



# Allina Health

**Quarterly Financial Disclosure Statement  
Three Months Ended  
March 31, 2018**

*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**  
Three Months Ended March 31, 2018

**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 more than 27,600 full and part-time employees, Allina Health is one of the largest employers in Minnesota. Allina Health consolidated net revenue for the three months ended March 31, 2018 was \$1.0 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 26,300 inpatient admissions and 343,400 outpatient visits during the three months ended March 31, 2018. As of March 31, 2018, Allina Health hospitals had licensed bed capacity of 2,451 acute care beds, 1,755 of which were staffed for inpatient services.

Allina Health provides clinical services through its Allina Health Group and hospital-based physicians and employs 1,400 physicians. These physicians include approximately 770 in the Allina Health Group, which controls and operates 65 clinics and operates the clinical services lines. They include approximately 210 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 330 specialty physicians including intensivists, perinatologists, and psychiatrists in the Allina Health hospitals. Allina Health physicians and allied professionals generated more than 1,973,500 work RVUs<sup>1</sup> during the three months ended March 31, 2018. The Allina Integrated Medical ("AIM") Network aligns Allina Health physicians, 2,000 independent medical physicians, and over 20 hospitals to deliver market-leading quality and efficiency in patient care. Allina Health is a comprehensive health care system and has one of the largest physician networks in Minnesota.

The Minneapolis/Saint Paul metropolitan market has experienced stable population growth for the past several years. 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 30.9% inpatient market share as of June 30, 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 (48) – *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***

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.<sup>2</sup> (55) - *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.

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<sup>2</sup> Mr. Wieland accepted the position of Chief Medical Officer for the Allina Health and Aetna Insurance Company and transitioned out of Allina Health, effective May 14, 2018.

**Elizabeth Truesdell Smith (55) – 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, Chief Population Health Officer**

Dr. Bache-Wiig assumed the role of Chief Population Health Officer in March 2018. He had previously served as Chief Clinical Officer since December 2016, and prior to that he 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 (57) – Senior Vice President, Allina Health Operations 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, Cambridge, and St. Francis Hospitals, Mental Health Services and patient experience.

**Tom O'Connor (52) – Senior Vice President, Allina Health Operations and President, United Hospital**

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 coordination of Allina Health's community and affiliate hospitals and sponsoring key performance improvement initiatives.

**Christine Moore (48) – Senior Vice President, Chief Human Resource Officer**

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

**Jonathan Shoemaker (47) – Senior Vice President, Chief Information and Improvement Officer**

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

**Jeffrey Shoemate (51) – Senior Vice President, Chief Marketing and Communications Officer**

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

**Timothy Sielaff, M.D. (55) – *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.

**Katherine Tarvestad (55) – *Senior Vice President, Chief Compliance Officer***

Ms. Tarvestad joined Allina Health as Senior Vice President, Chief Compliance Officer in August 2015. Prior to joining Allina Health, Ms. Tarvestad was Vice President of Corporate Compliance and Chief Compliance Officer at Park Nicollet before becoming Vice President, Integrity and Compliance and Care Group Compliance Officer for the combined HealthPartners and Park Nicollet. Ms. Tarvestad holds a Bachelor Degree in Sociology and Business from St. Cloud State University, and a Juris Doctor from the William Mitchell College of Law.

**Recent Initiatives and Developments**

**Allina Health Everyday Clinic**

Two new Allina Health Everyday Clinics opened in April 2018 inside the Eagan Hy-Vee and the Lakeville Hy-Vee. The Allina Health Everyday Clinics are staffed by Allina Health board-certified advance practice clinicians and offer convenient care for minor illnesses and rapid laboratory testing for patients aged 18 months and older.

**Abbott Northwestern Hospital Neuroscience Inpatient Unit**

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

**Allina Health and Aetna Health Plan**

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

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

**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 fall of 2018.

## **Credit Ratings**

In May 2018, Standard & Poor's Ratings Services affirmed the AA- rating of Allina Health. The outlook is stable.

In March 2017, Fitch Ratings affirmed Allina Health's bond rating of AA-. 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).

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

	March 31 2018	December 31 2017
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 66,832	\$ 147,520
Short-term investments	327,426	404,934
Patient accounts receivable, net	527,311	506,044
Inventories	69,194	65,751
Other current assets	141,426	99,459
	<u>1,132,189</u>	<u>1,223,708</u>
Long-term investments	1,746,584	1,701,240
Investments with limited uses	154,463	158,934
Land, buildings, and equipment, net	1,206,662	1,221,692
Other assets	328,469	337,188
Total assets	<u>\$ 4,568,367</u>	<u>\$ 4,642,762</u>
<b>Liabilities and net assets</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 403,747	\$ 439,373
Current portion - long-term debt	26,122	26,235
Other current liabilities	71,704	104,330
	<u>501,573</u>	<u>569,938</u>
Long-term debt	948,350	949,048
Other liabilities	407,925	421,857
Total liabilities	<u>1,857,848</u>	<u>1,940,843</u>
Net assets:		
Unrestricted	2,540,245	2,530,561
Temporarily restricted	114,384	115,478
Permanently restricted	55,890	55,880
Total net assets	<u>2,710,519</u>	<u>2,701,919</u>
Total liabilities and net assets	<u>\$ 4,568,367</u>	<u>\$ 4,642,762</u>



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

	Three Months Ended	
	March 31	March 31
	2018	2017
Revenue:		
Net patient service revenue	988,500	934,290
Other operating revenue	58,509	61,400
Total revenues	<u>1,047,009</u>	<u>995,690</u>
Expenses:		
Salaries and benefits	675,115	648,871
Supplies and services	231,612	220,543
Depreciation and amortization	45,014	41,790
Financing costs	10,369	9,081
State assessments and taxes	23,536	23,181
Utilities and maintenance	17,192	16,582
Other operating expenses	34,771	27,314
Total expenses	<u>1,037,609</u>	<u>987,362</u>
Operating income	9,400	8,328
Nonoperating:		
Investment return	(7,146)	50,990
Interest rate swap agreements	8,792	41
Other	(1,317)	(583)
Excess of revenues over expenses	<u>\$ 9,729</u>	<u>\$ 58,776</u>

*Continued on next page.*

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

	Three Months Ended	
	March 31 2018	March 31 2017
<b>Unrestricted net assets</b>		
Excess of revenue over expenses	\$ 9,729	\$ 58,776
Net assets released from restrictions for capital purposes	129	5,999
Amortization of unrealized loss on interest rate swap agreement	218	218
Other	(392)	(1,513)
Increase in unrestricted net assets	<u>9,684</u>	<u>63,480</u>
<b>Temporarily restricted net assets</b>		
Contributions	2,373	6,736
Investment return	(390)	3,999
Net assets released from restrictions	(1,593)	(8,123)
Other	(1,484)	726
(Decrease) increase in temporarily restricted net assets	<u>(1,094)</u>	<u>3,338</u>
<b>Permanently restricted net assets</b>		
Contributions for endowment funds	60	58
Investment return	(6)	147
Other	(44)	-
Increase in permanently restricted net assets	<u>10</u>	<u>205</u>
Increase in net assets	8,600	67,023
Net assets at beginning of period	<u>2,701,919</u>	<u>2,388,136</u>
Net assets at end of period	<u><u>\$ 2,710,519</u></u>	<u><u>\$ 2,455,159</u></u>

*See accompanying notes.*

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

	Three Months Ended March 31 2018	March 31 2017
<b>Operating activities</b>		
Increase in net assets	\$ 8,600	\$ 67,023
Adjustments to reconcile increase in net assets to net cash and cash equivalents provided by operating activities:		
Depreciation and amortization	45,014	41,790
Gain on sale of properties	(42)	(3,063)
Unrealized gain on interest rate swaps, net	(11,332)	(3,055)
Realized and unrealized (gain) loss on investments, net	17,704	(49,724)
Restricted contributions	(2,367)	(4,611)
Restricted contributions of cash for long-lived assets	(66)	(2,183)
Earnings on equity investments	(2,319)	(5,916)
Change in assets and liabilities net of impact from acquisitions:		
Accounts receivable	(21,267)	(40,889)
Other current assets	(45,410)	(18,604)
Accounts payable and other current liabilities	(68,252)	(57,265)
Other assets and liabilities	7,071	(766)
Net cash and cash equivalents provided by operating activities	<u>(72,666)</u>	<u>(77,263)</u>
<b>Investing activities</b>		
Proceeds from sales of properties	6,612	1,949
Purchases of land, buildings, and equipment	(36,554)	(52,254)
Contributions of cash for long-lived assets	66	2,183
Purchases and sales of investments classified as trading, net	16,019	19,622
Purchases and sales of investments with limited uses, net	2,912	(2,075)
Distributions received from equity investments	1,182	1,746
Contributions to joint ventures	-	(1,200)
Net cash and cash equivalents used in investing activities	<u>(9,763)</u>	<u>(30,029)</u>
<b>Financing activities</b>		
Restricted contributions	2,367	4,611
Principal payments of long-term debt	(626)	(539)
Net cash and cash equivalents provided by financing activities	<u>1,741</u>	<u>4,072</u>
Decrease in cash and cash equivalents	(80,688)	(103,220)
Cash and cash equivalents at beginning of year	147,520	172,710
Cash and cash equivalents at end of period	<u>\$ 66,832</u>	<u>\$ 69,490</u>

See accompanying notes.

**ALLINA HEALTH SYSTEM**  
**Abridged Notes to Consolidated Financial Statements**  
Three months ended March 31, 2018 and 2017  
(Unaudited)  
(Dollars in thousands)

**1. Recently Adopted and Issued Accounting Standards**

On January 1, 2018, Allina Health adopted guidance under Accounting Standards Update (ASU) 2014-09, Revenue from Contracts with Customers (Topic 606). The standard requires an entity to recognize revenue when the entity transfers control of promised goods and services to the customer. Revenue is recognized in an amount that reflects the consideration an entity expects to receive in exchange for those goods and services. An entity is also required to disclose sufficient quantitative and qualitative information to enable users of financial statements to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. Allina Health uses a portfolio approach to apply the new model to classes of payers with similar characteristics and analyzes cash collection trends over an appropriate collection look-back period depending on the payer. Adoption of ASU 2014-09 resulted in changes to the presentation and disclosure of revenue related to uninsured or underinsured patients. Prior to the adoption of ASU 2014-09, the provision for bad debts related to self-pay patients, as well as co-pays and deductibles owed by patients with insurance. Under ASU 2014-09, the estimated uncollectible amounts due from these patients are generally considered a direct reduction to net operating revenues and, correspondingly, result in a material reduction in the amounts presented separately as provision for bad debts. Allina Health also assessed the impact of the new standard on various reimbursement programs that represent variable consideration and concluded that accounting for these programs under the new standard is substantially consistent with the historical accounting practices. While the adoption of ASU 2014-09 had a material effect on the presentation of net operating revenues in the Consolidated Statements of Operations and Changes in Net Assets and impacts certain disclosures, it did not materially impact the financial position, results of operations or cash flows of Allina Health. There was no cumulative effect of a change in accounting principle recorded related to the adoption of ASU 2014-09 on January 1, 2018.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which requires lessees to recognize leases on the balance sheet and disclose key information about leasing arrangements. The new standard establishes a right of use (ROU) model that requires a lessee to recognize a ROU asset and lease liability on the balance sheet for all leases with a term longer than 12 months. Leases will be classified as finance or operating, with classification affecting the pattern and classification of the expense recognition in the income statement. The new standard is effective for Allina Health beginning January 1, 2019. Allina Health continues to evaluate the standard, but expects it will have a material effect on the consolidated financial statements.

In August 2016, the FASB issued ASU 2016-14, Not-for Profit Entities (Topic 958), to change the way a not-for-profit entity (NFP) classifies and presents net assets on the face of the financial statements, and presents information in the financial statements and notes about the NFP's liquidity, financial performance and cash flows. The amendment changes the way an NFP reports classes of net assets, from the currently required three classes to two, by eliminating the distinction between resources with permanent restrictions and those with temporary restrictions. The amendment also requires the NFP to provide enhanced disclosure about the nature, amounts and effects of the various types of donor-imposed restrictions, the NFP's management of its liquidity to meet short-term demands for cash, and the types of resources used and how they are allocated to carrying out the NFP's activities. The standard is effective for Allina Health for the annual reporting period December 31, 2018. Allina Health does not expect the standard to have a material effect on the consolidated financial statements, other than the additional disclosure required by the standard.

**ALLINA HEALTH SYSTEM**  
**Abridged Notes to Consolidated Financial Statements**  
Three months ended March 31, 2018 and 2017  
(Unaudited)  
(Dollars in thousands)

**2. 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 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 implicit price concessions related to uninsured patients and self-pay balances of insured patients. In evaluating the consideration to be received for services, Allina Health analyzes its past history and identifies trends for each of its major payer sources of revenue to estimate implicit price concessions. Allina Health has not changed its charity care or uninsured discount policies during the periods presented in the consolidated financial statements.

**3. Fair Value Disclosures**

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

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

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

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

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

For level 2 and level 3 cash equivalents and fixed income assets that rely on significant other observable inputs and significant unobservable inputs, Allina Health employs multiple third-party information providers to help determine the fair value of the assets. Level 2 and level 3 securities in separately managed accounts are held at Bank of New York Mellon ("BNYMellon"), who acts as Trustee and Custodian for the assets. As Custodian, BNYMellon uses multiple pricing services to value the assets. The investment managers utilize their own pricing services and valuation processes. Any significant discrepancies between Custodian and investment manager values are reconciled on a monthly basis by the managers and BNYMellon. Allina Health also employs an investment consultant who researches significant pricing differences between the manager and custodian on a security by security basis. The consultant will notify the Custodian of any significant pricing issues. 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**  
Three months ended March 31, 2018 and 2017  
(Unaudited)  
(Dollars in thousands)

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

Allina Health's financial assets and liabilities that are measured at fair value on a recurring basis were recorded using the fair value hierarchy at March 31, 2018 as follows:

	Total	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
<b>Cash and Cash Equivalents</b>				
Cash	\$ 40,318	40,318	-	-
Money Market Funds	26,514	26,514	-	-
<b>Total Cash and Cash Equivalents</b>	<b>\$ 66,832</b>	<b>66,832</b>	<b>-</b>	<b>-</b>
<b>Investments - Trading Securities</b>				
Short-Term Fixed Income	2,455	360	2,095	-
Money Market Fund	23,976	23,976	-	-
<b>Total Short-Term Fixed and Money Market</b>	<b>26,431</b>	<b>24,336</b>	<b>2,095</b>	<b>-</b>
<b>Equity</b>				
Financials	27,324	27,324	-	-
Consumer	14,485	14,485	-	-
Industrials	14,059	14,059	-	-
Technology	2,047	2,047	-	-
Healthcare	3,525	3,525	-	-
Global Equity Mutual Funds	102,554	102,554	-	-
Other Equity	20,538	17,837	2,701	-
<b>Total Equity</b>	<b>184,532</b>	<b>181,831</b>	<b>2,701</b>	<b>-</b>
<b>Fixed Income</b>				
U.S. Treasury Securities	152,361	152,361	-	-
U.S. Agency Securities	167,052	-	167,052	-
Corporate Bonds	178,937	-	178,937	-
Mortgage, Commercial, & Asset Backed Securities	77,068	-	77,068	-
Sovereigns	3,867	-	3,867	-
Term Loan/Private Placements	71,176	-	70,802	374
Unconstrained Fixed Income Mutual Funds	243,382	243,382	-	-
Other Fixed Income	27,051	6	27,045	-
<b>Total Fixed Income</b>	<b>920,894</b>	<b>395,749</b>	<b>524,771</b>	<b>374</b>
<b>Other Investments</b>				
Real Return Mutual Funds	144,536	144,536	-	-
<b>Total Other Investments</b>	<b>144,536</b>	<b>144,536</b>	<b>-</b>	<b>-</b>
<b>Investments Accounted for at Net Asset Value</b>	<b>797,617</b>			
<b>Total Investments - Trading Securities</b>	<b>\$ 2,074,010</b>	<b>746,452</b>	<b>529,567</b>	<b>374</b>
<b>Total Unrestricted Cash and Investments</b>	<b>\$ 2,140,842</b>	<b>813,284</b>	<b>529,567</b>	<b>374</b>

**ALLINA HEALTH SYSTEM**  
**Abridged Notes to Consolidated Financial Statements**  
Three months ended March 31, 2018 and 2017  
(Unaudited)  
(Dollars in thousands)

**3. 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	\$ 131	7	124	-
Money Market Fund	11,935	11,935	-	-
Equity	12,388	12,207	181	-
Fixed Income	58,727	25,645	33,057	25
Real Return Mutual Funds	9,703	9,703	-	-
Investments Accounted for at Net Asset Value	53,545			
Restricted Foundation Trusts	7,937	-	7,937	-
<b>Total Investments with Limited Uses - Trading Securities</b>	<u>154,366</u>	<u>59,497</u>	<u>41,299</u>	<u>25</u>
<b>Investments with Limited Uses - Available-for-Sale Securities</b>				
Money Market Fund	97	97	-	-
<b>Total Investments with Limited Uses - Available-for-Sale Securities</b>	<u>97</u>	<u>97</u>	<u>-</u>	<u>-</u>
<b>Total Investments with Limited Uses</b>	<u>\$ 154,463</u>	<u>59,594</u>	<u>41,299</u>	<u>25</u>
<b>Total Cash and Investments</b>	<u>\$ 2,295,305</u>	<u>872,878</u>	<u>570,866</u>	<u>399</u>
<b>Liabilities:</b>				
Interest Rate Swaps	\$ 69,520	-	69,520	-

**Fair Value Measurements, Level 3**

	<u>Term Loan</u>
Balance December 31, 2017	\$ 392
Total Realized and Unrealized Gains (Losses)	-
Purchases	158
Sales	(151)
Balance March 31, 2018	<u>\$ 399</u>

**ALLINA HEALTH SYSTEM**  
**Abridged Notes to Consolidated Financial Statements**  
Three months ended March 31, 2018 and 2017  
(Unaudited)  
(Dollars in thousands)

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

Fair value measurements of investments in certain entities that calculate net asset value per share (or its equivalent) as of March 31, 2018, is as follows:

	Net Asset Value*	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period	Redemption Settlement Period
Global Bond Fund	\$ 95,481	-	Monthly	15 Days	Up to 30 days
Emerging Markets Equity Fund	102,434	-	Daily/Weekly	5/10 Days	Up to 7-10 days
Global Equity Fund	307,393	-	Daily/Bi-Monthly	1-10 Days	Up to 5-10 days
Private Capital Funds	70,808	\$ 51,277	Not redeemable	NA	NA
Equity Long/Short Hedge Funds	77,855	-	Monthly/Quarterly	30-90 Days	Up to 10-90 days
Emerging Market Debt Fund	37,354	-	Daily	Same Day	Up to 15 days
Opportunistic Fixed Income Hedge Funds	159,837	-	Quarterly	45-90 Days	1-90 days
	<u>\$ 851,162</u>	<u>\$ 51,277</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 Capital Funds include two limited partnership investments that focus on healthcare services and information technology companies, a limited partnership that makes venture capital investments in healthcare companies, a limited partnership that makes 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**  
Three months ended March 31, 2018 and 2017  
*(Unaudited)*  
*(Dollars in thousands)*

**4. Derivative Instruments**

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

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

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

Swap	Balance Sheet Location	Fair Value Liability	Notional Outstanding	Rate Paid	Rate Received	Counterparty
2009B & C	Other liabilities	26,943	123,394	3.73%	% of Libor	JP Morgan
2009B & C	Other liabilities	9,006	41,131	3.74%	% of Libor	Wells Fargo
2007C	Other liabilities	19,310	119,125	3.58%	% of Libor	US Bank
2001	Other liabilities	13,281	50,000	5.17%	SIFMA	Goldman Sachs
1998A	Other liabilities	980	15,075	4.44%	SIFMA	Goldman Sachs
<b>Total</b>		<b>\$ 69,520</b>	<b>\$ 348,725</b>			

As of March 31, 2018 Allina Health had no collateral posted related to the swaps.

Fair value swap valuations require non-performance risk (i.e. credit risk) to be included in the valuation. Non-performance risk is defined as the risk that the obligation will not be fulfilled and affects the value at which the liability is transferred. This non-performance risk is determined by adjusting the discounting rate by a credit spread as of the reporting date. The addition of the credit spread to the discounting rate reduces the reported liability. The fair value reported liability of the swaps is approximately \$1,970 less than the mark-to-market valuations.

**ALLINA HEALTH SYSTEM**  
**Abridged Notes to Consolidated Financial Statements**  
Three months ended March 31, 2018 and 2017  
(Unaudited)  
(Dollars in thousands)

**4. Derivative Instruments (continued)**

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

	Amount of gain (loss) on change in fair value recognized as non- operating: interest rate swap agreements		Amount of loss reclassified from unrestricted net assets into revenues over expenses as non- operating: interest rate swap agreements		Amount of interest paid to counterparty recognized as non- operating: interest rate swap agreements		Totals	
	Three months ended Mar. 31		Three months ended Mar. 31		Three months ended Mar. 31		Three months ended Mar. 31	
	2018	2017	2018	2017	2018	2017	2018	2017
2009 B&C	\$ 5,699	\$ 1,378	\$ -	\$ -	\$ (1,029)	\$ (1,214)	\$ 4,670	\$ 164
2007C	3,361	912	-	-	(671)	(873)	2,690	39
2001	2,037	618	-	-	(499)	(566)	1,538	52
1998A	235	147	(218)	(218)	(123)	(143)	(106)	(214)
	\$ 11,332	\$ 3,055	\$ (218)	\$ (218)	\$ (2,322)	\$ (2,796)	\$ 8,792	\$ 41

**5. Contingencies and Litigation**

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

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

**6. Subsequent Events**

Allina Health has evaluated subsequent events from the consolidated balance sheet date through May 14, 2018, the date at which the consolidated financial statements were distributed, and determined there are no other items to disclose.

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

	March 31 2018	December 31 2017
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 54,280	\$ 138,154
Short-term investments	327,426	404,934
Patient accounts receivable, net	504,740	485,475
Inventories	68,636	65,606
Other current assets	138,663	96,268
	<u>1,093,745</u>	<u>1,190,437</u>
Long-term investments	1,703,914	1,658,637
Investments with limited uses	11,796	16,181
Beneficial interest in net assets of Allina		
Foundations	202,900	204,265
Land, buildings, and equipment, net	1,198,364	1,213,609
Other assets	230,247	256,215
Total assets	<u><u>\$ 4,440,966</u></u>	<u><u>\$ 4,539,344</u></u>
<b>Liabilities and net assets</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 373,864	\$ 423,873
Current portion long-term debt	25,309	25,441
Other current liabilities	71,704	104,331
	<u>470,877</u>	<u>553,645</u>
Long-term debt	945,467	945,953
Other liabilities	339,434	353,630
Total liabilities	<u>1,755,778</u>	<u>1,853,228</u>
Net assets:		
Unrestricted	2,473,490	2,471,579
Temporarily restricted	155,808	158,657
Permanently restricted	55,890	55,880
Total net assets	<u>2,685,188</u>	<u>2,686,116</u>
Total liabilities and net assets	<u><u>\$ 4,440,966</u></u>	<u><u>\$ 4,539,344</u></u>

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

	Three Months Ended	
	March 31	March 31
	2018	2017
Revenue:		
Net patient service revenue	980,255	929,820
Other operating revenue	55,884	58,324
Total revenues	1,036,139	988,144
Expenses:		
Salaries and benefits	671,481	645,432
Supplies and services	218,862	209,683
Depreciation and amortization	44,535	41,339
Financing costs	10,253	8,983
State assessments and taxes	23,305	23,054
Utilities and maintenance	17,068	16,416
Other	40,502	32,618
Total expenses	1,026,006	977,525
Operating income	10,133	10,619
Nonoperating:		
Investment return	(6,807)	49,642
Interest rate swap agreements	8,792	41
Other	(1,120)	(365)
Excess of revenues over expenses	\$ 10,998	\$ 59,937

*Continued on next page.*

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

	Three Months Ended	
	March 31 2018	March 31 2017
<b>Unrestricted net assets</b>		
Excess of revenues over expenses	\$ 10,998	\$ 59,937
Net assets released from restrictions for capital purposes	129	5,999
Amortization of unrealized loss on interest rate swap agreement	218	218
Capital contributions to nonobligated group affiliates, net	(8,761)	(8,161)
Other	(673)	(1,309)
Increase in unrestricted net assets	<u>1,911</u>	<u>56,684</u>
<b>Temporarily restricted net assets</b>		
Contributions	66	2,183
Investment return	(5)	117
Net assets released from restrictions	(66)	(2,183)
Change in beneficial interest in net assets of Allina Foundations	(1,380)	2,062
Other	(1,464)	722
(Decrease) increase in temporarily restricted net assets	<u>(2,849)</u>	<u>2,901</u>
<b>Permanently restricted net assets</b>		
Investment return	(5)	149
Change in beneficial interest in net assets of Allina Foundations	15	56
Increase in permanently restricted net assets	<u>10</u>	<u>205</u>
(Decrease) increase in net assets	(928)	59,790
Net assets at beginning of period	2,686,116	2,372,401
Net assets at end of period	<u><u>\$ 2,685,188</u></u>	<u><u>\$ 2,432,191</u></u>

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

	Three Months Ended	
	March 31 2018	March 31 2017
<b>Operating activities</b>		
(Decrease) increase in net assets	\$ (928)	\$ 59,790
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	44,535	41,339
Gain on sale of properties	(42)	(3,063)
Unrealized gain on interest rate swaps, net	(11,332)	(3,055)
Realized and unrealized loss (gain) on investments, net	16,979	(44,497)
Restricted contributions of cash for long-lived assets	(66)	(2,183)
Beneficial interest in net assets of Allina Foundations	1,365	(2,118)
Capital contributions to non-obligated group affiliates, net	8,761	8,161
Earnings on equity investments	(2,319)	(5,916)
Change in assets and liabilities net of impact from acquisitions:		
Accounts receivable	(19,265)	(11,470)
Other current assets	(45,425)	(46,863)
Accounts payable and other current liabilities	(61,101)	(48,380)
Other assets and liabilities	2,521	(394)
Net cash and cash equivalents used in operating activities	(66,317)	(58,649)
<b>Investing activities</b>		
Proceeds from sales of properties	6,612	1,950
Purchases of land, buildings, and equipment	(35,860)	(52,218)
Contributions of cash for long-lived assets	66	2,183
Purchases and sales of investments classified as trading, net	19,637	11,005
Distributions received from equity investments	1,182	1,746
Contributions to joint ventures	-	(1,200)
Capital contributions to non-obligated group affiliates, net	(8,761)	(8,161)
Net cash and cash equivalents used in investing activities	(17,124)	(44,695)
<b>Financing activities</b>		
Principal payments of long-term debt	(433)	(361)
Net cash and cash equivalents used in financing activities	(433)	(361)
Decrease in cash and cash equivalents	(83,874)	(103,705)
Cash and cash equivalents at beginning of year	138,154	166,469
Cash and cash equivalents at end of period	<u>\$ 54,280</u>	<u>\$ 62,764</u>

**ALLINA HEALTH SYSTEM**  
**Consolidating Balance Sheet**  
(Unaudited)  
(Dollars in thousands)

March 31, 2018

	Obligated Group	Other Allina Health Entities*	Allina Health System
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ 54,280	\$ 12,552	\$ 66,832
Short-term investments	327,426	-	327,426
Patient accounts receivable, net	504,740	22,571	527,311
Inventories	68,636	558	69,194
Other current assets	138,663	2,763	141,426
	<u>1,093,745</u>	<u>38,444</u>	<u>1,132,189</u>
Long-term investments	1,703,914	42,670	1,746,584
Investments with limited uses	11,796	142,667	154,463
Beneficial interest in net assets of Allina Foundations	202,900	(202,900)	-
Land, buildings, and equipment, net	1,198,364	8,298	1,206,662
Other assets	230,247	98,222	328,469
Total assets	<u>\$ 4,440,966</u>	<u>\$ 127,401</u>	<u>\$ 4,568,367</u>
<b>Liabilities and net assets</b>			
Current liabilities:			
Accounts payable and accrued expenses	\$ 373,864	\$ 29,883	\$ 403,747
Current portion long-term debt	25,309	813	26,122
Other current liabilities	71,704	-	71,704
	<u>470,877</u>	<u>30,696</u>	<u>501,573</u>
Long-term debt	945,467	2,883	948,350
Other liabilities	339,434	68,491	407,925
Total liabilities	<u>1,755,778</u>	<u>102,070</u>	<u>1,857,848</u>
Net assets:			
Unrestricted	2,473,490	66,755	2,540,245
Temporarily restricted	155,808	(41,424)	114,384
Permanently restricted	55,890	-	55,890
Total net assets	<u>2,685,188</u>	<u>25,331</u>	<u>2,710,519</u>
Total liabilities and net assets	<u>\$ 4,440,966</u>	<u>\$ 127,401</u>	<u>\$ 4,568,367</u>

\*Including eliminations.

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

Three Months Ended March 31, 2018

	Obligated Group	Other Allina Health Entities*	Allina Health System
Revenue:			
Net patient service revenue	980,255	8,245	988,500
Other operating revenue	55,884	2,625	58,509
Total revenues	1,036,139	10,870	1,047,009
Expenses:			
Salaries and benefits	671,481	3,634	675,115
Supplies and services	218,862	12,750	231,612
Depreciation and amortization	44,535	479	45,014
Financing costs	10,253	116	10,369
State assessments and taxes	23,305	231	23,536
Utilities and maintenance	17,068	124	17,192
Other	40,502	(5,731)	34,771
Total expenses	1,026,006	11,603	1,037,609
Operating income (loss)	10,133	(733)	9,400
Nonoperating:			
Investment return	(6,807)	(339)	(7,146)
Interest rate swap agreements	8,792	-	8,792
Other	(1,120)	(197)	(1,317)
Excess (deficit) of revenues over expenses	\$ 10,998	\$ (1,269)	\$ 9,729

*\*Including eliminations.*

*Continued on next page.*



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

Three Months Ended March 31, 2018

	Obligated Group	Other Allina Health Entities*	Allina Health System
<b>Unrestricted net assets</b>			
Excess of revenue over expenses	\$ 10,998	\$ (1,269)	\$ 9,729
Net assets released from restrictions for capital purposes	129	-	129
Amortization of unrealized loss on interest rate swap agreement	218	-	218
Capital contributions from nonobligated group affiliates, net	(8,761)	8,761	-
Other	(673)	281	(392)
Increase in unrestricted net assets	<u>1,911</u>	<u>7,773</u>	<u>9,684</u>
<b>Temporarily restricted net assets</b>			
Contributions	66	2,307	2,373
Investment return	(5)	(385)	(390)
Net assets released from restrictions	(66)	(1,527)	(1,593)
Change in beneficial interest in net assets of Allina Foundations	(1,380)	1,380	-
Other	(1,464)	(20)	(1,484)
(Decrease) increase in temporarily restricted net assets	<u>(2,849)</u>	<u>1,755</u>	<u>(1,094)</u>
<b>Permanently restricted net assets</b>			
Contributions for endowment funds	-	60	60
Investment return	(5)	(1)	(6)
Change in beneficial interest in net assets of Allina Foundations	15	(15)	-
Other	-	(44)	(44)
Increase in permanently restricted net assets	<u>10</u>	<u>-</u>	<u>10</u>
(Decrease) increase in net assets	(928)	9,528	8,600
Net assets at beginning of period	<u>2,686,116</u>	<u>15,803</u>	<u>2,701,919</u>
Net assets at end of period	<u>\$ 2,685,188</u>	<u>\$ 25,331</u>	<u>\$ 2,710,519</u>

\*Including eliminations.

# ALLINA HEALTH SYSTEM

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

Three Months Ended March 31, 2018

*(Dollars in millions)*

### Operating Results

Allina Health's operating margin was 0.9% for the three months ended March 31, 2018 compared to 0.8% for the same period in 2017. Operating income increased by \$1.1 million when compared to the same period in 2017 due to growth in operating revenues.

Allina Health's Earnings Before Interest, Depreciation and Amortization (EBIDA) margin was 6.2% for the three months ended March 31, 2018 compared to 5.9% for the same period in 2017. Non operating investment return and swap unrealized losses were consistent with market conditions.

EARNINGS SUMMARY	ALLINA HEALTH		OBLIGATED GROUP	
	Three Months Ended March 31		Three Months Ended March 31	
	2018	2017	2018	2017
EBIDA	\$ 64.4	\$ 59.0	\$ 64.8	60.9
Interest income	0.4	0.2	0.1	-
Financing costs	(10.4)	(9.1)	(10.3)	(9.0)
Depreciation and amortization	(45.0)	(41.8)	(44.5)	(41.3)
Operating Income	9.4	8.3	10.1	10.6
Investment return	(7.2)	51.0	(6.8)	49.6
Interest rate swap agreements	8.8	-	8.8	-
Non-operating other	(1.3)	(0.5)	(1.1)	(0.3)
Excess of revenues over expenses	<u>\$ 9.7</u>	<u>\$ 58.8</u>	<u>\$ 11.0</u>	<u>\$ 59.9</u>

**ALLINA HEALTH SYSTEM**  
**Management's Discussion and Analysis of Results of Operations**  
Three Months Ended March 31, 2018

**Revenues**

Allina Health's revenue increased \$51.3 million, or 5.2% for the three months ended March 31, 2018 as compared to 2017. Hospital net patient revenue growth was 7.2%. Through March 2018, 41.4% of net patient revenue is net inpatient revenue, up from 40.0% in 2017. The clinics (excluding hospital based) experienced an overall 0.6% increase in net patient revenue, due to clinical volumes that grew 1.3% year over year. Outpatient and clinic revenue increased 3.0% over the prior year, and decreased to 58.6% as a percent of net patient revenue in 2018 when compared to 60.0% in 2017.

REVENUE	ALLINA HEALTH		OBLIGATED GROUP	
	Three Months Ended March 31		Three Months Ended March 31	
	2018	2017	2018	2017
Hospital Net Patient Revenue	\$ 734.1	\$ 685.1	\$ 734.1	\$ 685.1
Change	7.2%		7.2%	
Clinic Net Patient Revenue	183.2	182.1	178.5	177.8
Change	0.6%		0.4%	
Other Net Patient Revenue	71.2	67.1	67.6	66.9
Change	6.1%		1.0%	
Other Revenue	58.5	61.4	55.9	58.3
Change	-4.7%		-4.1%	
Total Revenue	<u>\$ 1,047.0</u>	<u>\$ 995.7</u>	<u>\$ 1,036.1</u>	<u>\$ 988.1</u>
Change	5.2%		4.9%	

**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 23.1% of total net patient revenue and 15.4% of total gross patient revenue for the three months ended March 31, 2018.

ALLINA HEALTH	Net Patient Revenue		Gross Patient Revenue	
	March 31		March 31	
PAYER MIX PERCENTAGE	2018	2017	2018	2017
Medicare	30.6%	29.7%	43.5%	42.7%
Medicaid	10.8	11.0	16.0	15.3
Contracted Payers	54.1	54.6	36.1	36.6
Self Pay	2.4	3.0	2.0	2.1
Other	2.1	1.7	2.4	3.3
Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

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**Uncompensated Care**

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

Uncompensated care (the combination of uninsured, charity care, and implicit price concessions) increased \$2.6 million in gross charges, or 5.5% in 2018 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 \$6.0 million and \$5.2 million for the three months ended March 31, 2018 and 2017, respectively.

UNCOMPENSATED CARE AT GROSS CHARGES	ALLINA HEALTH	
	Three Months Ended March 31	
	2018	2017
Uninsured Discount	\$ 9.7	\$ 7.1
Charity Care Discount	14.0	12.0
Implicit Price Concessions	26.7	28.7
Total Uncompensated Care	<u>\$ 50.4</u>	<u>\$ 47.8</u>
Change	5.5%	
Total Uncompensated Care as a % of Gross Patient Charges	2.1%	2.1%

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**Volume**

Allina Health experienced inpatient and clinic volume growth in the three months ended March 31, 2018. Inpatient admissions increased by 2.4%, while inpatient surgeries increased 2.3% for the three months ended March 31, 2018 from 2017. Clinic work RVUs increased 1.3%. Outpatient surgeries increased by 1.5% although outpatient hospital admissions decreased 2.7%.

VOLUME STATISTICS	ALLINA HEALTH	
	Three Months Ended	
	March 31	
	2018	2017
Inpatient Hospital Admissions	26,311	25,699
Inpatient change from prior period	2.4%	
Observation days	5,219	5,583
Observation days change from prior period	-6.5%	
Outpatient Hospital Admissions	343,415	353,023
Outpatient change from prior period	-2.7%	
Average Length of Stay (days)	4.3	4.2
Hospital Patient Days	113,524	107,129
Patient days change from prior period	6.0%	
Hospital Occupancy (based on staffed beds)	71.9%	71.0%
Inpatient Surgeries	7,677	7,503
Outpatient Surgeries	14,046	13,841
Total Surgeries	21,723	21,344
Total surgeries change from prior period	1.8%	
Clinic Work RVUs	1,973,542	1,948,318
Work RVUs change from prior period	1.3%	
Total Case Mix	1.58	1.49
Medicare Case Mix	1.89	1.83

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**Market Share**

Allina Health continues to hold its market leading position. The following market share data from the Minnesota Hospital Association (MHA) statistical database for the eleven county metropolitan hospital inpatient market is updated as of June 30, 2017.

MARKET SHARE STATISTICS	ALLINA HEALTH	
	June 30 2017	December 31 2016
Allina Metro Hospital Inpatient Market Share *	30.9%	31.2%
Change in Total Metro Market Volume**	2.0%	1.1%
* Hospitals Include: Abbott Northwestern, United, Mercy, Phillips Eye Institute, Regina and St. Francis		
** year over year change of the eleven county metro hospital inpatient market volume for the twelve months ending June 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 -0.4% for the three months ended March 31, 2018, 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	
	Three Months Ended March 31		Three Months Ended March 31	
	2018	2017	2018	2017
Interest and dividends	\$ 10.1	\$ 5.5	\$ 10.1	\$ 5.2
Realized gains (losses) on sales of investments	2.7	0.9	2.7	0.9
Unrealized gains (losses) on investments	(20.0)	44.6	(19.6)	43.5
Interest rate swap agreements - fair value	11.3	3.1	11.3	3.1
Interest rate swap agreements - counterparty interest	(2.5)	(3.1)	(2.5)	(3.1)
Other	(1.3)	(0.5)	(1.1)	(0.3)
Total non-operating gains	<u>\$ 0.3</u>	<u>\$ 50.5</u>	<u>\$ 0.9</u>	<u>\$ 49.3</u>

**ALLINA HEALTH SYSTEM**  
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**Balance Sheet and Cash Flow**

Allina Health had 203 days cash on hand (DCOH) as of March 31, 2018, compared with 216 days at December 31, 2017. The decrease is due in part to annual payments that occur in the first quarter.

Leverage decreased to 27.7% at March 31, 2018 down from 27.8% in December 31, 2017. Cash to debt is 219.7% as of March 31, 2018 compared to 231.1% at December 31, 2017.

System level capital spending was \$36.6 million for the three months ended March 31, 2018 compared to capital spending of \$52.3 million for the same time period in 2017.

BALANCE SHEET & LIQUIDITY STATISTICS	ALLINA HEALTH		OBLIGATED GROUP	
	March 31 2018	December 31 2017	March 31 2018	December 31 2017
Unrestricted cash & investments	\$ 2,140.8	\$ 2,253.7	\$ 2,085.6	\$ 2,201.7
Days cash on hand	203	216	199	213
Total Debt	\$ 974.5	\$ 975.3	\$ 970.8	\$ 971.4
Unrestricted net assets	\$ 2,540.2	\$ 2,530.6	\$ 2,473.5	\$ 2,471.6
Debt to capitalization *	27.7%	27.8%	29.4%	29.4%
Patient receivables	\$ 527.3	\$ 506.0	\$ 504.7	\$ 485.5
Days revenue in receivables, net	49	48	47	46
Cash to debt	220%	231%	215%	227%
Historical annual debt service coverage	5.7	5.5	5.8	5.6

\* Obligated Group includes Letters of Credit and Surety indebtedness

**ALLINA HEALTH SYSTEM**  
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DAYS CASH ON HAND ROLL-FORWARD	ALLINA HEALTH	
	Cash	Days
December 31, 2017	\$2,253.7	215.8
Operations	(75.1)	(7.1)
Growth in daily expenditures		(2.4)
Investment gains	(7.2)	(0.7)
Proceeds from sales of properties	6.6	0.6
Capital expenditures	(36.6)	(3.5)
Debt payments	(0.6)	(0.1)
March 31, 2018	<u>\$2,140.8</u>	<u>202.6</u>

DEBT TO CAPITALIZATION ROLL-FORWARD	ALLINA HEALTH		
	Debt	Equity	Cap %
December 31, 2017	\$ 975.3	\$ 2,530.6	27.8%
Operating income		9.4	
Investment gains		(7.2)	
Gain on interest rate swap agreements		8.8	
Other non-operating losses		(1.3)	
Loss on debt refinancing			
Other changes in net assets		(0.1)	
Debt payments and amortization of bond premium, net	(0.8)		
March 31, 2018	<u>\$974.5</u>	<u>\$2,540.2</u>	27.7%



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

	Three Months Ended		Twelve Months Ended	
	March 31	March 31	December 31	December 31
	2018	2017	2017	2016
Hospitals				
Admissions *	26,311	25,699	103,637	103,268
Patient Days *	113,524	107,129	427,510	422,334
Average length of stay	4.3	4.2	4.1	4.1
Observation days	5,219	5,583	21,020	22,172
Licensed beds	2,451	2,451	2,451	2,451
Staffed beds	1,755	1,677	1,718	1,722
Outpatient admissions	343,415	353,023	1,426,223	1,398,558
Emergency room visits	75,516	76,446	304,265	312,851
Inpatient surgical procedures	7,677	7,503	31,171	30,311
Outpatient surgical procedures	14,046	13,841	57,576	56,758
Physicians and allied professionals				
Work RVUs	1,973,542	1,948,318	7,869,653	7,330,158
Ambulance transports	20,053	19,965	81,171	74,775

\* Results exclude newborns.

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

**Debt Structure**

<b>Allina Health's current debt structure as of March 31, 2018</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%
2017B	77,845	Fixed Rate	2022	None	2.13%
2015	250,000	Fixed Rate	2045	None	4.81%
2014	17,710	Fixed Rate	2028	None	3.10%
2009A	86,855	Fixed Rate	2029	None	4.89%
2009B	114,525	Daily VRDB	2035	JP Morgan LOC	1.12%
2009C	50,000	Weekly VRDB	2035	Wells Fargo LOC	1.20%
2007C	119,125	Weekly VRDB	2034	Wells Fargo LOC	1.20%
1998A	14,575	Auction Rate	2022	MBIA Insured	2.18%
	<u>959,150</u>	Total Bonds			
Other ***	<u>15,322</u>				
	<b>974,472</b>	<b>Total Debt</b>			
Fixed Rate	\$ 660,925	67.8%			
Hedged Variable Rate**	298,225	30.6%	(2009B, 2009C, 2007C & 1998A)		
Other	<u>15,322</u>	1.6%			
<b>Total</b>	<b>\$ 974,472</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.

\*\*\* 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 2021	Allina Rating Less Than BBB	5 Year	JP Morgan	
2009C	Letter of Credit	50,000	January 2021	Allina Rating Less Than BBB	5 Year	Wells Fargo	
2007C	Letter of Credit	<u>119,125</u>	January 2021	Allina Rating Less Than BBB	5 Year	Wells Fargo	
		<u>\$ 283,650</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. The Investment Committee of the Allina Health Board approved a new asset allocation target at the end of 2017, which is reflected in the table below. The 15% liquidity and 85% long-term asset allocation will be complete in the second quarter 2018. The move toward the asset allocation target within the long term assets will occur over the next few years.

<b>Unrestricted Cash and Investments - Asset Allocation</b>					
<b>Unrestricted Balances</b>	<b>Target</b>	<b>3/31/2018</b>		<b>3/31/2017</b>	
<b>Cash and Money Market</b>		3.1%	66,832	3.7%	69,490
<b>Short-Term Fixed Income</b>		15.3%	327,426	22.8%	428,272
<b>Total Liquidity Assets</b>	<b>15.0%</b>	<b>18.4%</b>	394,258	<b>26.5%</b>	497,762
<b>Long-Term Assets</b>	<b>85.0%</b>	<b>81.6%</b>	1,746,584	<b>73.5%</b>	1,383,537
<b>Total Unrestricted Assets</b>		<b>100.0%</b>	2,140,842	<b>100.0%</b>	1,881,299

  

<b>Asset Allocation - Asset Class</b>					
<b>Investment</b>	<b>Current Target Allocation</b>	<b>3/31/2018 % of Long Term Assets</b>	<b>3/31/2018 % Total Unrestricted Investments</b>	<b>3/31/2017 % of Long Term Assets</b>	<b>3/31/2017 % Total Unrestricted Investments</b>
Global Equity	30.0%	33.9%	27.6%	33.5%	24.6%
Long/Short Equity Hedge Funds	4.0%	4.2%	3.5%	5.5%	4.0%
Global Fixed Income	30.0%	32.0%	26.1%	33.7%	24.8%
Alternatives	28.0%	21.6%	17.6%	20.1%	14.8%
Real Return	8.0%	8.3%	6.8%	7.2%	5.3%
<b>Total Long-Term</b>	<b>100.0%</b>	<b>100.0%</b>	<b>81.6%</b>	<b>100.0%</b>	<b>73.5%</b>
Cash and Money Market			3.1%		3.7%
Short-Term Fixed Income			15.3%		22.8%
<b>Total Liquidity</b>			<b>18.4%</b>		<b>26.5%</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 alternatives allocation. Six additional long/short equity direct hedge funds are considered a part of the overall global equity component. Allina Health also has seven investments in private capital with funding commitments that will be drawn down over the next several years. As of March 31, 2018 these private capital holdings represented approximately 3.10% of unrestricted assets.

### Allina Health Summary of Key Financial Ratios

Indicators	Three Months Ended March 31,		Year Ended December 31,		
	2018	2017	2017	2016	2015
Liquidity Ratios:					
Monthly DCOH*	175	162	190	172	174
Annual DCOH**	196	179	209	189	199
Traditional DCOH	203	186	216	195	204
Days Cash on Hand (Obligated Group)	199	182	213	192	200
Cash to Debt	220%	223%	231%	232%	224%
Days Revenue in Receivables, net					
Hospitals	51	49	51	49	51
Clinics	31	31	26	27	24
VRDB Debt (in millions)	\$284	\$284	\$284	\$284	\$285
Monthly liquidity to VRDB debt	653%	577%	699%	606%	585%
Capital Structure Ratios:					
Historical Coverage Ratio (x) (Obligated Group)	5.8	5.6	5.6	5.4	7.1
Cushion Ratio (x) (Obligated Group)	30.5	27.9	31.9	29.8	34.8
Leverage (Obligated Group)	29.4%	28.9%	29.4%	29.4%	30.3%
Leverage	27.7%	26.9%	27.8%	27.5%	28.7%
Profitability Ratios:					
EBIDA Margin	6.2%	5.9%	8.7%	8.1%	8.7%
Operating Margin	0.9%	0.8%	3.5%	3.0%	3.9%
Net Income Margin	0.9%	5.9%	7.1%	1.5%	3.4%
Revenue Growth	5.2%	4.0%	4.7%	4.0%	5.4%

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