



# Allina Health

**Quarterly Financial Disclosure Statement  
Nine Months Ended  
September 30, 2017**

*For additional information please visit [www.AllinaHealth.org](http://www.AllinaHealth.org).  
For past quarterly and annual disclosures please visit [www.dacbond.com](http://www.dacbond.com) or EMMA [www.emma.msrb.org](http://www.emma.msrb.org).  
Direct questions regarding disclosure information to [treasury@allina.com](mailto:treasury@allina.com).*

**Allina Health System**  
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**ALLINA HEALTH SYSTEM**  
**Quarterly Financial Disclosure Statement**  
Nine Months Ended September 30, 2017

**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 over 27,200 full and part-time employees, Allina Health is one of the largest employers in Minnesota. Allina Health consolidated net revenue for the nine months ended September 30, 2017 was \$3 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 healthcare in the Minneapolis/St. Paul area and is well-positioned for health care reform.

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 77,300 inpatient admissions and nearly 1,068,900 outpatient visits during the nine months ended September 30, 2017. As of September 30, 2017, Allina Health hospitals had licensed bed capacity of 2,451 acute care beds, 1,682 of which were staffed for inpatient services.

Allina Health provides clinical services through its Allina Health Group and hospital-based physicians and employs 1,430 physicians. These physicians include approximately 800 in the Allina Health Group, which controls and operates 61 clinics and operates the clinical services lines. They include approximately 180 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 360 specialty physicians including intensivists, perinatologists, and psychiatrists in the Allina Health hospitals. Allina Health physicians and allied professionals generated nearly 5,823,800 work RVUs<sup>1</sup> during the nine months ended September 30, 2017. The Allina Integrated Medical ("AIM") Network aligns Allina Health physicians, 1,875 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. Overall hospital inpatient volume in the metropolitan market has declined around 5.1% from 2009 to 2016. Allina Health continues to have a stable and leading market share in the metropolitan area, with a 30.8% inpatient market share as of March 31, 2017.

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<sup>1</sup> 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. (59) – *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.

### **Chris Bent (47) – *Executive 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.

### **Richard Magnuson (55) – *Executive Vice President, Chief Financial Officer***

Succeeding Mr. Duncan Gallagher, 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 Arlington, 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 Payer Relations and Contracting, Supply Chain Management and Revenue Cycle Management.

### **Lisa Shannon (52) – *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 is a new position and has oversight responsibility for Allina Health's hospitals, primary and specialty care divisions, and information systems.

### **Robert Wieland, M.D. (54) - *Senior Vice President, Chief Strategy Officer***

Dr. Wieland assumed the role of Chief Strategy Officer in December 2016 and is responsible for coordinating and accelerating efforts to create a differentiated member experience. He has also been responsible for the Network/Integration Division since November 2014. Dr. Wieland has been employed by Allina Health in various roles since 1994, and served as the Executive Vice President, Clinic and Community Division from November 2008 until November 2014, and prior to that he was Vice President of Medical Affairs at ANW. Earlier in his career he was District Medical Director within the Allina Medical Clinic and is co-founder of the Hospitalist Service at ANW. Dr. Wieland earned his Bachelor's Degree in Mechanical Engineering at the University of Minnesota, medical degree at the University of Minnesota Medical School and Internal Medicine training at Abbott Northwestern Hospital. Dr. Wieland also has accountability for the Allina Integrated Medical Network, Strategy and Business Development, and Marketing and Communication.

**Elizabeth Truesdell Smith (54) – 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.

**Ben Bache-Wiig, M.D. (60) – Executive Vice President, Allina Health Group and Chief Clinical Officer**

Dr. Bache-Wiig assumed the role of Chief Clinical Officer in December 2016. Dr. Bache-Wiig served as President of ANW since October 2011. He served as Vice President of Medical Affairs for ANW since 2009. Dr. Bache-Wiig was previously Medical Director and Physician President of the North Clinic for 20 years. Dr. Bache-Wiig completed his undergraduate studies at Michigan State University and Doctor of Medicine at the University of Wisconsin. He is board certified in internal medicine. Dr. Bache-Wiig has accountability for Population Health, Payer Integration and the development of complex, chronic care capabilities.

**Sara J. Criger (56) – Senior Vice President, north region and President, Mercy 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 and Cambridge Hospitals and patient experience.

**Tom O'Connor (51) – Senior Vice President, east region and President, United Hospital and Interim President, Abbott Northwestern Hospital and Interim Senior Vice President, west region**

Mr. O'Connor was appointed President of United Hospital in January 2012. Previously, he served as President of Mercy Hospital for five years and President of St. Francis Regional Medical Center for five years. Before St. Francis, he served for a year as the Divisional Vice President of Operations of Allina Healthcare Improvement Resources and for four years as the Vice President of Operations of Allina Regional Health Services. He also spent three years as Chief Operating Officer of HCA Capital Medical Center in Tallahassee Florida and two years as an Assistant Administrator and Quality Coach at the HCA Gulf Coast Hospital in Panama City, Florida. Mr. O'Connor holds a Bachelor of Arts Degree from St. Olaf College, a Master of Health Services Administration and a Master of Business Administration from the University of Minnesota. Mr. O'Connor also has operational responsibility for Regina and River Falls Area Hospitals; St. Francis Regional Medical Center; Allina Health Emergency Medical Services; and staffing management.

**Christine Moore (47) – 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.

**Timothy Sielaff, M.D. (54) – 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**

### **Self-Insurance**

Allina Health insures its general and professional liability exposures under claims-made policies. Under these policies, Allina Health has self-insured deductible amounts. In June 2017, Allina Health established a wholly owned captive insurance subsidiary for a portion of the self-insured deductible. Premiums paid to the captive insurance subsidiary are based on claims in the reimbursement layer and are eliminated in consolidation.

### **2017 Debt Issuance**

In April 2017, Allina Health issued \$150 million in fixed rate taxable bonds for the purpose of funding new projects and strategic initiatives.

In April 2017, Allina Health also issued \$78.5 million in fixed rate tax-exempt bonds for the purpose of refunding \$82.3 million of the outstanding principal amount of the 2009A fixed rate bonds.

In November 2017, Allina Health plans to refund the 2007A Bonds with a fixed rate private placement Revenue Note.

### **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, 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 recently issued a Certificate of Authority, which makes the new company an officially licensed health insurance provider and the first new insurance company to enter the Minnesota market in many years. Pending regulatory approval, the company plans to begin offering large group (51 or more members) products in 2018 and a Medicare Advantage product in 2019.

### **North Metro Hospital Care**

In January 2017, Mercy Hospital in Coon Rapids and Unity Hospital in Fridley became one hospital with two campuses, both locations sharing the name Mercy Hospital. Allina Health is making significant capital and program investments in both campuses to strengthen the services Mercy Hospital provides to patients. The One Hospital, Two Campuses strategy will integrate specialty services across two campuses over several years.

### **Abbott Northwestern Hospital Emergency Department Renovation and Expansion**

In June 2015, the Allina Health Board of Directors approved a capital investment to renovate and expand the Abbott Northwestern Hospital Emergency Department. Total capital cost of this project is \$24.8 million, of which Allina Health will fund \$17.3 million and the remaining \$7.5 million will be funded through philanthropic funds. The project is expected to be complete in the summer of 2018.

## Credit Ratings

In March 2017, Fitch Ratings affirmed Allina Health's bond rating of AA-. The outlook is stable.

In March 2017, Standard & Poor's Ratings Services affirmed the AA- rating of Allina Health. The outlook is stable.

In March 2017, Moody's Investor Services affirmed Allina Health's bond rating of Aa3. The outlook is stable.

The complete rating agency reports are available at [www.dacbond.com](http://www.dacbond.com); [www.moodys.com](http://www.moodys.com); [www.fitchratings.com](http://www.fitchratings.com); or [www.standardandpoors.com](http://www.standardandpoors.com).

## Awards and Recognition

In September 2017, Penny Wheeler, M.D., president and CEO of Allina Health, was recognized as a physician leader by Becker's Healthcare in the 2017 edition of the Physician Leaders of Hospitals and Health Systems list. The list features hospital and health system presidents and CEOs who also hold medical degrees. Becker's said in a news release that all members featured on the list have demonstrated outstanding leadership and clinical expertise throughout their careers.

In August 2017, U.S. News & World Report named Abbott Northwestern, Mercy, and United hospitals among the best hospitals in Minnesota in the 2017-2018 Best Hospital rankings. Abbott Northwestern retained the first place ranking for Best Hospital in the Twin Cities, second in Minnesota, and received national ranking in six specialty areas. Mercy ranked third in the metro, fifth in the state, and was selected as a Best Regional Hospital. United ranked fifth in the metro, eighth in the state and also earned Best Regional hospital distinction.

In July 2017, the National Rural Health Association (NRHA) recognized New Ulm as a Top 20 Critical Access Hospital (CAH) and awarded River Falls Area Hospital with a Best Practice Designation for Quality

In April 2017, two Allina Health hospitals were recognized by the National Rural Health Association (NRHA): New Ulm Medical Center was named a Top 20 Critical Access Hospital (CAH) and River Falls Area Hospital was awarded a Best Practice Designation for Quality. The rankings were determined by iVantage Health Analytics and were based on key performance and outcomes measures.

In April 2017, Allina Health was chosen by the Federal Centers for Medicare and Medicaid Services to participate in a five year Accountable Health Communities (AHC) model to see if bridging the gap between clinical and community services providers for Medicare and Medicaid patients with health-related social needs can improve the health of patients and reduce the cost of care. Health-related social needs include housing instability, food insecurity, utility needs, interpersonal violence and transportation. Allina Health is one of just 32 organizations nationwide selected to participate in the project.

In January 2017, Clinician & Group Consumer Assessment of Healthcare Providers announced that Cambridge Clinics B and F are in the top 10 percent of clinics nationwide for patient willingness to recommend them to friends and family members.

In January 2017, Press Ganey announced River Falls Area Hospital reached the top 11 percent for patient experience nationwide in 2016. The rating is based on patients' scores of their overall hospital experience on a scale from one to 10. The River Falls Area Hospital birth center scored in the top one percent for patient experience at birth centers across the United States.

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

|                                       | September 30<br>2017 | December 31<br>2016 |
|---------------------------------------|----------------------|---------------------|
| <b>Assets</b>                         |                      |                     |
| Current assets:                       |                      |                     |
| Cash and cash equivalents             | \$ 98,710            | \$ 172,710          |
| Short-term investments                | 443,578              | 451,327             |
| Patient accounts receivable, net      | 495,292              | 470,216             |
| Inventories                           | 65,379               | 64,225              |
| Other current assets                  | 122,107              | 94,546              |
|                                       | <u>1,225,066</u>     | <u>1,253,024</u>    |
| Long-term investments                 | 1,601,190            | 1,330,283           |
| Investments with limited uses         | 161,538              | 151,537             |
| Land, buildings, and equipment, net   | 1,214,829            | 1,166,397           |
| Other assets                          | 300,563              | 290,036             |
| Total assets                          | <u>\$ 4,503,186</u>  | <u>\$ 4,191,277</u> |
| <b>Liabilities and net assets</b>     |                      |                     |
| Current liabilities:                  |                      |                     |
| Accounts payable and accrued expenses | \$ 425,459           | \$ 463,851          |
| Current portion - long-term debt      | 24,353               | 24,341              |
| Other current liabilities             | 96,776               | 87,036              |
|                                       | <u>546,588</u>       | <u>575,228</u>      |
| Long-term debt                        | 975,301              | 818,192             |
| Other liabilities                     | 403,909              | 409,721             |
| Total liabilities                     | <u>1,925,798</u>     | <u>1,803,141</u>    |
| Net assets:                           |                      |                     |
| Unrestricted                          | 2,403,030            | 2,222,241           |
| Temporarily restricted                | 118,362              | 109,078             |
| Permanently restricted                | 55,996               | 56,817              |
| Total net assets                      | <u>2,577,388</u>     | <u>2,388,136</u>    |
| Total liabilities and net assets      | <u>\$ 4,503,186</u>  | <u>\$ 4,191,277</u> |



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

|  | Nine Months Ended    |                      | Three Months Ended   |                      |
|--|----------------------|----------------------|----------------------|----------------------|
|  | September 30<br>2017 | September 30<br>2016 | September 30<br>2017 | September 30<br>2016 |
| Revenue:   |                      |                      |                      |                      |
| Patient service revenue net of contractual adjustments | \$ 2,923,767         | \$ 2,794,665         | \$ 980,377           | \$ 925,473           |
| Provision for bad debts                                | (89,418)             | (62,607)             | (30,832)             | (24,013)             |
| Net patient service revenue                            | 2,834,349            | 2,732,058            | 949,545              | 901,460              |
| Other operating revenue                                | 186,153              | 181,723              | 60,946               | 61,155               |
| Total revenues   | 3,020,502            | 2,913,781            | 1,010,491            | 962,615              |
| Expenses:  |                      |                      |                      |                      |
| Salaries and benefits                                  | 1,926,602            | 1,848,751            | 634,764              | 617,779              |
| Supplies and services                                  | 669,363              | 622,627              | 227,909              | 217,688              |
| Depreciation and amortization                          | 128,462              | 123,113              | 44,072               | 41,164               |
| Financing costs  | 29,230               | 28,179               | 9,753                | 9,492                |
| State assessments and taxes                            | 62,131               | 59,120               | 15,648               | 14,713               |
| Utilities and maintenance                              | 53,654               | 51,306               | 18,769               | 16,865               |
| Other operating expenses                               | 89,684               | 89,458               | 30,439               | 27,975               |
| Total expenses   | 2,959,126            | 2,822,554            | 981,354              | 945,676              |
| Operating income before strike expenses                | 61,376               | 91,227               | 29,137               | 16,939               |
| Strike expenses  | -                    | (104,883)            | -                    | (84,680)             |
| Operating income (loss)                                | 61,376               | (13,656)             | 29,137               | (67,741)             |
| Nonoperating:  |                      |                      |                      |                      |
| Investment return                                      | 129,696              | 73,600               | 44,863               | 36,494               |
| Interest rate swap agreements                          | (7,170)              | (30,964)             | (1,861)              | (757)                |
| Loss on debt refinancing                               | (8,536)              | -                    | -                    | -                    |
| Other  | (1,968)              | (2,357)              | (452)                | (865)                |
| Excess (deficiency) of revenues over expenses          | \$ 173,398           | \$ 26,623            | \$ 71,687            | \$ (32,869)          |

Continued on next page.

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

|   | Nine Months Ended    |                      | Three Months Ended   |                      |
|---|----------------------|----------------------|----------------------|----------------------|
|   | September 30<br>2017 | September 30<br>2016 | September 30<br>2017 | September 30<br>2016 |
| <b>Unrestricted net assets</b>                                  |                      |                      |                      |                      |
| Excess of revenue over expenses                                 | \$ 173,398           | \$ 26,623            | \$ 71,687            | \$ (32,869)          |
| Net assets released from restrictions for capital purposes      | 8,086                | 3,484                | 78                   | 1,059                |
| Amortization of unrealized loss on interest rate swap agreement | 655                  | 655                  | 218                  | 218                  |
| Other   | (1,350)              | (2,133)              | 632                  | (1,000)              |
| Increase (decrease) in unrestricted net assets                  | <u>180,789</u>       | <u>28,629</u>        | <u>72,615</u>        | <u>(32,592)</u>      |
| <b>Temporarily restricted net assets</b>                        |                      |                      |                      |                      |
| Contributions   | 13,819               | 15,789               | 3,655                | 3,728                |
| Investment return   | 10,152               | 6,291                | 3,422                | 3,587                |
| Net assets released from restrictions                           | (14,167)             | (10,475)             | (2,263)              | (4,115)              |
| Other   | (520)                | (899)                | (994)                | 1,614                |
| Increase in temporarily restricted net assets                   | <u>9,284</u>         | <u>10,706</u>        | <u>3,820</u>         | <u>4,814</u>         |
| <b>Permanently restricted net assets</b>                        |                      |                      |                      |                      |
| Contributions for endowment funds                               | 109                  | 187                  | (54)                 | 157                  |
| Investment return   | (930)                | 109                  | 84                   | 65                   |
| (Decrease) increase in permanently restricted net assets        | <u>(821)</u>         | <u>296</u>           | <u>30</u>            | <u>222</u>           |
| Increase in net assets  | 189,252              | 39,631               | 76,465               | (27,556)             |
| Net assets at beginning of period                               | <u>2,388,136</u>     | <u>2,313,283</u>     | <u>2,500,923</u>     | <u>2,380,470</u>     |
| Net assets at end of period                                     | <u>\$ 2,577,388</u>  | <u>\$ 2,352,914</u>  | <u>\$ 2,577,388</u>  | <u>\$ 2,352,914</u>  |

See accompanying notes.

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

|  | Nine Months Ended    |                      |
|--|----------------------|----------------------|
|  | September 30<br>2017 | September 30<br>2016 |
| <b>Operating activities</b>  |                      |                      |
| Increase in net assets   | \$ 189,252           | \$ 39,631            |
| Adjustments to reconcile increase in net assets to net cash and cash equivalents provided by operating activities: |                      |                      |
| Depreciation and amortization  | 128,462              | 123,113              |
| Provision for bad debts  | 89,418               | 62,607               |
| Gain on sale of properties   | (7,333)              | (1,929)              |
| Loss on Refinancing of Debt  | 8,536                | -                    |
| Unrealized (gain) loss on interest rate swaps, net   | (1,531)              | 21,413               |
| Realized and unrealized gain on investments, net   | (117,563)            | (61,939)             |
| Restricted contributions   | (11,558)             | (15,976)             |
| Restricted contributions of cash for long-lived assets   | (2,370)              | (2,323)              |
| Earnings on equity investments   | (15,696)             | (12,440)             |
| Accounts receivable  | (114,494)            | (66,093)             |
| Other current assets   | (28,715)             | (1,275)              |
| Accounts payable and other current liabilities   | (26,463)             | (70,075)             |
| Other assets and liabilities   | 4,238                | 5,101                |
| Net cash and cash equivalents provided by operating activities   | 94,183               | 19,815               |
| <b>Investing activities</b>  |                      |                      |
| Proceeds from sales of properties  | 7,852                | 26,365               |
| Purchases of land, buildings, and equipment  | (186,013)            | (142,037)            |
| Contributions of cash for long-lived assets  | 2,370                | 2,323                |
| Purchases and sales of investments classified as trading, net  | (148,789)            | (116,865)            |
| Purchases and sales of investments with limited uses, net  | (6,807)              | (17,172)             |
| Distributions received from equity investments   | 7,434                | 8,564                |
| Contributions to joint ventures  | (2,726)              | (17,428)             |
| Net cash and cash equivalents used in investing activities   | (326,679)            | (256,250)            |
| <b>Financing activities</b>  |                      |                      |
| Restricted contributions   | 11,558               | 15,976               |
| Principal payments of long-term debt   | (1,425)              | (5,127)              |
| Refinancing of long-term debt  | (82,295)             | -                    |
| Proceeds from issuance of long-term debt   | 233,132              | -                    |
| Deferred debt acquisition costs  | (2,474)              | -                    |
| Net cash and cash equivalents provided by financing activities   | 158,496              | 10,849               |
| Decrease in cash and cash equivalents  | (74,000)             | (225,586)            |
| Cash and cash equivalents at beginning of year   | 172,710              | 349,115              |
| Cash and cash equivalents at end of period   | <u>\$ 98,710</u>     | <u>\$ 123,529</u>    |

See accompanying notes.

**ALLINA HEALTH SYSTEM**  
**Abridged Notes to Consolidated Financial Statements**  
Nine months ended September 30, 2017 and 2016  
*(Unaudited)*  
*(Dollars in thousands)*

**1. Net Patient Revenue and Accounts Receivable**

Allina Health has agreements with third-party payers who provide payments for health care services at amounts different from established rates. Payment arrangements include prospectively determined rates per discharge, discounted charges, and per diem payments. Other payments are received in the form of pay for performance, shared savings, care management, or medical home management per patient fees.

Allina Health recognizes significant amounts of patient service revenue at the time services are rendered even though it does not assess the patient's ability to pay. For uninsured patients who do not qualify for charity care, Allina Health recognizes revenue on the basis of discounted rates. On the basis of historical experience, a significant portion of Allina Health's patients will be unable or unwilling to pay for the services provided. Thus, Allina Health records a significant provision for bad debts related to uninsured patients and self-pay balances of insured patients who are unable or unwilling to pay for the services provided.

Allina Health grants credit without collateral to its patients, most of whom are residents in the communities that it serves and are insured under third-party payer agreements. Allina Health reduces its patient accounts receivable by an allowance for doubtful accounts. Deductibles and coinsurance are classified as either third-party or self-pay receivables on the basis of which party has the primary remaining financial responsibility, while the total gross revenue remains classified based on the primary payer at the time of service. In evaluating the collectability of accounts receivable, Allina Health analyzes its past history and identifies trends for each of its major payer sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Allina Health used a consistent methodology to estimate the allowance and provision for bad debts in the periods presented in the consolidated financial statements. For receivables associated with self-pay patients after satisfaction of amounts due from insurance, Allina Health follows established guidelines for charging off certain past-due patient balances against the allowance for doubtful accounts. Allina Health has not changed its charity care or uninsured discount policies during the periods presented in the consolidated financial statements. Allina Health does not maintain an allowance for doubtful accounts from third-party payers, nor did it have significant write-offs from third-party payers.

**ALLINA HEALTH SYSTEM**  
**Abridged Notes to Consolidated Financial Statements**  
Nine months ended September 30, 2017 and 2016  
(Unaudited)  
(Dollars in thousands)

**2. 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. Level 2 available-for-sale securities are held at Wells Fargo Bank, who acts as Trustee for the assets. Wells Fargo Bank also uses multiple pricing services to value the assets.

For funds of hedge funds, 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. Further detail is given in the table labeled "Fair Value Measurements of Investments in Certain Entities that Calculate Net Asset Value per Share or its Equivalent".

**ALLINA HEALTH SYSTEM**  
**Abridged Notes to Consolidated Financial Statements**  
Nine months ended September 30, 2017 and 2016  
(Unaudited)  
(Dollars in thousands)

**2. 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 September 30, 2017 as follows:

|   |                     | <b>Fair Value Measurements Using</b> |                |                |
|---|---------------------|--------------------------------------|----------------|----------------|
|   | <b>Total</b>        | <b>Level 1</b>                       | <b>Level 2</b> | <b>Level 3</b> |
| <b>Cash and Cash Equivalents</b>                    |                     |                                      |                |                |
| Cash  | \$ 38,528           | 38,528                               | -              | -              |
| Money Market Funds                                  | 60,182              | 60,182                               | -              | -              |
| <b>Total Cash and Cash Equivalents</b>              | <b>\$ 98,710</b>    | <b>98,710</b>                        | <b>-</b>       | <b>-</b>       |
| <b>Investments - Trading Securities</b>             |                     |                                      |                |                |
| Short-Term Fixed Income                             | 3,782               | 1,966                                | 1,816          | -              |
| Money Market Fund                                   | 41,006              | 41,006                               | -              | -              |
| <b>Total Short-Term Fixed and Money Market</b>      | <b>44,788</b>       | <b>42,972</b>                        | <b>1,816</b>   | <b>-</b>       |
| <b>Equity</b>                                       |                     |                                      |                |                |
| Financials  | 26,828              | 26,828                               | -              | -              |
| Consumer  | 14,871              | 14,871                               | -              | -              |
| Industrials   | 13,998              | 13,998                               | -              | -              |
| Technology  | 2,983               | 2,983                                | -              | -              |
| Healthcare  | 2,880               | 2,880                                | -              | -              |
| Global Equity Mutual Funds                          | 101,097             | 101,097                              | -              | -              |
| Other Equity  | 18,454              | 15,483                               | 2,971          | -              |
| <b>Total Equity</b>                                 | <b>181,111</b>      | <b>178,140</b>                       | <b>2,971</b>   | <b>-</b>       |
| <b>Fixed Income</b>                                 |                     |                                      |                |                |
| U.S. Treasury Securities                            | 191,108             | 191,108                              | -              | -              |
| U.S. Agency Securities                              | 168,463             | -                                    | 168,463        | -              |
| Corporate Bonds                                     | 189,934             | -                                    | 189,934        | -              |
| Mortgage, Commercial, & Asset Backed Securities     | 89,135              | -                                    | 89,135         | -              |
| Sovereigns  | 4,675               | -                                    | 4,675          | -              |
| Term Loan/Private Placements                        | 75,284              | -                                    | 74,905         | 379            |
| Unconstrained Fixed Income Mutual Funds             | 211,841             | 211,841                              | -              | -              |
| Other Fixed Income                                  | 25,561              | -                                    | 25,561         | -              |
| <b>Total Fixed Income</b>                           | <b>956,001</b>      | <b>402,949</b>                       | <b>552,673</b> | <b>379</b>     |
| <b>Other Investments</b>                            |                     |                                      |                |                |
| Real Return Mutual Funds                            | 115,079             | 115,079                              | -              | -              |
| <b>Total Other Investments</b>                      | <b>115,079</b>      | <b>115,079</b>                       | <b>-</b>       | <b>-</b>       |
| <b>Investments Accounted for at Net Asset Value</b> | <b>747,789</b>      |                                      |                |                |
| <b>Total Investments - Trading Securities</b>       | <b>\$ 2,044,768</b> | <b>739,140</b>                       | <b>557,460</b> | <b>379</b>     |
| <b>Total Unrestricted Cash and Investments</b>      | <b>\$ 2,143,478</b> | <b>837,850</b>                       | <b>557,460</b> | <b>379</b>     |

**ALLINA HEALTH SYSTEM**  
**Abridged Notes to Consolidated Financial Statements**  
Nine months ended September 30, 2017 and 2016  
(Unaudited)  
(Dollars in thousands)

**2. Fair Value Disclosures (continued)**

|  | Total               | Fair value measurements using |                |            |
|--|---------------------|-------------------------------|----------------|------------|
|  |                     | Level 1                       | Level 2        | Level 3    |
| <b>Investments with Limited Uses - Trading Securities</b>                  |                     |                               |                |            |
| Short-Term Fixed Income  | \$ 7,859            | 7,777                         | 82             | -          |
| Money Market Fund  | 8,325               | 8,325                         | -              | -          |
| Equity   | 12,942              | 12,730                        | 212            | -          |
| Fixed Income   | 56,244              | 24,664                        | 31,553         | 27         |
| Real Return Mutual Funds   | 8,224               | 8,224                         | -              | -          |
| Investments Accounted for at Net Asset Value                               | 53,440              |                               |                |            |
| Restricted Foundation Trusts   | 7,923               | -                             | 7,923          | -          |
| <b>Total Investments with Limited Uses - Trading Securities</b>            | <u>154,957</u>      | <u>61,720</u>                 | <u>39,770</u>  | <u>27</u>  |
| <b>Investments with Limited Uses - Available-for-Sale Securities</b>       |                     |                               |                |            |
| Money Market Fund  | 6,581               | 6,581                         | -              | -          |
| <b>Total Investments with Limited Uses - Available-for-Sale Securities</b> | <u>6,581</u>        | <u>6,581</u>                  | <u>-</u>       | <u>-</u>   |
| <b>Total Investments with Limited Uses</b>                                 | <u>\$ 161,538</u>   | <u>68,301</u>                 | <u>39,770</u>  | <u>27</u>  |
| <b>Total Cash and Investments</b>  | <u>\$ 2,305,016</u> | <u>906,151</u>                | <u>597,230</u> | <u>406</u> |
| <b>Liabilities:</b>  |                     |                               |                |            |
| Interest Rate Swaps  | \$ 84,108           | -                             | 84,108         | -          |

**Fair Value Measurements, Level 3**

|  | <u>Term Loan</u> |
|--|------------------|
| Balance December 31, 2016                    | \$ 529           |
| Total Realized and Unrealized Gains (Losses) | (16)             |
| Purchases                                    | 555              |
| Sales  | (662)            |
| Balance September 30, 2017                   | <u>\$ 406</u>    |

**ALLINA HEALTH SYSTEM**  
**Abridged Notes to Consolidated Financial Statements**  
Nine months ended September 30, 2017 and 2016  
(Unaudited)  
(Dollars in thousands)

**2. Fair Value Disclosures (continued)**

Fair value measurements of investments in certain entities that calculate net asset value per share (or its equivalent) as of September 30, 2017, is as follows:

|  | Net Asset<br>Value* | Unfunded<br>Commitments | Redemption<br>Frequency | Redemption<br>Notice Period |
|--|---------------------|-------------------------|-------------------------|-----------------------------|
| Global Bond Fund                       | \$ 94,992           | -                       | Monthly                 | 15 Days                     |
| Emerging Markets Equity Fund           | 92,917              | -                       | Daily/Weekly            | 5/10 Days                   |
| Global Equity Fund                     | 306,534             | -                       | Daily/Bi-Monthly        | 1-10 Days                   |
| Private Equity Funds                   | 69,966              | \$ 43,520               | 10 Years                | NA                          |
| Equity Long/Short Hedge Funds          | 83,468              | -                       | Monthly/Quarterly       | 30-90 Days                  |
| Emerging Market Debt Fund              | 36,136              | -                       | Daily                   | Same Day                    |
| Opportunistic Fixed Income Hedge Funds | 117,216             | -                       | Quarterly               | 45-90 Days                  |
|  | <u>\$ 801,229</u>   | <u>\$ 43,520</u>        |                         |                             |

\* Includes restricted and unrestricted assets

The Global Bond Fund includes 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 two funds that invest in global 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 Private Equity Funds include two limited partnership investments that focus on healthcare services and information technology companies, 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, 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 investments in hedge funds that invest both long and short in primarily U.S. and global common stocks through a hedge funds structure. 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**  
 Nine months ended September 30, 2017 and 2016  
*(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:

| <b>Fixed Payer Interest Rate Swaps</b> |                        |                      |                      |           |               |               |
|--|------------------------|----------------------|----------------------|-----------|---------------|---------------|
| Swap                                   | Balance Sheet Location | Fair Value Liability | Notional Outstanding | Rate Paid | Rate Received | Counterparty  |
| 2009B & C                              | Other liabilities      | 32,247               | 123,394              | 3.73%     | % of Libor    | JP Morgan     |
| 2009B & C                              | Other liabilities      | 10,775               | 41,131               | 3.74%     | % of Libor    | Wells Fargo   |
| 2007C                                  | Other liabilities      | 23,824               | 119,700              | 3.58%     | % of Libor    | US Bank       |
| 2001                                   | Other liabilities      | 15,850               | 50,000               | 5.17%     | SIFMA         | Goldman Sachs |
| 1998A                                  | Other liabilities      | 1,412                | 15,075               | 4.44%     | SIFMA         | Goldman Sachs |
| <b>Total</b>                           |                        | <b>\$ 84,108</b>     | <b>\$ 349,300</b>    |           |               |               |

As of September 30, 2017 Allina Health had \$4,310 of 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 \$2,044 less than the mark-to-market valuations.

**ALLINA HEALTH SYSTEM**  
**Abridged Notes to Consolidated Financial Statements**  
Nine months ended September 30, 2017 and 2016  
(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<br>in fair value recognized as non-<br>operating: interest rate swap<br>agreements |             | Amount of loss reclassified from<br>unrestricted net assets into<br>revenues over expenses as non-<br>operating: interest rate swap<br>agreements |          | Amount of interest paid to<br>counterparty recognized as non-<br>operating: interest rate swap<br>agreements |            | Totals                    |             |
|----------|--|-------------|---|----------|--|------------|---------------------------|-------------|
|          | Nine months ended Sep. 30  |             | Nine months ended Sep. 30   |          | Nine months ended Sep. 30  |            | Nine months ended Sep. 30 |             |
|          | 2017   | 2016        | 2017  | 2016     | 2017   | 2016       | 2017                      | 2016        |
| 2009 B&C | \$ 298   | \$ (12,341) | \$ -  | \$ -     | \$ (3,466)   | \$ (3,846) | \$ (3,168)                | \$ (16,187) |
| 2007C    | 701  | (6,373)     | -   | -        | (2,512)  | (2,741)    | (1,811)                   | (9,114)     |
| 2001     | 239  | (2,939)     | -   | -        | (1,655)  | (1,845)    | (1,416)                   | (4,784)     |
| 1998A    | 293  | 240         | (655)   | (655)    | (413)  | (464)      | (775)                     | (879)       |
|          | \$ 1,531   | \$ (21,413) | \$ (655)  | \$ (655) | \$ (8,046)   | \$ (8,896) | \$ (7,170)                | \$ (30,964) |
|          | Three months ended Sep. 30   |             | Three months ended Sep. 30  |          | Three months ended Sep. 30   |            | Totals                    |             |
|          | 2017   | 2016        | 2017  | 2016     | 2017   | 2016       | 2017                      | 2016        |
| 2009 B&C | \$ 203   | \$ 762      | \$ -  | \$ -     | \$ (1,098)   | \$ (1,271) | \$ (895)                  | \$ (509)    |
| 2007C    | 332  | 750         | -   | -        | (829)  | (902)      | (497)                     | (152)       |
| 2001     | 303  | 580         | -   | -        | (544)  | (592)      | (241)                     | (12)        |
| 1998A    | 125  | 284         | (218)   | (218)    | (135)  | (150)      | (228)                     | (84)        |
|          | \$ 963   | \$ 2,376    | \$ (218)  | \$ (218) | \$ (2,606)   | \$ (2,915) | \$ (1,861)                | \$ (757)    |

**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 November 13, 2017, the date at which the consolidated financial statements were issued, and determined there are no other items to disclose.

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

|   | September 30<br>2017       | December 31<br>2016        |
|---|----------------------------|----------------------------|
| <b>Assets</b>                               |                            |                            |
| Current assets:                             |                            |                            |
| Cash and cash equivalents                   | \$ 90,311                  | \$ 166,469                 |
| Short-term investments                      | 443,578                    | 451,327                    |
| Patient accounts receivable, net            | 474,333                    | 449,845                    |
| Inventories                                 | 65,213                     | 64,059                     |
| Other current assets                        | 120,308                    | 93,734                     |
|   | <u>1,193,743</u>           | <u>1,225,434</u>           |
| Long-term investments                       | 1,550,094                  | 1,279,528                  |
| Investments with limited uses               | 21,344                     | 14,688                     |
| Beneficial interest in net assets of Allina |                            |                            |
| Foundations                                 | 206,561                    | 200,945                    |
| Land, buildings, and equipment, net         | 1,206,326                  | 1,156,000                  |
| Other assets                                | 230,579                    | 219,320                    |
| Total assets                                | <u><u>\$ 4,408,647</u></u> | <u><u>\$ 4,095,915</u></u> |
| <b>Liabilities and net assets</b>           |                            |                            |
| Current liabilities:                        |                            |                            |
| Accounts payable and accrued expenses       | \$ 409,923                 | \$ 445,235                 |
| Current portion long-term debt              | 23,583                     | 23,687                     |
| Other current liabilities                   | 95,903                     | 87,036                     |
|   | <u>529,409</u>             | <u>555,958</u>             |
| Long-term debt                              | 971,994                    | 814,220                    |
| Other liabilities                           | 348,210                    | 353,336                    |
| Total liabilities                           | <u>1,849,613</u>           | <u>1,723,514</u>           |
| Net assets:                                 |                            |                            |
| Unrestricted                                | 2,343,458                  | 2,162,291                  |
| Temporarily restricted                      | 159,580                    | 153,293                    |
| Permanently restricted                      | 55,996                     | 56,817                     |
| Total net assets                            | <u>2,559,034</u>           | <u>2,372,401</u>           |
| Total liabilities and net assets            | <u><u>\$ 4,408,647</u></u> | <u><u>\$ 4,095,915</u></u> |

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

|  | Nine Months Ended |              | Three Months Ended |              |
|--|-------------------|--------------|--------------------|--------------|
|  | September 30      | September 30 | September 30       | September 30 |
|  | 2017              | 2016         | 2017               | 2016         |
| Revenue:   |                   |              |                    |              |
| Patient service revenue net of contractual adjustments | \$ 2,910,164      | \$ 2,781,165 | \$ 975,585         | \$ 921,095   |
| Provision for bad debts                                | (89,865)          | (62,881)     | (30,979)           | (23,974)     |
| Net patient service revenue                            | 2,820,299         | 2,718,284    | 944,606            | 897,121      |
| Other operating revenue                                | 179,596           | 170,583      | 60,101             | 57,834       |
| Total revenues   | 2,999,895         | 2,888,867    | 1,004,707          | 954,955      |
| Expenses:  |                   |              |                    |              |
| Salaries and benefits                                  | 1,916,835         | 1,838,849    | 631,634            | 614,504      |
| Supplies and services                                  | 636,452           | 591,947      | 216,240            | 207,496      |
| Depreciation and amortization                          | 127,110           | 121,717      | 43,623             | 41,228       |
| Financing costs  | 28,916            | 27,912       | 9,646              | 9,407        |
| State assessments and taxes                            | 61,664            | 58,616       | 15,471             | 14,549       |
| Utilities and maintenance                              | 53,180            | 50,843       | 18,643             | 16,726       |
| Other  | 105,759           | 105,183      | 35,665             | 31,901       |
| Total expenses   | 2,929,916         | 2,795,067    | 970,922            | 935,811      |
| Operating income before strike expenses                | 69,979            | 93,800       | 33,785             | 19,144       |
| Strike expenses  | -                 | (104,883)    | -                  | (84,680)     |
| Operating income (loss)                                | 69,979            | (11,083)     | 33,785             | (65,536)     |
| Nonoperating:  |                   |              |                    |              |
| Investment return                                      | 126,965           | 72,473       | 44,061             | 35,793       |
| Interest rate swap agreements                          | (7,170)           | (30,964)     | (1,861)            | (757)        |
| Loss on debt refinancing                               | (8,536)           | -            | -                  | -            |
| Other  | (1,316)           | (1,448)      | (372)              | (724)        |
| Excess (deficiency) of revenues over expenses          | \$ 179,922        | \$ 28,978    | \$ 75,613          | \$ (31,224)  |

*Continued on next page.*

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

|   | Nine Months Ended   |                     | Three Months Ended  |                     |
|---|---------------------|---------------------|---------------------|---------------------|
|   | September 30        | September 30        | September 30        | September 30        |
|   | 2017                | 2016                | 2017                | 2016                |
| <b>Unrestricted net assets</b>                                    |                     |                     |                     |                     |
| Excess of revenues over expenses                                  | \$ 179,922          | \$ 28,978           | \$ 75,613           | \$ (31,224)         |
| Net assets released from restrictions for capital purposes        | 8,577               | 3,548               | 167                 | 1,085               |
| Amortization of unrealized loss on interest rate swap agreement   | 655                 | 655                 | 218                 | 218                 |
| Capital contributions to nonobligated group affiliates, net       | (6,567)             | (9,860)             | (1,761)             | (4,566)             |
| Other   | (1,420)             | (717)               | (177)               | (446)               |
| Increase (decrease) in unrestricted net assets                    | <u>181,167</u>      | <u>22,604</u>       | <u>74,060</u>       | <u>(34,933)</u>     |
| <b>Temporarily restricted net assets</b>                          |                     |                     |                     |                     |
| Contributions   | 2,370               | 2,323               | 25                  | 126                 |
| Investment return   | 291                 | 184                 | 96                  | 97                  |
| Net assets released from restrictions                             | (2,370)             | (2,323)             | (25)                | (126)               |
| Change in beneficial interest in net assets of Allina Foundations | 5,506               | 8,090               | 2,875               | 2,200               |
| Other   | 490                 | 1,444               | (230)               | 1,667               |
| Increase in temporarily restricted net assets                     | <u>6,287</u>        | <u>9,718</u>        | <u>2,741</u>        | <u>3,964</u>        |
| <b>Permanently restricted net assets</b>                          |                     |                     |                     |                     |
| Contributions for endowment funds                                 | -                   | 23                  | -                   | 11                  |
| Investment return   | (931)               | 50                  | 63                  | 27                  |
| Change in beneficial interest in net assets of Allina Foundations | 110                 | 223                 | (32)                | 184                 |
| (Decrease) increase in permanently restricted net assets          | <u>(821)</u>        | <u>296</u>          | <u>31</u>           | <u>222</u>          |
| Increase (decrease) in net assets                                 | 186,633             | 32,618              | 76,832              | (30,747)            |
| Net assets at beginning of period                                 | <u>2,372,401</u>    | <u>2,297,221</u>    | <u>2,482,202</u>    | <u>2,360,586</u>    |
| Net assets at end of period                                       | <u>\$ 2,559,034</u> | <u>\$ 2,329,839</u> | <u>\$ 2,559,034</u> | <u>\$ 2,329,839</u> |

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

|  | Nine Months Ended    |                      |
|--|----------------------|----------------------|
|  | September 30<br>2017 | September 30<br>2016 |
| <b>Operating activities</b>  |                      |                      |
| Increase in net assets   | \$ 186,633           | \$ 32,618            |
| 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  | 127,110              | 121,717              |
| Provision for bad debts  | 89,865               | 62,881               |
| Gain on sale of properties and equity investments  | (7,333)              | (1,833)              |
| Loss on Refinancing of Debt  | 8,536                | -                    |
| Unrealized (gain) loss on interest rate swaps, net   | (1,531)              | 21,413               |
| Realized and unrealized gain on investments, net   | (104,970)            | (54,645)             |
| Restricted contributions   | -                    | (2,346)              |
| Restricted contributions of cash for long-lived assets   | (2,370)              | (2,323)              |
| Beneficial interest in net assets of Allina Foundations  | (5,616)              | (8,313)              |
| Capital contributions to non-obligated group affiliates, net   | 6,567                | 9,860                |
| Earnings on equity investments   | (15,696)             | (12,440)             |
| Change in assets and liabilities net of impact from acquisitions:  |                      |                      |
| Accounts receivable  | (114,353)            | (67,044)             |
| Other current assets   | (27,728)             | 1,732                |
| Accounts payable and other current liabilities   | (24,256)             | (67,751)             |
| Other assets and liabilities   | 4,791                | 11,701               |
| Net cash and cash equivalents provided by operating activities   | <u>119,649</u>       | <u>45,227</u>        |
| <b>Investing activities</b>  |                      |                      |
| Proceeds from sales of properties  | 7,852                | 25,742               |
| Purchases of land, buildings, and equipment  | (186,555)            | (145,285)            |
| Contributions of cash for long-lived assets  | 2,370                | 2,323                |
| Purchases and sales of investments classified as trading, net  | (164,503)            | (133,947)            |
| Distributions received from equity investments   | 7,434                | 8,564                |
| Contributions to joint ventures  | (2,726)              | (17,428)             |
| Capital contributions to non-obligated group affiliates, net   | (7,167)              | (9,860)              |
| Net cash and cash equivalents used in investing activities   | <u>(343,295)</u>     | <u>(269,891)</u>     |
| <b>Financing activities</b>  |                      |                      |
| Restricted contributions   | -                    | 2,346                |
| Principal payments of long-term debt   | (875)                | (4,233)              |
| Refinancing of long-term debt  | (82,295)             | -                    |
| Proceeds from issuance of long-term debt   | 233,132              | -                    |
| Deferred debt acquisition costs  | (2,474)              | -                    |
| Net cash and cash equivalents provided by (used in) financing activities   | <u>147,488</u>       | <u>(1,887)</u>       |
| Decrease in cash and cash equivalents  | (76,158)             | (226,551)            |
| Cash and cash equivalents at beginning of year   | 166,469              | 342,556              |
| Cash and cash equivalents at end of period   | <u>\$ 90,311</u>     | <u>\$ 116,005</u>    |

# ALLINA HEALTH SYSTEM

## Consolidating Balance Sheet

(Unaudited)  
(Dollars in thousands)

September 30, 2017

|   | Obligated<br>Group  | Other<br>Allina Health<br>Entities* | Allina<br>Health<br>System |
|---|---------------------|-------------------------------------|----------------------------|
| <b>Assets</b>                               |                     |                                     |                            |
| Current assets:                             |                     |                                     |                            |
| Cash and cash equivalents                   | \$ 90,311           | \$ 8,399                            | \$ 98,710                  |
| Short-term investments                      | 443,578             | -                                   | 443,578                    |
| Patient accounts receivable, net            | 474,333             | 20,959                              | 495,292                    |
| Inventories                                 | 65,213              | 166                                 | 65,379                     |
| Other current assets                        | 120,308             | 1,799                               | 122,107                    |
|   | <u>1,193,743</u>    | <u>31,323</u>                       | <u>1,225,066</u>           |
| Long-term investments                       | 1,550,094           | 51,096                              | 1,601,190                  |
| Investments with limited uses               | 21,344              | 140,194                             | 161,538                    |
| Beneficial interest in net assets of Allina |                     |                                     |                            |
| Foundations                                 | 206,561             | (206,561)                           | -                          |
| Land, buildings, and equipment, net         | 1,206,326           | 8,503                               | 1,214,829                  |
| Other assets                                | 230,579             | 69,984                              | 300,563                    |
| Total assets                                | <u>\$ 4,408,647</u> | <u>\$ 94,539</u>                    | <u>\$ 4,503,186</u>        |
| <b>Liabilities and net assets</b>           |                     |                                     |                            |
| Current liabilities:                        |                     |                                     |                            |
| Accounts payable and accrued expenses       | \$ 409,923          | \$ 15,536                           | \$ 425,459                 |
| Current portion long-term debt              | 23,583              | 770                                 | 24,353                     |
| Other current liabilities                   | 95,903              | 873                                 | 96,776                     |
|   | <u>529,409</u>      | <u>17,179</u>                       | <u>546,588</u>             |
| Long-term debt                              | 971,994             | 3,307                               | 975,301                    |
| Other liabilities                           | 348,210             | 55,699                              | 403,909                    |
| Total liabilities                           | <u>1,849,613</u>    | <u>76,185</u>                       | <u>1,925,798</u>           |
| Net assets:                                 |                     |                                     |                            |
| Unrestricted                                | 2,343,458           | 59,572                              | 2,403,030                  |
| Temporarily restricted                      | 159,580             | (41,218)                            | 118,362                    |
| Permanently restricted                      | 55,996              | -                                   | 55,996                     |
| Total net assets                            | <u>2,559,034</u>    | <u>18,354</u>                       | <u>2,577,388</u>           |
| Total liabilities and net assets            | <u>\$ 4,408,647</u> | <u>\$ 94,539</u>                    | <u>\$ 4,503,186</u>        |

\*Including eliminations.

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

Nine Months Ended September 30, 2017

|  | Obligated Group | Other Allina Health Entities* | Allina Health System |
|--|-----------------|-------------------------------|----------------------|
| Revenue:   |                 |                               |                      |
| Patient service revenue net of contractual adjustments | \$ 2,910,164    | \$ 13,603                     | \$ 2,923,767         |
| Provision for bad debts                                | (89,865)        | 447                           | (89,418)             |
| Net patient service revenue                            | 2,820,299       | 14,050                        | 2,834,349            |
| Other operating revenue                                | 179,596         | 6,557                         | 186,153              |
| Total revenues   | 2,999,895       | 20,607                        | 3,020,502            |
| Expenses:  |                 |                               |                      |
| Salaries and benefits                                  | 1,916,835       | 9,767                         | 1,926,602            |
| Supplies and services                                  | 636,452         | 32,911                        | 669,363              |
| Depreciation and amortization                          | 127,110         | 1,352                         | 128,462              |
| Financing costs  | 28,916          | 314                           | 29,230               |
| State assessments and taxes                            | 61,664          | 467                           | 62,131               |
| Utilities and maintenance                              | 53,180          | 474                           | 53,654               |
| Other  | 105,759         | (16,075)                      | 89,684               |
| Total expenses   | 2,929,916       | 29,210                        | 2,959,126            |
| Operating (loss) income                                | 69,979          | (8,603)                       | 61,376               |
| Nonoperating:  |                 |                               |                      |
| Investment return                                      | 126,965         | 2,731                         | 129,696              |
| Interest rate swap agreements                          | (7,170)         | -                             | (7,170)              |
| Loss on debt refinancing                               | (8,536)         | -                             | (8,536)              |
| Other  | (1,316)         | (652)                         | (1,968)              |
| Excess of revenues over expenses                       | \$ 179,922      | \$ (6,524)                    | \$ 173,398           |

*\*Including eliminations.*

*Continued on next page.*



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

Nine Months Ended September 30, 2017

|   | Obligated<br>Group  | Other<br>Allina Health<br>Entities* | Allina<br>Health<br>System |
|---|---------------------|-------------------------------------|----------------------------|
| <b>Unrestricted net assets</b>                                    |                     |                                     |                            |
| Excess of revenue over expenses                                   | \$ 179,922          | \$ (6,524)                          | \$ 173,398                 |
| Net assets released from restrictions for capital purposes        | 8,577               | (491)                               | 8,086                      |
| Amortization of unrealized loss on interest rate swap agreement   | 655                 | -                                   | 655                        |
| Capital contributions from nonobligated group affiliates, net     | (6,567)             | 6,567                               | -                          |
| Other   | (1,420)             | 70                                  | (1,350)                    |
| Increase in unrestricted net assets                               | <u>181,167</u>      | <u>(378)</u>                        | <u>180,789</u>             |
| <b>Temporarily restricted net assets</b>                          |                     |                                     |                            |
| Contributions   | 2,370               | 11,449                              | 13,819                     |
| Investment return   | 291                 | 9,861                               | 10,152                     |
| Net assets released from restrictions                             | (2,370)             | (11,797)                            | (14,167)                   |
| Change in beneficial interest in net assets of Allina Foundations | 5,506               | (5,506)                             | -                          |
| Other   | 490                 | (1,010)                             | (520)                      |
| Increase in temporarily restricted net assets                     | <u>6,287</u>        | <u>2,997</u>                        | <u>9,284</u>               |
| <b>Permanently restricted net assets</b>                          |                     |                                     |                            |
| Contributions for endowment funds                                 | -                   | 109                                 | 109                        |
| Investment return   | (931)               | 1                                   | (930)                      |
| Change in beneficial interest in net assets of Allina Foundations | 110                 | (110)                               | -                          |
| Decrease in permanently restricted net assets                     | <u>(821)</u>        | <u>-</u>                            | <u>(821)</u>               |
| Increase in net assets  | 186,633             | 2,619                               | 189,252                    |
| Net assets at beginning of period                                 | 2,372,401           | 15,735                              | 2,388,136                  |
| Net assets at end of period                                       | <u>\$ 2,559,034</u> | <u>\$ 18,354</u>                    | <u>\$ 2,577,388</u>        |

\*Including eliminations.

# ALLINA HEALTH SYSTEM

## Management's Discussion and Analysis of Results of Operations

Nine Months Ended September 30, 2017

(Dollars in millions)

### Operating Results

Allina Health's operating margin was 2.0% for the nine months ended September 30, 2017 compared to 3.1% (before strike expenses) for the same period in 2016. Operating income decreased by \$29.9 million when compared to the same period in 2016 due to increases in operating expenses, primarily salaries, benefits, supplies and services.

Allina Health's Earnings Before Interest, Depreciation and Amortization (EBIDA) margin was 7.2% for the nine months ended September 30, 2017 compared to 8.3% for the same period in 2016. Non operating investment return and swap unrealized losses were consistent with market conditions.

| EARNINGS SUMMARY                        | ALLINA HEALTH                     |                | OBLIGATED GROUP                   |                |
|---|-----------------------------------|----------------|-----------------------------------|----------------|
|   | Nine Months Ended<br>September 30 |                | Nine Months Ended<br>September 30 |                |
|   | 2017                              | 2016           | 2017                              | 2016           |
| EBIDA                                   | \$ 218.1                          | \$ 241.6       | \$ 225.7                          | 243.0          |
| Interest income                         | 1.0                               | 1.0            | 0.3                               | 0.4            |
| Financing costs                         | (29.2)                            | (28.2)         | (28.9)                            | (27.9)         |
| Depreciation and amortization           | (128.5)                           | (123.1)        | (127.1)                           | (121.7)        |
| Operating Income before strike expenses | 61.4                              | 91.3           | 70.0                              | 93.8           |
| Strike expenses                         | -                                 | (104.9)        | -                                 | (104.9)        |
| Operating Income                        | 61.4                              | (13.6)         | 70.0                              | (11.1)         |
| Investment return                       | 129.7                             | 73.6           | 127.0                             | 72.5           |
| Interest rate swap agreements           | (7.2)                             | (31.0)         | (7.2)                             | (31.0)         |
| Loss on debt refinancing                | (8.5)                             | -              | (8.5)                             | -              |
| Non-operating other                     | (2.0)                             | (2.4)          | (1.4)                             | (1.4)          |
| Excess of revenues over expenses        | <u>\$ 173.4</u>                   | <u>\$ 26.6</u> | <u>\$ 179.9</u>                   | <u>\$ 29.0</u> |

**ALLINA HEALTH SYSTEM**  
**Management's Discussion and Analysis of Results of Operations**  
 Nine Months Ended September 30, 2017

**Revenues**

Allina Health's revenue increased \$106.7 million, or 3.7% for the nine months ended September 30, 2017 as compared to 2016. Hospital net patient revenue growth was 4.4%. Through September 2017, 40.3% of net patient revenue is net inpatient revenue, down from 40.7% in 2016. The clinics (excluding hospital based) experienced an overall 5.8% increase in net patient revenue, due to clinical volumes that grew 5.8% year over year. Outpatient and clinic revenue increased 5.4% over the prior year, and increased to 59.7% as a percent of net patient revenue in 2017 when compared to 59.3% in 2016.

| REVENUE                      | ALLINA HEALTH                     |                   | OBLIGATED GROUP                   |                   |
|------------------------------|-----------------------------------|-------------------|-----------------------------------|-------------------|
|                              | Nine Months Ended<br>September 30 |                   | Nine Months Ended<br>September 30 |                   |
|                              | 2017                              | 2016              | 2017                              | 2016              |
| Hospital Net Patient Revenue | \$ 2,138.4                        | \$ 2,048.4        | \$ 2,138.4                        | \$ 2,048.4        |
| Change                       | 4.4%                              |                   | 4.4%                              |                   |
| Clinic Net Patient Revenue   | 566.9                             | 536.0             | 553.2                             | 522.4             |
| Change                       | 5.8%                              |                   | 5.9%                              |                   |
| Other Net Patient Revenue    | 218.5                             | 210.3             | 218.6                             | 210.4             |
| Change                       | 3.9%                              |                   | 3.9%                              |                   |
| Bad Debt                     | (89.4)                            | (62.6)            | (89.9)                            | (62.9)            |
| Change                       | 42.8%                             |                   | 42.9%                             |                   |
| Other Revenue                | 186.1                             | 181.7             | 179.6                             | 170.6             |
| Change                       | 2.4%                              |                   | 5.3%                              |                   |
| Total Revenue                | <u>\$ 3,020.5</u>                 | <u>\$ 2,913.8</u> | <u>\$ 2,999.9</u>                 | <u>\$ 2,888.9</u> |
| Change                       | 3.7%                              |                   | 3.8%                              |                   |

**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 16.1% of total gross patient revenue for the nine months ended September 30, 2017.

| ALLINA HEALTH        | Net Patient Revenue |               | Gross Patient Revenue |               |
|----------------------|---------------------|---------------|-----------------------|---------------|
|                      | September 30        |               | September 30          |               |
|                      | 2017                | 2016          | 2017                  | 2016          |
| PAYER MIX PERCENTAGE |                     |               |                       |               |
| Medicare             | 30.5%               | 29.7%         | 43.4%                 | 42.1%         |
| Medicaid             | 10.4                | 10.2          | 15.2                  | 15.4          |
| Contracted Payers    | 54.1                | 56.2          | 36.8                  | 37.7          |
| Self Pay             | 2.8                 | 2.4           | 2.2                   | 1.9           |
| Other                | 2.2                 | 1.5           | 2.4                   | 2.9           |
| 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**  
 Nine Months Ended September 30, 2017

**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 bad debt expense) increased \$34.9 million in gross charges, or 28.6% in 2017 compared to prior year.

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 \$17.0 million and \$15.5 million for the nine months ended September 30, 2017 and 2016, respectively.

| UNCOMPENSATED CARE<br>AT GROSS CHARGES                      | ALLINA HEALTH     |                 |
|---|-------------------|-----------------|
|   | Nine Months Ended |                 |
|   | September 30      |                 |
|   | 2017              | 2016            |
| Uninsured Discount  | \$ 27.3           | \$ 23.8         |
| Charity Care Discount                                       | 40.7              | 36.1            |
| Bad Debt Expense  | 89.4              | 62.6            |
| Total Uncompensated Care                                    | <u>\$ 157.4</u>   | <u>\$ 122.5</u> |
| Change  | 28.6%             |                 |
| Total Uncompensated Care as a % of<br>Gross Patient Charges | 2.3%              | 1.9%            |

**ALLINA HEALTH SYSTEM**  
**Management's Discussion and Analysis of Results of Operations**  
 Nine Months Ended September 30, 2017

**Volume**

Allina Health experienced stable inpatient volumes and strong outpatient volumes in the nine months ended September 30, 2017. Inpatient admissions decreased by 0.2%, while inpatient surgeries increased 2.6% for the nine months ended September 30, 2017 from 2016. Outpatient hospital admissions and clinic work RVUs increased 1.9%, and 5.8%, respectively while outpatient surgeries increased by 0.5%. The growth of outpatient compared to inpatient is expected as Allina Health becomes more successful in quality and care goals for patients with chronic conditions and is consistent with the longer term goals of health care reform.

| VOLUME STATISTICS                          | ALLINA HEALTH                     |           |
|--|-----------------------------------|-----------|
|  | Nine Months Ended<br>September 30 |           |
|  | 2017                              | 2016      |
| Inpatient Hospital Admissions              | 77,301                            | 77,423    |
| Inpatient change from prior period         | -0.2%                             |           |
| Observation days                           | 15,948                            | 16,663    |
| Observation days change from prior period  | -4.3%                             |           |
| Outpatient Hospital Admissions             | 1,068,882                         | 1,048,553 |
| Outpatient change from prior period        | 1.9%                              |           |
| Average Length of Stay (days)              | 4.1                               | 4.1       |
| Hospital Patient Days                      | 317,537                           | 315,232   |
| Patient days change from prior period      | 0.7%                              |           |
| Hospital Occupancy (based on staffed beds) | 69.2%                             | 67.0%     |
| Inpatient Surgeries                        | 23,077                            | 22,482    |
| Outpatient Surgeries                       | 42,203                            | 41,994    |
| Total Surgeries                            | 65,280                            | 64,476    |
| Total surgeries change from prior period   | 1.2%                              |           |
| Clinic Work RVUs                           | 5,823,757                         | 5,504,149 |
| Work RVUs change from prior period         | 5.8%                              |           |
| Total Case Mix                             | 1.51                              | 1.48      |
| Medicare Case Mix                          | 1.85                              | 1.83      |

**ALLINA HEALTH SYSTEM**  
**Management's Discussion and Analysis of Results of Operations**  
 Nine Months Ended September 30, 2017

**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 March 31, 2017.

| MARKET SHARE STATISTICS   | ALLINA HEALTH    |                     |
|---|------------------|---------------------|
|   | March 31<br>2017 | December 31<br>2016 |
| Allina Metro Hospital Inpatient<br>Market Share *   | 30.8%            | 31.2%               |
| Change in Total Metro Market Volume**   | 1.6%             | 1.0%                |
| * Hospitals Include: Abbott Northwestern, United, Mercy, Unity, Phillips Eye Institute,<br>Regina and St. Francis                                 |                  |                     |
| ** year over year change of the eleven county metro hospital inpatient market volume<br>for the twelve months ending March 2017 and December 2016 |                  |                     |

**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 8.6% for the nine months ended September 30, 2017, consistent with the market conditions for the period. To mitigate changes in interest rates on debt, Allina Health has entered into fixed-payer swaps, which are marked to market.

| NON-OPERATING GAINS                                      | ALLINA HEALTH                     |                | OBLIGATED GROUP                   |                |
|--|-----------------------------------|----------------|-----------------------------------|----------------|
|  | Nine Months Ended<br>September 30 |                | Nine Months Ended<br>September 30 |                |
|  | 2017                              | 2016           | 2017                              | 2016           |
| Interest and dividends                                   | \$ 21.4                           | \$ 18.1        | \$ 21.2                           | \$ 18.0        |
| Realized gains (losses) on sales of<br>investments       | -                                 | 14.4           | (1.8)                             | 13.8           |
| Unrealized gains (losses) on investments                 | 108.3                             | 41.1           | 107.6                             | 40.7           |
| Interest rate swap agreements - fair value               | 1.5                               | (21.4)         | 1.5                               | (21.4)         |
| Interest rate swap agreements -<br>counterparty interest | (8.7)                             | (9.6)          | (8.7)                             | (9.6)          |
| Loss on debt refinancing                                 | (8.5)                             | -              | (8.5)                             | -              |
| Other  | (2.0)                             | (2.4)          | (1.4)                             | (1.4)          |
| Total non-operating gains                                | <u>\$ 112.0</u>                   | <u>\$ 40.2</u> | <u>\$ 109.9</u>                   | <u>\$ 40.1</u> |

**ALLINA HEALTH SYSTEM**  
**Management's Discussion and Analysis of Results of Operations**  
 Nine Months Ended September 30, 2017

**Balance Sheet and Cash Flow**

Allina Health had 206 days cash on hand (DCOH) as of September 30, 2017, compared with 195 days at December 31, 2016. The increase is due to issuance of new bonds in the second quarter of 2017.

Leverage increased to 29.4% at September 30, 2016 up from 27.5% in December 31, 2016. Cash to debt is 214.4% as of September 30, 2017 compared to 232.0% at December 31, 2016.

System level capital spending was \$186.0 million for the nine months ended September 30, 2017 compared to capital spending of \$142.0 million for the same time period in 2016.

The one-time strike expenses incurred in 2016 have been excluded from the balance sheet and liquidity statistics as applicable.

| BALANCE SHEET & LIQUIDITY<br>STATISTICS | ALLINA HEALTH        |                     | OBLIGATED GROUP      |                     |
|---|----------------------|---------------------|----------------------|---------------------|
|   | September 30<br>2017 | December 31<br>2016 | September 30<br>2017 | December 31<br>2016 |
| Unrestricted cash & investments         | \$ 2,143.5           | \$ 1,954.3          | \$ 2,084.0           | \$ 1,897.3          |
| Days cash on hand                       | 206                  | 195                 | 203                  | 192                 |
| Total Debt                              | \$ 999.7             | \$ 842.5            | \$ 995.6             | \$ 837.9            |
| Unrestricted net assets                 | \$ 2,403.0           | \$ 2,222.2          | \$ 2,343.5           | \$ 2,162.3          |
| Debt to capitalization *                | 29.4%                | 27.5%               | 31.0%                | 29.3%               |
| Patient receivables                     | \$ 495.3             | \$ 470.2            | \$ 474.3             | \$ 449.8            |
| Days revenue in receivables, net        | 48                   | 47                  | 46                   | 45                  |
| Cash to debt                            | 214%                 | 232%                | 209%                 | 226%                |
| Historical annual debt service coverage | 4.8                  | 5.3                 | 5.0                  | 5.4                 |

\* Obligated Group includes Letters of Credit and Surety indebtedness

**ALLINA HEALTH SYSTEM**  
**Management's Discussion and Analysis of Results of Operations**  
Nine Months Ended September 30, 2017

| DAYS CASH ON HAND<br>ROLL-FORWARD | ALLINA HEALTH    |              |
|-----------------------------------|------------------|--------------|
|                                   | Cash             | Days         |
| December 31, 2016                 | \$1,954.3        | 195.3        |
| Operations                        | 239.0            | 23.0         |
| Growth in daily expenditures      |                  | (7.3)        |
| Investment gains                  | 129.7            | 12.5         |
| Proceeds from sales of properties | 7.9              | 0.8          |
| Capital expenditures              | (186.0)          | (17.9)       |
| Debt payments                     | (1.4)            | (0.1)        |
| September 30, 2017                | <u>\$2,143.5</u> | <u>206.3</u> |

| DEBT TO CAPITALIZATION<br>ROLL-FORWARD                             | ALLINA HEALTH  |                  |       |
|--|----------------|------------------|-------|
|  | Debt           | Equity           | Cap % |
| December 31, 2016  | \$ 842.5       | \$ 2,222.2       | 27.5% |
| Operating income   |                | 61.4             |       |
| Investment gains   |                | 129.7            |       |
| Loss on interest rate swap agreements                              |                | (7.2)            |       |
| Other non-operating losses   |                | (2.0)            |       |
| Loss on debt refinancing   |                | (8.5)            |       |
| Other changes in net assets  |                | 7.4              |       |
| Proceeds from issuance of long-term debt                           | 233.1          |                  |       |
| Refinancing of long-term debt                                      | (82.3)         |                  |       |
| Debt acquisition cost and premium on<br>issuance of long-term debt | 8.4            |                  |       |
| Debt payments and amortization of<br>bond premium, net             | (2.0)          |                  |       |
| September 30, 2017   | <u>\$999.7</u> | <u>\$2,403.0</u> | 29.4% |



**ALLINA HEALTH SYSTEM**  
**Consolidated Utilization Statistics**

|                                     | Nine Months Ended |              | Twelve Months ended |             |
|-------------------------------------|-------------------|--------------|---------------------|-------------|
|                                     | September 30      | September 30 | December 31         | December 31 |
|                                     | 2017              | 2016         | 2016                | 2015        |
| Hospitals                           |                   |              |                     |             |
| Admissions *                        | 77,301            | 77,423       | 103,268             | 103,530     |
| Patient Days *                      | 317,537           | 315,232      | 422,334             | 419,174     |
| Average length of stay              | 4.1               | 4.1          | 4.1                 | 4.0         |
| Observation days                    | 15,948            | 16,663       | 22,172              | 21,372      |
| Licensed beds                       | 2,451             | 2,451        | 2,451               | 2,451       |
| Staffed beds                        | 1,682             | 1,716        | 1,722               | 1,736       |
| Outpatient admissions               | 1,068,882         | 1,048,553    | 1,398,558           | 1,377,687   |
| Emergency room visits               | 228,564           | 237,093      | 312,851             | 317,061     |
| Inpatient surgical procedures       | 23,077            | 22,482       | 30,311              | 30,388      |
| Outpatient surgical procedures      | 42,203            | 41,994       | 56,758              | 57,874      |
| Physicians and allied professionals |                   |              |                     |             |
| Work RVUs                           | 5,823,757         | 5,504,149    | 7,330,158           | 7,095,287   |
| Ambulance transports                | 60,637            | 54,907       | 74,775              | 70,991      |

\* Results exclude newborns.

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

**Debt Structure**

| <b>Allina Health's current debt structure as of September 30, 2017</b> |                   |                   |                               |                    |                        |
|--|-------------------|-------------------|-------------------------------|--------------------|------------------------|
| 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%                  |
| 2015   | 250,000           | Fixed Rate        | 2045                          | None               | 4.81%                  |
| 2014   | 18,520            | Fixed Rate        | 2028                          | None               | 2.55%                  |
| 2009A  | 89,050            | Fixed Rate        | 2029                          | None               | 4.89%                  |
| 2009B  | 114,525           | Daily VRDB        | 2035                          | JP Morgan LOC      | 0.70%                  |
| 2009C  | 50,000            | Weekly VRDB       | 2035                          | Wells Fargo LOC    | 0.77%                  |
| 2007A  | 87,540            | Fixed Rate        | 2022                          | MBIA Insured       | 5.06%                  |
| 2007C  | 119,700           | Weekly VRDB       | 2034                          | Wells Fargo LOC    | 0.77%                  |
| 1998A  | 14,575            | Auction Rate      | 2022                          | MBIA Insured       | 1.39%                  |
| 1993B  | 8,700             | Auction Rate      | 2017                          | Ambac Insured      | 1.15%                  |
|  | <u>981,125</u>    | Total Bonds       |                               |                    |                        |
| Other ***  | <u>18,529</u>     |                   |                               |                    |                        |
|  | <b>999,654</b>    | <b>Total Debt</b> |                               |                    |                        |
| Fixed Rate   | \$ 673,625        | 67.4%             |                               |                    |                        |
| Hedged Variable Rate**   | 298,800           | 29.9%             | (2009B, 2009C, 2007C & 1998A) |                    |                        |
| Unhedged Variable Rate   | 8,700             | 0.9%              |                               |                    |                        |
| Other  | <u>18,529</u>     | 1.8%              |                               |                    |                        |
| <b>Total</b>   | <b>\$ 999,654</b> |                   |                               |                    |                        |

\* 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. If the \$50,000 swap and additional \$500 1998A notional were applied to current unhedged variable rate bonds, all bonds would be fixed or hedged, with hedged variable rate debt making up 30.8% of total debt, totaling \$307,500.

\*\*\* 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.

| <b>Liquidity Support</b> |                   |                   |              |                              |                     |              |
|--------------------------|-------------------|-------------------|--------------|------------------------------|---------------------|--------------|
| Debt                     | Liquidity Support | Amount            | Expiration   | Termination Trigger - Rating | Term-Out Provisions | Counterparty |
| 2009B                    | Letter of Credit  | \$ 114,525        | January 2018 | Allina Rating Less Than BBB  | 5 Year              | JP Morgan    |
| 2009C                    | Letter of Credit  | 50,000            | January 2018 | Allina Rating Less Than BBB  | 5 Year              | Wells Fargo  |
| 2007C                    | Letter of Credit  | <u>119,700</u>    | January 2018 | Allina Rating Less Than BBB  | 5 Year              | Wells Fargo  |
|                          |                   | <u>\$ 284,225</u> |              |                              |                     |              |

### Asset Allocation and Liquidity

Allina Health maintains its unrestricted investments in cash, money market funds 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.

| <b>Unrestricted Cash and Investments - Asset Allocation</b> |               |                  |           |                  |           |
|---|---------------|------------------|-----------|------------------|-----------|
| <b>Unrestricted Balances</b>                                | <b>Target</b> | <b>9/30/2017</b> |           | <b>9/30/2016</b> |           |
| <b>Cash and Money Market</b>                                |               | 4.6%             | 98,710    | 6.5%             | 123,529   |
| <b>Short-Term Fixed Income</b>                              |               | 20.7%            | 443,578   | 23.9%            | 451,660   |
| <b>Total Liquidity Assets</b>                               | <b>25.0%</b>  | <b>25.3%</b>     | 542,288   | <b>30.4%</b>     | 575,189   |
| <b>Long-Term Assets</b>                                     | <b>75.0%</b>  | <b>74.7%</b>     | 1,601,190 | <b>69.6%</b>     | 1,318,540 |
| <b>Total Unrestricted Assets</b>                            |               | <b>100.0%</b>    | 2,143,478 | <b>100.0%</b>    | 1,893,729 |

  

| <b>Asset Allocation - Asset Class</b> |                                  |  |   |  |   |
|---------------------------------------|----------------------------------|--|---|--|---|
| <b>Investment</b>                     | <b>Current Target Allocation</b> | <b>9/30/2017 % of Long Term Assets</b> | <b>9/30/2017 % Total Unrestricted Investments</b> | <b>9/30/2016 % of Long Term Assets</b> | <b>9/30/2016 % Total Unrestricted Investments</b> |
| Global Equity                         | 31.0%                            | 34.9%                                  | 26.1%   | 32.2%                                  | 22.3%   |
| Long/Short Equity Hedge Funds         | 5.0%                             | 5.0%                                   | 3.7%  | 5.2%                                   | 3.6%  |
| Global Fixed Income                   | 35.0%                            | 32.8%                                  | 24.5%   | 35.1%                                  | 24.4%   |
| Fund of Hedge Funds                   | 0.0%                             | 0.0%                                   | 0.0%  | 0.1%                                   | 0.1%  |
| Opportunistic and Other               | 21.0%                            | 20.0%                                  | 14.9%   | 20.1%                                  | 14.0%   |
| Real Return                           | 8.0%                             | 7.3%                                   | 5.5%  | 7.3%                                   | 5.1%  |
| <b>Total Long-Term</b>                | <b>100.0%</b>                    | <b>100.0%</b>                          | <b>74.7%</b>                                      | <b>100.0%</b>                          | <b>69.6%</b>                                      |
| Cash and Money Market                 |                                  |  | 4.6%  |  | 6.5%  |
| Short-Term Fixed Income               |                                  |  | 20.7%   |  | 23.9%   |
| <b>Total Liquidity</b>                |                                  |  | <b>25.3%</b>                                      |  | <b>30.4%</b>                                      |

Allina Health is invested in nine direct hedge funds. Three of these direct hedge funds are invested in distressed debt and strategic fixed income and are included in the opportunistic and other allocation. Six additional long/short equity direct hedge funds are considered a part of the overall global equity component. Allina Health also has six direct investments in private capital with funding commitments that will be drawn down over the next several years. As of September 30, 2017 these private capital holdings represented approximately 3.05% of unrestricted assets.

### Allina Health Summary of Key Financial Ratios

| Indicators   | Nine Months Ended<br>September 30, |       | Year Ended December 31, |       |       |
|--|------------------------------------|-------|-------------------------|-------|-------|
|  | 2017                               | 2016  | 2016                    | 2015  | 2014  |
| Liquidity Ratios:                                  |                                    |       |                         |       |       |
| Monthly DCOH*                                      | 182                                | 169   | 172                     | 174   | 163   |
| Annual DCOH**                                      | 200                                | 186   | 189                     | 199   | 187   |
| Traditional DCOH                                   | 206                                | 192   | 195                     | 204   | 190   |
| Days Cash on Hand<br>(Obligated Group)             | 203                                | 187   | 192                     | 200   | 185   |
| Cash to Debt                                       | 214%                               | 219%  | 232%                    | 224%  | 271%  |
| Days Revenue in Receivables, net                   |                                    |       |                         |       |       |
| Hospitals  | 49                                 | 49    | 49                      | 51    | 48    |
| Clinics  | 29                                 | 28    | 27                      | 24    | 24    |
| VRDB Debt (in millions)                            | \$284                              | \$285 | \$284                   | \$285 | \$286 |
| Monthly liquidity to VRDB debt                     | 665%                               | 586%  | 606%                    | 585%  | 516%  |
| Capital Structure Ratios:                          |                                    |       |                         |       |       |
| Historical Coverage Ratio (x)<br>(Obligated Group) | 5.0                                | 5.8   | 5.4                     | 7.1   | 6.6   |
| Cushion Ratio (x) (Obligated Group)                | 31.9                               | 29.3  | 29.8                    | 34.8  | 33.2  |
| Leverage (Obligated Group)                         | 31.0%                              | 30.2% | 29.4%                   | 30.3% | 26.1% |
| Leverage   | 29.4%                              | 28.4% | 27.5%                   | 28.7% | 24.0% |
| Profitability Ratios:                              |                                    |       |                         |       |       |
| EBIDA Margin                                       | 7.2%                               | 8.3%  | 8.1%                    | 8.7%  | 8.8%  |
| Operating Margin                                   | 2.0%                               | 3.1%  | 3.0%                    | 3.9%  | 4.0%  |
| Net Income Margin                                  | 5.7%                               | 0.9%  | 1.5%                    | 3.4%  | 4.3%  |
| Revenue Growth                                     | 3.7%                               | 4.3%  | 4.0%                    | 5.4%  | 5.3%  |

Note: All ratios are for Allina Health consolidated financial results, unless otherwise noted.  
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