating: interest rate swap agreements		Amount of interest paid to counterparty recognized as non-operating: interest rate swap agreements		Totals	
	Three months ended Mar. 31		Three months ended Mar. 31		Three months ended Mar. 31		Three months ended Mar. 31	
	2019	2018	2019	2018	2019	2018	2019	2018
2009 B&C	\$ (3,379)	\$ 5,699	\$ -	\$ -	\$ (549)	\$ (1,029)	\$ (3,928)	\$ 4,670
2007C	(1,724)	3,361	-	-	(557)	(671)	(2,281)	2,690
2001	(1,045)	2,037	-	-	(702)	(499)	(1,747)	1,538
1998A	39	235	(218)	(218)	(109)	(123)	(288)	(106)
	\$ (6,109)	\$ 11,332	\$ (218)	\$ (218)	\$ (1,917)	\$ (2,322)	\$ (8,244)	\$ 8,792

5. Contingencies and Litigation

Allina Health is, from time to time, a defendant in various lawsuits arising in the ordinary course of business. Although the outcome of these lawsuits cannot be predicted with certainty, Allina Health believes the ultimate disposition of such lawsuits will not have a material adverse effect on Allina Health's financial condition.

Allina Health operates a Medicare and Medicaid billing compliance program designed to foster a culture that promotes prevention, detection and resolution of billing errors. It is a comprehensive program of policies, documentation, education, monitoring, reporting and enforcement designed to ensure to the maximum extent possible that claims submitted on behalf of the organization are accurate and supported by reliable documentation. The goal of Allina Health's compliance programs is to minimize the level of error and facilitate correction of errors as soon as they are detected. Detection of such errors may result in disclosures to various regulatory agencies from time to time, the outcomes of which cannot be predicted with certainty. It is possible that such disclosures could result in allegations of noncompliance with certain health care laws, which could ultimately involve material payments, fines, and penalties. Nonetheless, management believes that these programs are functioning well and that they continuously improve Allina Health's compliance with billing requirements.

6. Subsequent Events

Allina Health has evaluated subsequent events from the consolidated balance sheet date through May 15, 2019, the date at which the consolidated financial statements were distributed, and determined there are no other items to disclose.

ALLINA OBLIGATED GROUP
Combined Balance Sheets
(Unaudited)
(Dollars in thousands)

	March 31 2019	December 31 2018
	<u> </u>	<u> </u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 34,912	\$ 126,359
Short-term investments	293,647	278,587
Patient accounts receivable, net	542,477	491,915
Inventories	72,311	72,055
Other current assets	154,550	108,458
	<u>1,097,897</u>	<u>1,077,374</u>
Long-term investments	1,784,968	1,778,940
Investments with limited uses	11,003	9,739
Beneficial interest in net assets of Allina Foundations	192,207	183,529
Land, buildings, and equipment, net	1,210,555	1,218,454
Operating lease right of use assets, net	172,717	-
Other assets	225,056	224,080
Total assets	<u>\$ 4,694,403</u>	<u>\$ 4,492,116</u>
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 385,187	\$ 419,012
Current portion long-term debt	26,873	26,639
Current portion - operating lease liabilities	23,478	-
Other current liabilities	81,078	110,174
	<u>516,616</u>	<u>555,825</u>
Long-term debt	918,142	918,643
Long-term portion operating lease liabilities	168,633	-
Other liabilities	311,443	334,753
Total liabilities	<u>1,914,834</u>	<u>1,809,221</u>
Net assets:		
Without donor restriction	2,578,680	2,490,989
With donor restriction	200,889	191,906
Total net assets	<u>2,779,569</u>	<u>2,682,895</u>
Total liabilities and net assets	<u>\$ 4,694,403</u>	<u>\$ 4,492,116</u>

ALLINA OBLIGATED GROUP
Combined Statements of Operations and Changes in Net Assets
(Unaudited)
(Dollars in thousands)

	Three Months Ended	
	March 31	March 31
	2019	2018
Revenue:		
Net patient service revenue	982,982	980,255
Other operating revenue	59,367	61,416
Total revenues	<u>1,042,349</u>	<u>1,041,671</u>
Expenses:		
Salaries and benefits	681,278	670,857
Supplies and services	230,485	218,862
Depreciation and amortization	45,479	44,535
Financing costs	10,534	10,253
State assessments and taxes	24,499	23,305
Utilities and maintenance	19,231	17,068
Other	46,481	46,658
Total expenses	<u>1,057,987</u>	<u>1,031,538</u>
Operating (loss) income	(15,638)	10,133
Nonoperating:		
Investment return	106,971	(6,807)
Interest rate swap agreements	(8,244)	8,792
Other	(862)	(1,120)
Excess of revenues over expenses	<u>\$ 82,227</u>	<u>\$ 10,998</u>

Continued on next page.

ALLINA OBLIGATED GROUP
Combined Statements of Operations and Changes in Net Assets (continued)
(Unaudited)
(Dollars in thousands)

	Three Months Ended	
	March 31	March 31
	2019	2018
	<u> </u>	<u> </u>
Net assets without donor restriction		
Excess of revenues over expenses	\$ 82,227	\$ 10,998
Net assets released from restrictions for capital purposes	729	129
Amortization of unrealized loss on interest rate swap agreement	218	218
Capital contributions to nonobligated group affiliates, net	(2,844)	(8,761)
Other	7,361	(673)
	<u>87,691</u>	<u>1,911</u>
Net assets with donor restriction		
Contributions	181	66
Investment return	266	(10)
Net assets released from restrictions	(16)	(66)
Change in beneficial interest in net assets of Allina Foundations	8,678	(1,365)
Other	(126)	(1,464)
	<u>8,983</u>	<u>(2,839)</u>
Increase (decrease) in net assets	96,674	(928)
Net assets at beginning of period	<u>2,682,895</u>	<u>2,686,116</u>
Net assets at end of period	<u>\$ 2,779,569</u>	<u>\$ 2,685,188</u>

ALLINA OBLIGATED GROUP
Combined Statement of Cash Flows
(Unaudited)
(Dollars in thousands)

	Three Months Ended	
	March 31 2019	March 31 2018
Operating activities		
Increase in net assets	\$ 96,674	\$ (928)
Adjustments to reconcile increase in net assets to net cash and cash equivalents provided by operating activities:		
Increase in additional liability related to benefit plan		
Depreciation and amortization	45,479	44,535
Gain on sale of properties and equity investments	(420)	(42)
Unrealized loss (gain) on interest rate swaps, net	6,109	(11,332)
Realized and unrealized (gain) loss on investments, net	(98,509)	16,979
Restricted contributions	(165)	-
Restricted contributions of cash for long-lived assets	(16)	(66)
Beneficial interest in net assets of Allina Foundations	(8,678)	1,365
Capital contributions to non-obligated group affiliates, net	2,844	8,761
Earnings on equity investments	(3,496)	(2,319)
Distributions received from equity investments	1,680	1,182
Change in assets and liabilities net of impact from acquisitions:		
Accounts receivable	(50,562)	(19,265)
Other current assets	(46,348)	(45,425)
Accounts payable and other current liabilities	(59,743)	(61,101)
Other assets and liabilities	(3,927)	2,521
Net cash and cash equivalents provided by operating activities	(119,078)	(65,135)
Investing activities		
Proceeds from sales of properties	2,751	6,612
Purchases of land, buildings, and equipment	(48,532)	(35,860)
Contributions of cash for long-lived assets	16	66
Purchases and sales of investments classified as trading, net	76,157	19,637
Capital contributions to non-obligated group affiliates, net	(2,844)	(8,761)
Net cash and cash equivalents used in investing activities	27,548	(18,306)
Financing activities		
Restricted contributions	165	-
Principal payments of long-term debt	(82)	(433)
Net cash and cash equivalents (used in) provided by financing activities	83	(433)
Decrease in cash and cash equivalents	(91,447)	(83,874)
Cash and cash equivalents at beginning of year	126,359	138,154
Cash and cash equivalents at end of period	\$ 34,912	\$ 54,280
Schedule of noncash financing activities		
Operating leases	\$ 197,493	\$ -

ALLINA HEALTH SYSTEM
Consolidating Balance Sheet

(Unaudited)
(Dollars in thousands)

March 31, 2019

	Obligated Group	Other Allina Health Entities*	Allina Health System
Assets			
Current assets:			
Cash and cash equivalents	\$ 34,912	\$ 9,389	\$ 44,301
Short-term investments	293,647	-	293,647
Patient accounts receivable, net	542,477	19,312	561,789
Inventories	72,311	511	72,822
Other current assets	154,550	4,295	158,845
	1,097,897	33,507	1,131,404
Long-term investments	1,784,968	46,091	1,831,059
Investments with limited uses	11,003	147,585	158,588
Beneficial interest in net assets of Allina			
Foundations	192,207	(192,207)	-
Land, buildings, and equipment, net	1,210,554	4,825	1,215,379
Long-term portion operating lease liabilities	172,717	3,373	176,090
Other assets	225,056	101,067	326,123
Total assets	\$ 4,694,402	\$ 144,241	\$ 4,838,643
Liabilities and net assets			
Current liabilities:			
Accounts payable and accrued expenses	\$ 385,187	\$ 28,209	\$ 413,396
Current portion long-term debt	26,873	873	27,746
Current portion - operating lease liabilities	23,478	570	24,048
Other current liabilities	81,078	-	81,078
	516,616	29,652	546,268
Long-term debt	918,142	1,946	920,088
Long-term portion operating lease liabilities	168,633	2,816	171,449
Other liabilities	311,443	70,921	382,364
Total liabilities	1,914,834	105,335	2,020,169
Net assets:			
Without donor restrictions	2,578,680	76,052	2,654,732
With donor restrictions	200,889	(37,147)	163,742
Total net assets	2,779,569	38,905	2,818,474
Total liabilities and net assets	\$ 4,694,403	\$ 144,240	\$ 4,838,643

ALLINA HEALTH SYSTEM
Consolidating Statement of Operations and Changes in Net Assets
(Unaudited)
(Dollars in thousands)

Three Months Ended March 31, 2019

	Obligated Group	Other Allina Health Entities*	Allina Health System
Revenue:			
Net patient service revenue	982,982	7,855	990,837
Other operating revenue	59,367	10,642	70,009
Total revenues	1,042,349	18,497	1,060,846
Expenses:			
Salaries and benefits	681,278	3,537	684,815
Supplies and services	230,485	13,793	244,278
Depreciation and amortization	45,479	562	46,041
Financing costs	10,534	123	10,657
State assessments and taxes	24,499	203	24,702
Utilities and maintenance	19,231	205	19,436
Other	46,481	1,682	48,163
Total expenses	1,057,987	20,105	1,078,092
Operating (loss) income	(15,638)	(1,608)	(17,246)
Nonoperating:			
Investment return	106,971	1,803	108,774
Interest rate swap agreements	(8,244)	-	(8,244)
Nonservice periodic pension costs	-	-	-
Other	(862)	(753)	(1,615)
Excess (deficit) of revenues over expenses	\$ 82,227	\$ (558)	\$ 81,669

**Including eliminations.*

Continued on next page.

ALLINA HEALTH SYSTEM
Consolidating Statement of Operations and Changes in Net Assets (continued)
(Unaudited)
(Dollars in thousands)

Three Months Ended March 31, 2019

	Obligated Group	Other Allina Health Entities*	Allina Health System
Unrestricted net assets			
Excess of revenue over expenses	\$ 82,227	\$ (558)	\$ 81,669
Net assets released from restrictions for capital purposes	729	-	729
Amortization of unrealized loss on interest rate swap agreement	218	-	218
Capital contributions from nonobligated group affiliates, net	(2,844)	2,844	-
Other	7,361	(792)	6,569
Increase in net assets without donor restrictions	<u>87,691</u>	<u>1,494</u>	<u>89,185</u>
Temporarily restricted net assets			
Contributions	181	2,973	3,154
Investment return	266	7,948	8,214
Net assets released from restrictions	(16)	(2,528)	(2,544)
Change in beneficial interest in net assets of Allina Foundations	8,678	(8,678)	-
Other	(126)	(5)	(131)
Increase (decrease) in net assets with donor restrictions	<u>8,983</u>	<u>(290)</u>	<u>8,693</u>
Increase in net assets	96,674	1,204	97,878
Net assets at beginning of period	2,682,895	37,701	2,720,596
Net assets at end of period	<u>\$ 2,779,569</u>	<u>\$ 38,905</u>	<u>\$ 2,818,474</u>

**Including eliminations.*

ALLINA HEALTH SYSTEM
Management's Discussion and Analysis of Results of Operations

Three Months Ended March 31, 2019

(Dollars in millions)

Operating Results

Allina Health's operating margin was -1.6% for the three months ended March 31, 2019 compared to 0.9% for the same period in 2018. Operating income decreased by \$26.6 million when compared to the same period in 2018 due to growth in operating expenses.

Allina Health's Earnings Before Interest, Depreciation and Amortization (EBIDA) margin was 3.7% for the three months ended March 31, 2019 compared to 6.1% for the same period in 2018. Non operating investment return and swap unrealized losses were consistent with market conditions.

EARNINGS SUMMARY	ALLINA HEALTH		OBLIGATED GROUP	
	Three Months Ended March 31		Three Months Ended March 31	
	2019	2018	2019	2018
EBIDA	\$ 39.2	\$ 64.4	\$ 40.4	64.8
Interest income	0.3	0.4	-	0.1
Financing costs	(10.7)	(10.4)	(10.5)	(10.3)
Depreciation and amortization	(46.0)	(45.0)	(45.5)	(44.5)
Operating (loss) income	(17.2)	9.4	(15.6)	10.1
Investment return	108.8	(7.2)	107.0	(6.8)
Interest rate swap agreements	(8.2)	8.8	(8.2)	8.8
Non-operating other	(1.7)	(1.3)	(1.0)	(1.1)
Excess of revenues over expenses	<u>\$ 81.7</u>	<u>\$ 9.7</u>	<u>\$ 82.2</u>	<u>\$ 11.0</u>

ALLINA HEALTH SYSTEM
Management's Discussion and Analysis of Results of Operations
Three Months Ended March 31, 2019

Revenues

Allina Health's total revenue increased \$1.4 million, or 0.1% for the three months ended March 31, 2019 as compared to 2018. Inpatient revenue decreased 3.6%. Through March 2019, 39.8% of net patient revenue is net inpatient revenue, down from 41.4% in 2017.

NET PATIENT REVENUE	ALLINA HEALTH		OBLIGATED GROUP	
	Three Months Ended March 31		Three Months Ended March 31	
	2019	2018	2019	2018
Inpatient	\$ 394.0	\$ 408.9	\$ 393.8	\$ 408.6
Change	-3.6%		-3.6%	
Outpatient/Ambulatory	338.5	331.7	338.4	331.6
Change	2.1%		2.1%	
Clinic	253.5	242.6	246.0	234.8
Change	4.5%		4.8%	
Transitional Rehabilitation Program	4.8	5.3	4.8	5.3
Change	-9.4%		-9.4%	
Total Net Patient Service Revenue	<u>\$ 990.8</u>	<u>\$ 988.5</u>	<u>\$ 983.0</u>	<u>\$ 980.3</u>
Change	0.2%		0.3%	

Payer Mix

Allina Health net patient revenue reflects a consistent significant concentration of revenue from managed care (negotiated payer) sources. The payer mix schedule below combines Medicare managed care products with Medicare and managed care state public program products with Medicaid. The single largest payer within contracted payers was Blue Cross Blue Shield at 23.5% of total net patient revenue and 15.3% of total gross patient revenue for the three months ended March 31, 2019.

ALLINA HEALTH	Net Patient Revenue		Gross Patient Revenue	
	March 31		March 31	
	2019	2018	2019	2018
PAYER MIX PERCENTAGE				
Medicare	30.8%	30.6%	43.8%	43.5%
Medicaid	9.3	10.8	15.0	16.0
Contracted Payers	54.9	54.1	36.0	36.1
Self Pay	2.7	2.4	2.1	2.0
Other	2.3	2.1	3.1	2.4
Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

ALLINA HEALTH SYSTEM
Management's Discussion and Analysis of Results of Operations
Three Months Ended March 31, 2019

Uncompensated Care

Allina Health provides medical care without charge or at reduced cost to patients who live in the communities that it serves through the provision of charity care. Allina Health identifies patients that qualify for charity care based upon certain guidelines related to a patient's ability to pay for services. The Allina Health hospitals provide a discount on billed charges for medically necessary care delivered to patients who are uninsured, underinsured, and ineligible for government programs or otherwise medically indigent. Allina Health has also created a billing and collection policy in connection with a state-wide agreement with the Minnesota Attorney General's Office.

Uncompensated care (the combination of uninsured, charity care, and implicit price concessions) increased \$6.7 million in gross charges, or 13.3% in 2019 compared to prior year. Allina Health has incorporated changes in revenue cycle management to improve payment collections, which have subsequently reduced implicit price concessions.

The schedule below reflects uncompensated care at gross charges forgone. The estimated cost of providing charity care, by applying a cost to charge ratio to charges identified as charity care, was \$5.9 million and \$6.0 million for the three months ended March 31, 2019 and 2018, respectively.

UNCOMPENSATED CARE AT GROSS CHARGES	ALLINA HEALTH	
	Three Months Ended March 31	
	2019	2018
Uninsured Discount	\$ 12.8	\$ 9.7
Charity Care Discount	14.4	14.0
Implicit Price Concessions	29.9	26.7
Total Uncompensated Care	<u>\$ 57.1</u>	<u>\$ 50.4</u>
Change	13.3%	
Total Uncompensated Care as a % of Gross Patient Charges	2.2%	2.1%

ALLINA HEALTH SYSTEM
Management's Discussion and Analysis of Results of Operations
Three Months Ended March 31, 2019

Volume

Inpatient admissions decreased by 3.4%, while inpatient surgeries decreased 1.4% for the three months ended March, 2019 from 2018. Clinic work RVUs increased 1.2%. Outpatient surgeries decreased by 2.4% while outpatient hospital admissions decreased 1.8%.

VOLUME STATISTICS	ALLINA HEALTH	
	Three Months Ended March 31	
	2019	2018
Inpatient Hospital Admissions	25,415	26,311
Inpatient change from prior period	-3.4%	
Observation days	6,612	5,219
Observation days change from prior period	26.7%	
Outpatient Hospital Admissions	337,333	343,415
Outpatient change from prior period	-1.8%	
Average Length of Stay (days)	4.4	4.3
Hospital Patient Days	112,567	113,524
Patient days change from prior period	-0.8%	
Hospital Occupancy (based on staffed beds)	69.8%	71.9%
Inpatient Surgeries	7,568	7,677
Outpatient Surgeries	13,707	14,046
Total Surgeries	21,275	21,723
Total surgeries change from prior period	-2.1%	
Clinic Work RVUs	1,996,671	1,973,542
Work RVUs change from prior period	1.2%	
Total Case Mix	1.59	1.58
Medicare Case Mix	1.92	1.89

ALLINA HEALTH SYSTEM
Management's Discussion and Analysis of Results of Operations
Three Months Ended March 31, 2019

Market Share

Allina Health continues to hold its market leading position. The following market share data from the Minnesota Hospital Association (MHA) statistical database for the eleven county metropolitan hospital inpatient market is updated as of June 30, 2018.

MARKET SHARE STATISTICS	ALLINA HEALTH	
	June 30 2018	December 31 2017
Allina Metro Hospital Inpatient Market Share *	31.2%	31.1%
Change in Total Metro Market Volume**	1.0%	1.7%
* Hospitals Include: Abbott Northwestern, United, Mercy, Phillips Eye Institute, Regina and St. Francis for the twelve months ending June 2018 and December 2017		

Non-Operating Gains & Losses

Allina Health investments include a diversified portfolio of money market, fixed income, equity, hedge funds, private equity, and real asset investments. The total return on unrestricted long-term investments was 5.3% for the three months ended March 31, 2019, consistent with the market conditions for the period. To mitigate changes in interest rates on variable rate debt, Allina Health has entered into fixed-payer swaps, which are marked to market.

NON-OPERATING GAINS & LOSSES	ALLINA HEALTH		OBLIGATED GROUP	
	Three Months Ended March 31		Three Months Ended March 31	
	2019	2018	2019	2018
Interest and dividends	\$ 8.8	\$ 10.1	\$ 8.7	\$ 10.1
Realized gains (losses) on sales of investments	10.4	2.7	10.3	2.7
Unrealized gains (losses) on investments	89.6	(20.0)	88.0	(19.6)
Interest rate swap agreements - fair value	(6.1)	11.3	(6.1)	11.3
Interest rate swap agreements - counterparty interest	(2.1)	(2.5)	(2.1)	(2.5)
Other	(1.7)	(1.3)	(0.8)	(1.1)
Total non-operating gains	<u>\$ 98.9</u>	<u>\$ 0.3</u>	<u>\$ 97.8</u>	<u>\$ 0.9</u>

ALLINA HEALTH SYSTEM
Management's Discussion and Analysis of Results of Operations
Three Months Ended March 31, 2019

Balance Sheet and Cash Flow

Allina Health had 192 days cash on hand (DCOH) as of March 31, 2019, compared with 199 days at December 31, 2018.

Leverage decreased to 26.3% at March 31, 2019 from 27.0% in December 31, 2018. Cash to debt is 228.8% as of March 31, 2019 compared to 236.0% at December 31, 2018.

System level capital spending was \$48.5 million for the three months ended March 31, 2019 compared to capital spending of \$36.6 million for the same time period in 2018.

BALANCE SHEET & LIQUIDITY STATISTICS	ALLINA HEALTH		OBLIGATED GROUP	
	March 31 2019	December 31 2018	March 31 2019	December 31 2018
Unrestricted cash & investments	\$ 2,169.0	\$ 2,238.3	\$ 2,113.5	\$ 2,183.9
Days cash on hand	192	199	190	198
Total Debt	\$ 947.8	\$ 948.4	\$ 945.0	\$ 945.3
Unrestricted net assets	\$ 2,654.7	\$ 2,565.5	\$ 2,578.7	\$ 2,491.0
Debt to capitalization *	26.3%	27.0%	27.9%	28.6%
Patient receivables	\$ 561.8	\$ 511.7	\$ 542.5	\$ 491.9
Days revenue in receivables, net	50	46	49	44
Cash to debt	229%	236%	224%	231%
Historical annual debt service coverage	4.9	5.2	5.0	5.3

* Obligated Group includes Letters of Credit and Surety indebtedness

ALLINA HEALTH SYSTEM
Management's Discussion and Analysis of Results of Operations
Three Months Ended March 31, 2019

DAYS CASH ON HAND ROLL-FORWARD	ALLINA HEALTH	
	Cash	Days
December 31, 2018	\$2,238.3	199.1
Operations	(132.0)	(11.7)
Growth in daily expenditures		(1.2)
Investment gains	108.8	9.6
Proceeds from sales of properties	2.8	0.2
Capital expenditures	(48.5)	(4.3)
Debt payments	(0.4)	-
March 31, 2019	<u>\$2,169.0</u>	<u>191.7</u>

DEBT TO CAPITALIZATON ROLL-FORWARD	ALLINA HEALTH		
	Debt	Equity	Cap %
December 31, 2018	\$ 948.4	\$ 2,565.5	27.0%
Operating income		(17.2)	
Investment gains		108.8	
Gain on interest rate swap agreements		(8.2)	
Other non-operating losses		(1.7)	
Loss on debt refinancing			
Other changes in net assets		7.5	
March 31, 2019	<u>\$947.8</u>	<u>\$2,654.7</u>	26.3%

ALLINA HEALTH SYSTEM
Consolidated Utilization Statistics

	Three Months Ended		Twelve Months Ended	
	March 31 2019	March 31 2018	December 31 2018	December 31 2017
Hospitals				
Admissions *	25,415	26,311	105,485	103,637
Patient Days *	112,567	113,524	443,658	427,510
Average length of stay	4.4	4.3	4.2	4.1
Observation days	6,612	5,219	22,068	21,020
Licensed beds	2,451	2,451	2,451	2,451
Staffed beds	1,791	1,755	1,775	1,718
Outpatient admissions	337,333	343,415	1,421,198	1,426,223
Emergency room visits	74,915	75,516	307,421	304,265
Inpatient surgical procedures	7,568	7,677	31,682	31,171
Outpatient surgical procedures	13,707	14,046	59,842	57,576
Physicians and allied professionals				
Work RVUs	1,996,671	1,973,542	8,154,397	7,869,653
Ambulance transports	20,629	20,053	79,791	81,171

* Results exclude newborns.

ALLINA HEALTH SYSTEM
Debt and Investment Appendix
(Dollars in thousands)

Debt Structure

Allina Health's current debt structure as of March 31, 2019						
Series	\$ Outstanding	Structure	Final Maturity	Credit Enhancement	YTD Average Int. Rate*	
2017	150,000	Fixed Rate	2042	None	4.43%	
2017A	78,515	Fixed Rate	2029	None	5.00%	
2017B	57,590	Fixed Rate	2022	None	2.59%	
2015	250,000	Fixed Rate	2045	None	4.81%	
2014	17,300	Fixed Rate	2028	None	3.10%	
2009A	84,475	Fixed Rate	2029	None	4.89%	
2009B	114,525	Daily VRDB	2035	JP Morgan LOC	1.39%	
2009C	50,000	Weekly VRDB	2035	Wells Fargo LOC	1.53%	
2007C	118,300	Weekly VRDB	2034	Wells Fargo LOC	1.54%	
1998A	14,575	Auction Rate	2022	MBIA Insured	3.58%	
	<u>935,280</u>	Total Bonds				
Other ***	<u>12,554</u>					
	947,834	Total Debt				
Fixed Rate	\$ 637,880		67.3%			
Hedged Variable Rate**	297,400		31.4%	(2009B, 2009C, 2007C & 1998A)		
Other	<u>12,554</u>		1.3%			
Total	<u>\$ 947,834</u>					

- * Interest rates are interest cost only, and do not include premium/discount, administrative, credit facility, broker, or other costs related to the issuance of the bonds.
- ** There is a \$50,000 swap that does not have any underlying associated debt and the 1998A swap has \$500 in additional notional value relative to the outstanding debt.
- *** Other debt includes unamortized deferred financing costs, premiums or discounts associated with fixed rate debt, capital leases, and other small notes and loans that are included in debt on the balance sheet.

Allina Health provides liquidity support for its Variable Rate Demand Bonds through the use of bank issued letters of credit. The chart below outlines the termination triggers for ratings downgrades and the term out provisions related to the holding of bank bonds. Allina Health does not currently have any bank bonds, nor has Allina Health ever had bank bonds.

Liquidity Support							
Debt	Liquidity Support	Amount	Expiration	Termination Trigger - Rating	Term-Out Provisions	Counterparty	
2009B	Letter of Credit	\$ 114,525	January 2021	Allina Rating Less Than BBB	3 Year	JP Morgan	
2009C	Letter of Credit	50,000	January 2021	Allina Rating Less Than BBB	3 Year	Wells Fargo	
2007C	Letter of Credit	<u>118,300</u>	January 2021	Allina Rating Less Than BBB	3 Year	Wells Fargo	
		<u>\$ 282,825</u>					

Asset Allocation and Liquidity

Allina Health maintains its unrestricted investments in cash, cash equivalents and short term fixed income (“liquidity assets”), which are utilized for liquidity and preservation of capital, and diversified long term investments (“long-term assets”), which are utilized for capital growth. The allocation between liquidity and long-term assets depends on the liquidity and strategic needs of the organization. The following table allocates assets based on investment strategy, and will vary from the fair value footnote, which looks through the investment strategies to the underlying holdings.

Allina Health periodically reviews asset allocation to ensure that the organization is maintaining the appropriate portfolio allocation, to consider other asset classes, and to address shifts in market expectations. The Investment Committee of the Allina Health Board approved a new asset allocation target at the end of 2017, which is reflected in the table below. The move toward the asset allocation target within the long term assets will occur over the next few years.

Unrestricted Cash and Investments - Asset Allocation					
Unrestricted Balances	Target	3/31/2019		3/31/2018	
Cash and Cash Equivalents		2.0%	44,301	3.1%	66,832
Short-Term Fixed Income		13.6%	293,647	15.3%	327,426
Total Liquidity Assets	15.0%	15.6%	337,948	18.4%	394,258
Long-Term Assets	85.0%	84.4%	1,831,059	81.6%	1,746,584
Total Unrestricted Assets		100.0%	2,169,007	100.0%	2,140,842

Asset Allocation - Asset Class					
	Current Target Allocation	3/31/2019 % of Long Term Assets	3/31/2019 % Total Unrestricted Investments	3/31/2018 % of Long Term Assets	3/31/2018 % Total Unrestricted Investments
Investment					
Global Equity	30.0%	29.3%	24.6%	33.9%	27.6%
Long/Short Equity Hedge Funds	4.0%	4.8%	4.1%	4.2%	3.5%
Global Fixed Income	30.0%	30.2%	25.5%	32.0%	26.1%
Alternatives	28.0%	27.7%	23.4%	21.6%	17.6%
Real Return	8.0%	8.0%	6.8%	8.3%	6.8%
Total Long-Term	100.0%	100.0%	84.4%	100.0%	81.6%
Cash and Cash Equivalents			2.0%		3.1%
Short-Term Fixed Income			13.6%		15.3%
Total Liquidity			15.6%		18.4%

Allina Health is invested in ten direct hedge funds. Four of these direct hedge funds are invested in distressed debt and strategic fixed income and are included in the alternatives allocation. Five additional long/short equity direct hedge funds and one market neutral hedge fund are considered a part of the long/short equity hedge fund allocation. Allina Health also has fourteen investments in private capital with funding commitments that will be drawn down over time. As of March 31, 2019 these private capital holdings represented approximately 3.17% of unrestricted assets.

Allina Health Summary of Key Financial Ratios

Indicators	Three Months Ended March 31,		Year Ended December 31,		
	2019	2018	2018	2017	2016
Liquidity Ratios:					
Monthly DCOH*	163	173	171	188	170
Annual DCOH**	185	194	193	207	187
Traditional DCOH	192	200	199	213	193
Days Cash on Hand (Obligated Group)	190	198	198	212	190
Cash to Debt	525%	220%	236%	231%	232%
Days Revenue in Receivables, net					
Hospitals	53	51	49	51	49
Clinics	30	31	24	26	27
VRDB Debt (in millions)	\$283	\$284	\$283	\$284	\$284
Monthly liquidity to VRDB debt	651%	653%	679%	699%	606%
Capital Structure Ratios:					
Historical Coverage Ratio (x) (Obligated Group)	5.0	5.8	5.3	5.6	5.4
Cushion Ratio (x) (Obligated Group)	30.9	30.5	31.9	31.9	29.8
Leverage (Obligated Group)	27.0%	29.4%	28.6%	29.4%	29.4%
Leverage	30.1%	27.7%	27.0%	27.8%	27.5%
Profitability Ratios:					
EBIDA Margin	3.7%	6.1%	7.1%	8.6%	8.0%
Operating Margin	-1.6%	0.9%	2.0%	3.5%	3.0%
Net Income Margin	7.7%	0.9%	0.5%	7.1%	1.2%
Revenue Growth	0.1%	5.2%	4.5%	4.7%	3.9%

Note: All ratios are for Allina Health consolidated financial results, unless otherwise noted.
DCOH excludes outstanding checks reported as a liability within accounts payable and accrued expenses.
All ratios exclude strike expenses incurred in 2016, where applicable.

- * Days cash on hand available within 0 – 30 days
- ** Days cash on hand available within 0 – 365 days