

# Allina Health System Quarterly Financial Disclosure Statement



TWELVE MONTHS ENDED DECEMBER 31, 2019  
OVERVIEW OF THE SYSTEM

*For additional information please visit [www.allinahealth.org](http://www.allinahealth.org).  
Direct questions regarding disclosure information to [treasury@allina.com](mailto:treasury@allina.com).*



# Allina Health System

## Quarterly Financial Disclosure Statement

Twelve Months Ended December 31, 2019

### Table of Contents

Certification	2
Overview of the System	3
2019 Unaudited Financial Statements	
Allina Health System – Consolidated	11
Allina Obligated Group – Combined	23
Consolidating Statements	27
Management’s Discussion and Analysis of Results of Operations	30
Consolidated Utilization Statistics	37
Debt and Investment Analysis	38

# Allina Health System

## Quarterly Financial Disclosure Statement

Twelve Months Ended December 31, 2019

### Officer's Certification

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

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

Dated: February 14, 2020

By: /s/ Richard Magnuson

Richard Magnuson

Executive Vice President – Chief Financial Officer

Allina Health System

# Allina Health System

## Quarterly Financial Disclosure Statement

Twelve Months Ended December 31, 2019

### OVERVIEW OF THE SYSTEM

#### Introduction

Allina Health System, doing business as Allina Health, is a Minnesota non-profit corporation and an integrated health care delivery network serving the communities in the greater Minneapolis-St. Paul (the “Twin Cities”) metro area, spanning the counties from the area west of Minneapolis to the western part of Wisconsin. Allina Health is anchored by three Twin Cities metro area hospitals and is supported by a network of community hospitals. Allina Health is staffed by employed physicians and a large aligned provider network. With more than 27,500 full- and part-time employees, Allina Health is one of the largest employers in Minnesota. Allina Health consolidated net revenue for the twelve months ended December 31, 2019, was \$4.5 billion. As an integrated health system that includes hospitals; employed physicians; emergency, ambulatory, home care and hospice services; and an automated electronic medical record system, Allina Health is a leader in health care in the Minneapolis/St. Paul area and greater Minnesota and is well-positioned for the continued evolution of health care delivery.

Allina Health is guided by its mission:

*“We serve our communities by providing exceptional care,  
as we prevent illness, restore health and provide comfort to all who entrust us with their care.”*

And orients its services and activities around the vision of Whole Person Care:



**Whole Person Care** Mind | Body | Spirit | Community

*“Whole Person Care is an approach that recognizes all factors impacting health are connected –  
mind, body, spirit and community.”*

Both the mission and vision have permeated all parts of the organization. This deep belief in the mission and the commitment to Whole Person Care guides what Allina Health aspires to build as an organization. All Allina Health employees believe that they should be taking care of more than just the clinical needs of their patients, and considers the non-clinical components of their patients’ lives to drive exceptional care and to drive the organization’s thinking about what it means to “care for the entire patient.”

Allina Health owns and operates ten hospitals and jointly owns and operates one other hospital. These include urban tertiary care, suburban community and rural hospitals. Allina Health hospitals provided nearly 105,000 inpatient admissions and more than 1,414,000 outpatient visits during the twelve months ended December 31, 2019. As of December 31, 2019, Allina Health hospitals had licensed bed capacity of 2,451 acute care beds, 1,783 of which were staffed for inpatient services.

Allina Health provides clinical services through its Allina Health Group and hospital-based physicians and employs 1,450 physicians. These physicians include approximately 780 in the Allina Health Group, which controls and operates 65 clinics and operates the clinical services lines. They include approximately 250 hospitalists in three hospitalist programs operated by Allina Health on the Abbott Northwestern, United, and Mercy hospital campuses. They include approximately 80 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 340 specialty physicians including intensivists, perinatologists, and psychiatrists in the Allina Health hospitals. Allina Health physicians and allied professionals generated more than 8,398,000 work RVUs<sup>1</sup> during the twelve months ended December 31, 2019. The Allina Integrated Medical

<sup>1</sup> Relative Value Unit (“RVU”) is a measure of relative resource utilization.



("AIM") Network aligns Allina Health physicians, 2,000 independent medical physicians, and more than 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 Twin Cities market has experienced stable population growth for the past several years. Allina Health continues to have a stable and leading market share in the metropolitan area, with a 32.0% inpatient market share as of June 30, 2019.

Allina Health has a strong market position in key clinical service lines relative to its competitors. Allina Health's main strengths are in cardiovascular and neuroscience, with strong market competitive services in orthopedics. Allina Health also sees opportunities in oncology due to the fragmented nature of this service in the Twin Cities metro area.

## Strategy

Allina Health believes that strategic focus is more important than ever to its success. Allina Health's strategy to best serve its patients and communities in a rapidly evolving health care marketplace rests on three key pillars:

- Strengthening Customer Care and Experience
- Investing in Our People and Culture
- Transforming Our Business to Deliver Greater Value.

Allina Health believes that investing in these key pillars will enable it to deliver unprecedented "Whole Person Care," an approach that recognizes the interdependency of four key determinants of health: Body, Mind, Spirit and Community. Allina Health is able to focus on delivering high-value care in an integrated, coordinated and seamless fashion to patient populations increasingly defined by complex clinical and non-clinical issues.

Allina Health has targeted performance and cost improvement over the next five years through a rigorous and comprehensive approach to allow the organization to fund future operational and strategic needs. Success in Allina Health's market role will require the organization to deliver market-leading outcomes and value, and generate capital for role-enabling investments. This capital will be generated partly through the savings that will result from the implementation of performance improvement initiatives.

### Strengthening Customer Care and Experience

Allina Health believes that its work to continually improve and integrate care and deliver a compassionate and exceptional patient experience remains essential and ongoing. Allina Health believes that the way in which it designs, offers and markets its services must center on customers who expect:

- Empowerment of health and information
- Improved experience: integration and access on demand
- Holistic care
- Pricing that is transparent and lowers costs.

As a system, Allina Health strives to be a high-value, complex care coordinator for our patients and communities. Solving consumer issues, including the growing gap between consumer expectations and actual experience, also supports Allina Health's future market role as a care coordinator by connecting all of the necessary services for a patient's unique needs.

To address this imperative, Allina Health is pursuing both enterprise-wide tactics and building specific capabilities to pursue a better consumer experience through:

- Next-generation approach to consumer experience design
- Offering non-traditional services based on consumer demand and preferences
- Building out a portfolio of innovative products and services
- Understanding how to balance resources for development of the consumer portfolio.

Innovation has been a key strategic initiative for Allina Health to identify alternative and innovative business opportunities to help better cater to the consumer patient, and to advance Allina Health's organizational strategy and mission while positively impacting Allina Health's operating results. Allina Health has identified key disruptive trends that will be a focus for innovation experiments moving forward; driving at new care models, capabilities and consumer products.

One example of recent innovation at Allina Health is the opening of new Allina Health Everyday Clinics inside Hy-Vee grocery stores. The first two Allina Health Everyday Clinics opened in April 2018 inside the Eagan Hy-Vee and the Lakeville Hy-Vee grocery stores. A third Allina Health Everyday Clinic opened in September 2018 inside the Robbinsdale Hy-Vee grocery store and four more Allina Health Everyday Clinics opened in 2019 in the Brooklyn Park, Maple Grove, New Hope and Plymouth Hy-Vee grocery stores. 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. Another innovative effort of Allina Health includes a joint venture with Presbyterian Homes, called Genevive, which provides geriatric care for older adults with complex medical conditions in assisted living and long-term care. Genevive provides these services via value based payments for Medicare and Medicaid patients. In addition, in 2015, Allina Health entered into a transaction with Health Catalyst. This innovative transaction leverages Health Catalyst's data analytic capabilities to accelerate outcomes improvement at Allina Health.

Allina Health has also made significant investments in its digital platform, empowering its patients with the information to make decisions and interact with its providers. Relative to the national health care market, Allina Health's leading-edge digital capabilities offer strong digitized self- services, including online bill pay, scheduling, patient education and monitoring.

## Investing in Our People and Culture

Allina Health intends to continue to invest in its talent by fostering a relationship-driven culture rooted in its values. Health care has grown from an intimate "family doctor" model to a large hospital-based system that can feel impersonal and complicated for patients. Now, far too often, health care is not alleviating stress for patients but adding to it, and those who need care the most often cannot make sense of it. The confusion and costs of health care have added suffering to the very people who need healing and comfort. Allina Health strives to empower and support employees so they can focus on delivering exceptional care. Allina Health expects that this further investment will help employees feel an even stronger connection to the organization and the work they do and help provide even better experiences and outcomes for patients.

The following strategic initiatives aimed at "Investing in Our People and Culture" provide the foundation for Whole Person Care to come to life across the system:

*Commitment to Safety and Quality:* Prevent harm and encourage a culture where all employees speak up and feel empowered.

Allina Health is doubling down on this principle by adopting the successful systems of high-reliability organizations, such as extending safety huddles across the system and engaging in a system wide program that will provide each employee with the language, tools and standardized processes to respond to and prevent harm.

*Allina Health Leadership Model:* Continuing to enable leaders to be their best and creating collaborative, engaging environments where all employees understand their value, feel the organization's investment in them, and see opportunities for development.

The Allina Health Leadership Model describes a mindset and set of capabilities that, when exhibited consistently across the system, extend the impact of individuals into a collective group of caregivers that rely on each other. It also creates effective, simplified systems and helps employees understand how to consistently show up to be their best.

*Allina Health Improvement System:* A structured approach, process and tools aimed at improving care, building trust and engaging those who are closest to the work of care delivery.

Allina Health applies Lean methodology to continuously improve work processes through the elimination of waste while incorporating the ideas of "Continuous Incremental Improvement" and "Respect for People."

*Diversity and Inclusion:* A plan to increase representation in leadership positions and on councils, and build leader readiness to ensure that the culture is trusting, supportive and collaborative.

Anchoring to Whole Person Care, this work will create the strategies, plan and systemwide approach to help bring to life Allina Health's commitment to providing and enhancing a workplace culture where all employees feel safe, respected and empowered to fulfill Allina Health's mission. This work will be done in partnership with the Health Equity and Community Benefit & Engagement teams through a comprehensive roadmap.

## **Transforming Our Business to Deliver Greater Value**

In order to execute on this pillar of Allina Health's strategy, Allina Health's focus is on cost and payment structure, market differentiation and partnerships.

### *Cost and Payment Structure*

To support the health of its patients and communities, Allina Health is philosophically committed to delivering increasingly higher-value care and performing on outcomes-based payment models. Allina Health additionally believes that it must evolve the current reimbursement model so that it can be reimbursed for services that matter to its patients and help make care more efficient, effective and affordable. Allina Health believes that expanding care management services, using data to inform best practice and collaborating with partners will be key to transforming not only its business, but patient care.

The vision of Whole Person Care guides and reinforces this philosophy throughout the organization – from leadership to front-line providers. Leadership believes that expanding Allina Health's portfolio of outcomes-based risk contracts will enable Allina Health to create and deliver value.

Allina Health recognizes that outcomes-based risk contracts are a necessary step to financial sustainability, especially in government payer segments. Allina Health has successfully built up the capabilities required to manage risk and does not want to lose those capabilities or halt the internal momentum to value-based care. Therefore, Allina Health plans to expand its outcomes-based risk contract portfolio in a measured fashion to gain experience, manage uncontrollable risk and maintain a focus on providing value more broadly. Allina Health is implementing a phased approach that aligns with Allina Health's goal of pursuing outcomes-based risk contracts in a measured way that builds scale over time.

### *Allina Health and Aetna Health Plan*

In January 2017, Allina Health and Aetna signed an agreement to create a jointly owned health plan company, Allina Health and Aetna Insurance Company (AHAIC), which provides an innovative health care option for employers and consumers in the greater Twin Cities area. This jointly owned health plan is intended to fully align the incentives and capabilities of a national insurer and major local health system in ways that Allina Health expects to lead to improved health outcomes and cost management. Ownership structure for the 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 began to offer a Medicare Advantage product in 2019. As of January 1, 2020, AHAIC has grown to cover approximately 24,000 lives.

### *Partnerships*

For Allina Health to achieve the "complex care coordinator" component of its future role, the organization must be equipped to care for patients throughout their entire care journey. Given that this journey typically occurs over multiple care settings and organizations, partnerships at all levels of operations must be a core competency for Allina Health.

Allina Health has developed a set of inviolable principles that will guide consideration for potential partners. These principles will be a lens for leadership to use as they consider potential partners and whether those partnerships will be worth further analysis. These principles are meant to be broad, but also reflect a clear distillation of priorities. The principles are the following:

- Align culturally and strategically to improve care for our communities
- Ensure communities across our footprint will continue to have access to high-quality, affordable, patient-centered care

- Deliver continued commitment to Whole Person Care
- Yield demonstrably greater value than we could achieve on our own.

With these principles in mind, Allina Health continuously assesses its portfolio of assets and services with a view toward opportunities for partnerships, acquisitions and divestitures. This process of assessment includes ongoing discussions with various prospective affiliation partners, including independent physician groups, third party consultants and managers, technology companies, retail entities, venture capital and other providers of clinical and administrative services, both regional and national, about potential transactions. Many of these potential transactions are of a magnitude and scope that individually would not be material to the overall financial and operating condition of Allina Health, but may involve capital outlay both initially and on an ongoing basis, as well as investment of other resources by Allina Health and its partners.

## **Other Recent Initiatives and Developments**

### 2019 Debt Issuance

In May 2019, Allina Health issued \$300 million in fixed rate taxable bonds for the purpose of funding new projects and strategic initiatives.

In October of 2019, Allina Health refinanced \$79.8 million in debt related to the 2009 A1 and A2 bonds.

### Abbott Northwestern Hospital Neuroscience Inpatient Unit

In December 2017, the Allina Health Board of Directors approved a capital investment to develop a Neuroscience Inpatient Unit. The capital cost of this project is \$29.2 million, of which Allina Health will fund \$21.7 million. The remaining \$7.5 million will be funded through philanthropic funds that have been raised for the project. The project was completed and open to patients in December of 2019.

### Abbott Northwestern Hospital Infrastructure Updates

Allina Health's Board of Directors has approved approximately \$200 million of capital expenditures for infrastructure updates at Abbott Northwestern Hospital to maintain its status as the premier quaternary hospital in the Allina Health system. While the capital expenditures have been approved for these projects, actual cash flow may not occur for up to two years as additional planning is done. It is expected that the projects will be completed in approximately three years once they are initiated.

On August 1, 2019, Phillips Eye Institute (PEI) licensed beds were transferred to Abbott Northwestern Hospital. PEI is now a remote hospital campus of Abbott Northwestern Hospital.

### Allina Health Oncology Institute

Allina Health expects to commit substantial resources, capital or otherwise, to launch a novel organizational construct, fashioned after larger "hybrid" community and National Cancer Institute designated cancer centers. This "Institute" model is expected to enable Allina Health to align systemwide incentives, management responsibilities and decision making under a central function, with appropriate involvement from partners in this clinical service line. The Institute model, in addition to offering an expanded suite of oncology services, reflects Allina Health's commitment to prevention and detection, substantial emphasis on tumor-specific specialization, the importance of physician alignment and the array of people and processes needed to deliver whole-person cancer care. The model also reflects how a diverse and complex condition is managed across a network – balancing the programs that need to be concentrated and those that can be delivered close to home with equivalent quality. Allina Health expects that the Institute's network will span the full care continuum and open opportunities for growth and collaboration that are expected to create enriching professional opportunities, highly distributed access for patients, and top-decile clinical and experiential outcomes for Allina Health's community.

### Abbott Northwestern Hospital Anesthesia Providers

Abbott Northwestern Hospital issued a Request for Proposal (RFP) for anesthesiology services and received proposals from six groups (including the incumbent, American Anesthesiology of Minnesota). Abbott Northwestern Hospital selected Minneapolis Anesthesia Partners and gave notice in June 2019 to terminate its exclusive anesthesia agreement with American Anesthesiology of Minnesota. After Abbott Northwestern Hospital gave notice to American Anesthesiology of Minnesota, American



Anesthesiology of Minnesota gave notice to terminate its other agreements to provide service at all other Allina Health entities (Owatonna Hospital, District One Hospital, the Orthopaedic Institute Surgery Center, and the WestHealth Surgery Center). Allina Health and American Anesthesiology of Minnesota negotiated a common termination date at all locations of February 3, 2020.

#### Allina Health Ambulatory Surgery Center Strategy

Allina Health is committed to an accelerated and significant expansion of its ambulatory surgery platform involving the commitment of resources, capital or otherwise, as well as potential partnerships with experienced leaders in ambulatory surgery center operations and management. This will enable efficient, cost-effective and high-quality consumer-facing care consistent with its payer strategies and rapidly evolving reimbursement models, and aligned to advance Allina Health's vision as the high-value, integrated complex care coordinator for its community.

In January of 2020, Allina Health announced a joint venture with Surgical Care Affiliates (SCA) to run and develop efficient, multi-specialty care centers. SCA is a nationally renowned group with a network of more than 250 ambulatory surgery centers in 35 states performing more than one million procedures per year. The joint venture could develop up to a dozen new ambulatory surgery centers over the next five years.

#### Apple Valley Medical Clinic

Effective February 1, 2020, Allina Health acquired substantially all assets of the Apple Valley Medical Clinic in Apple Valley, Minnesota and began to operate the clinic as an Allina Health clinic. Allina Health employs seven primary care physicians at this location and also operates an urgent care. Prior to the acquisition of the assets of the Apple Valley Medical Clinic, Allina Health and the Apple Valley Medical Clinic were the sole tenants in the Apple Valley Medical Center. In addition to Apple Valley Medical Clinic's primary care clinic and urgent care, Allina Health offers an array of services on the second floor of the building, including Courage Kenny Rehabilitation Institute, Allina Health Pharmacy, United Imaging, and 15 specialties in the United Specialty Center.

### **Credit Ratings**

In September 2019, Moody's Investor Services affirmed Allina Health's bond rating of Aa3. The outlook is negative.

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

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

The complete rating agency reports are available at [www.dacbond.com](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).

## Executive Leadership Team

Following are the Executive Leadership Team members and their biographies:

**Penny Wheeler, MD (61)** – President and Chief Executive Officer

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

**Richard Magnuson (57)** – Executive Vice President, Chief Financial Officer

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

**Lisa Shannon (54)** – Executive Vice President, Chief Operating Officer

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

**Elizabeth Truesdell Smith (56)** – Senior Vice President, General Counsel and Secretary to the Allina Health Board of Directors

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 of Public Health with a health law and bioethics concentration from Boston University School of Public Health and a Juris Doctor from the University of Minnesota Law School. Ms. Smith also has operational responsibility for Risk Services.

**Ann Madden Rice (62)** – Senior Vice President, Allina Health Operations, and President, Abbott Northwestern Hospital

Ms. Rice was appointed President of Abbott Northwestern Hospital in October 2018. Ms. Rice came to Allina Health from the University of California, Davis, Medical Center in Sacramento, California, where she was Chief Executive Officer. She previously served as Chief Financial Officer and Chief Executive Officer for the University of Iowa Hospitals and Clinics. Ms. Rice has a bachelor's degree in industrial administration from Iowa State University and a master's degree in accounting from the University of Iowa.

**Sara J. Criger (58)** – Senior Vice President, Allina Health Operations, and President, Mercy Hospital and United Hospital

Ms. Criger was appointed President of Mercy Hospital in July 2012. Prior to joining Allina Health, Ms. Criger was Vice President, HealthEast Care System, and Chief Executive Officer, St. Joseph's Hospital, both based in St. Paul, Minnesota, for five years. Ms. Criger has more than 28 years of experience in managing large hospitals and clinics. Ms. Criger holds a bachelor's degree in business administration from Western Connecticut State University and a Master of Health Services Administration from the University of St. Francis. Ms. Criger also has operational responsibility for Buffalo Hospital, Cambridge Medical Center, St. Francis Regional Medical Center, Mental Health Services and patient experience.

**Christine Moore (50)** – Senior Vice President, Chief Human Resources Officer

Ms. Moore joined Allina Health as Senior Vice President, Chief Human Resources Officer in August 2015. Prior to joining Allina Health, Ms. Moore was Vice President, Talent and Organizational Development, of Ecolab. Ms. Moore holds a bachelor's degree in economics from Scripps College and a doctorate in organizational psychology from Claremont Graduate University.

**Jonathan Shoemaker (49)** – 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's 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 (53)** – 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's degree in history from Union College in Schenectady, New York, and a Master of Business Administration from the University of Minnesota.

**Timothy Sielaff, MD (57)** – 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 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.

**Sarah Kleaveland Kupczak (56)** – Senior Vice President, Chief Compliance Officer

Sarah Kleaveland Kupczak joined Allina Health as Senior Vice President, Chief Compliance Officer in January 2020. Ms. Kleaveland Kupczak came to Allina Health from Ascension in Glendale, Wisconsin, where she served as Regional Compliance Officer. Prior to this role, Ms. Kleaveland Kupczak held leadership positions at Wheaton Franciscan Healthcare as the Vice President, Corporate Compliance, and Columbia St. Mary's as Director, Risk and Compliance. Ms. Kleaveland Kupczak has a master's degree and ABD in Economics from the University of Michigan. She earned her law degree from University of Virginia School of Law following bachelor's degrees in political science and economics at the University of Iowa.

**David Slowinske (45)** – Senior Vice President of Operations, Allina Health Group

Mr. Slowinske was appointed Senior Vice President of Operations for Allina Health Group in January 2020. Mr. Slowinske joined Allina Health in 2012 as the Director of Operations for the Penny George™ Institute for Health and Healing. He served as Vice President of Operations for Courage Kenny Rehabilitation Institute, orthopedic and spine clinical service lines and the Penny George Institute before moving into the role of Vice President of Operations for Allina Health Group, overseeing the quality, experience and administrative functions, in addition to Primary Care, Mental Health and the Penny George Institute. Prior to joining Allina Health, Mr. Slowinske held leadership roles with HealthPartners, Cardinal Health and Allegiance Healthcare. He has served the community through the American Cancer Society's Minnesota State Leadership Council, and board of director roles with Westfield Hospital and Axis Healthcare. Mr. Slowinske holds a bachelor's degree in business administration from Illinois Wesleyan University and a Master of Business Administration from DePaul University Kellstadt Graduate School of Business.

# Allina Health System

## Consolidated Balance Sheets

(Unaudited)

(Dollars in thousands)

	December 31 2019	December 31 2018
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 174,288	\$ 135,580
Short-term investments	471,112	278,587
Patient accounts receivable, net	543,509	511,662
Inventories	75,256	72,552
Other current assets	124,922	112,728
	<u>1,389,087</u>	<u>1,111,109</u>
Long-term investments	2,119,432	1,824,119
Investments with limited uses	166,877	153,813
Land, buildings, and equipment, net	1,275,489	1,223,828
Operating lease right of use assets, net	185,727	-
Other assets	308,965	325,148
Total assets	<u>\$ 5,445,577</u>	<u>\$ 4,638,017</u>
<b>Liabilities and net assets</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 453,277	\$ 453,622
Current portion - long-term debt	26,735	27,491
Current portion - operating lease liabilities	26,114	-
Other current liabilities	140,636	110,174
	<u>646,762</u>	<u>591,287</u>
Long-term debt	1,192,228	920,885
Long-term portion operating lease liabilities	175,924	-
Other liabilities	383,010	405,249
Total liabilities	<u>2,397,924</u>	<u>1,917,421</u>
Net assets:		
Without donor restriction	2,880,307	2,565,547
With donor restriction	167,346	155,049
Total net assets	<u>3,047,653</u>	<u>2,720,596</u>
Total liabilities and net assets	<u>\$ 5,445,577</u>	<u>\$ 4,638,017</u>



# Allina Health System

## Consolidated Statements of Operations and Changes in Net Assets

(Unaudited)

(Dollars in thousands)

	Twelve Months Ended		Three Months Ended	
	December 31	December 31	December 31	December 31
	2019	2018	2019	2018
Revenue:				
Net patient service revenue	4,182,456	4,071,714	1,124,849	1,076,807
Other operating revenue	290,182	298,725	85,470	88,738
Total revenues	4,472,638	4,370,439	1,210,319	1,165,545
Expenses:				
Salaries and benefits	2,774,055	2,701,224	702,551	694,603
Supplies and services	1,040,262	979,609	279,642	261,806
Depreciation and amortization	184,146	181,647	46,568	46,873
Financing costs	49,354	43,893	13,195	11,395
State assessments and taxes	90,420	75,792	23,775	10,384
Utilities and maintenance	78,805	78,842	21,746	23,422
Other operating expenses	193,011	223,174	44,038	79,753
Total expenses	4,410,053	4,284,181	1,131,515	1,128,236
Operating income	62,585	86,258	78,804	37,309
Nonoperating:				
Investment return	276,426	(59,647)	82,158	(81,187)
Interest rate swap agreements	(25,173)	2,653	5,871	(10,143)
Loss on debt refinancing	(943)	-	(943)	-
Nonservice periodic pension costs	(3,009)	921	(3,009)	921
Other	(7,882)	(7,801)	(3,274)	(3,426)
Excess (deficit) of revenues over expenses	\$ 302,004	\$ 22,384	\$ 159,607	\$ (56,526)

Continued on next page.

# Allina Health System

## Consolidated Statements of Operations and Changes in Net Assets

(Unaudited)

(Dollars in thousands)

	Twelve Months Ended		Three Months Ended	
	December 31 2019	December 31 2018	December 31 2019	December 31 2018
<b>Net assets without donor restrictions</b>				
Excess of revenue over expenses	\$ 302,004	\$ 22,384	\$ 159,607	\$ (56,526)
Net assets released from restrictions for capital purposes	10,070	14,037	4,105	5,648
Amortization of unrealized loss on interest rate swap agreement	874	874	218	218
Other	1,812	(2,309)	(3,899)	(280)
Increase (decrease) in net assets without donor restrictions	<u>314,760</u>	<u>34,986</u>	<u>160,031</u>	<u>(50,940)</u>
<b>Net assets with donor restrictions</b>				
Contributions	14,880	16,962	4,091	5,389
Investment return	19,082	(5,259)	6,889	(7,381)
Net assets released from restrictions	(21,479)	(25,718)	(9,644)	(12,056)
Other	(186)	(2,294)	(25)	(1,398)
Increase (decrease) in net assets with donor restrictions	<u>12,297</u>	<u>(16,309)</u>	<u>1,311</u>	<u>(15,446)</u>
Increase (decrease) in net assets	327,057	18,677	161,342	(66,386)
Net assets at beginning of period	<u>2,720,596</u>	<u>2,701,919</u>	<u>2,886,311</u>	<u>2,786,982</u>
Net assets at end of period	<u>\$ 3,047,653</u>	<u>\$ 2,720,596</u>	<u>\$ 3,047,653</u>	<u>\$ 2,720,596</u>

See accompanying notes.

# Allina Health System

## Consolidated Statement of Cash Flows

(Unaudited)

(Dollars in thousands)

	Twelve Months Ended	
	December 31 2019	December 31 2018
<b>Operating activities</b>		
Increase in net assets	\$ 327,057	\$ 18,677
Adjustments to reconcile increase in net assets to net cash and cash equivalents provided by operating activities:		
Depreciation and amortization	184,146	181,647
Gain on sale of properties	(2,969)	(1,981)
Loss on refinancing of debt	943	-
Unrealized loss (gain) on interest rate swaps, net	16,412	(12,170)
Realized and unrealized (gain) loss on investments, net	(245,270)	113,636
Restricted contributions including cash for long-lived assets	(14,880)	(16,962)
Earnings on equity investments	(8,839)	(8,742)
Distributions received from equity investments	6,597	6,282
Change in assets and liabilities net of impact from acquisitions:		
Accounts receivable	(31,847)	(5,618)
Other current assets	(16,102)	(20,775)
Accounts payable and other current liabilities	64,538	(9,320)
Other assets and liabilities	(12,807)	1,067
Net cash and cash equivalents provided by operating activities	266,979	245,741
<b>Investing activities</b>		
Proceeds from sales of properties	6,298	16,730
Purchases of land, buildings, and equipment	(247,757)	(198,206)
Contributions of cash for long-lived assets	82	265
Purchases and sales of investments classified as trading, net	(232,340)	(107,998)
Purchases and sales of investments with limited uses, net	(5,235)	2,951
Contributions to joint ventures	(4,800)	(1,400)
Net cash and cash equivalents used in investing activities	(483,752)	(287,658)
<b>Financing activities</b>		
Restricted contributions	16,129	27,015
Change in outstanding checks payable	(31,174)	29,412
Principal payments of long-term debt	(27,222)	(26,450)
Refinancing of long-term debt	(79,790)	-
Proceeds from issuance of long-term debt	382,732	-
Deferred debt acquisition costs	(5,194)	-
Net cash and cash equivalents provided by financing activities	255,481	29,977
Increase (decrease) in cash and cash equivalents	38,708	(11,940)
Cash and cash equivalents at beginning of year	135,580	147,520
Cash and cash equivalents at end of period	\$ 174,288	\$ 135,580

See accompanying notes.

# Allina Health System

## Abridged Notes to the Consolidated Financial Statements

Twelve Months Ended December 31, 2019 and 2018

(Unaudited)

(Dollars in thousands)

### 1. Recently Adopted and Issued Accounting Standards

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

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

Allina Health adopted ASU 2018-08 – Clarifying the Scope and Accounting for Contributions Received and Made, effective January 1, 2019. ASU 2018-08 clarifies and improves the scope and the accounting guidance to determine when a transaction should be accounted for as an exchange transaction or a contribution and how to determine whether a contribution is conditional. The adoption of ASU 2018-08 did not have a material effect on the consolidated financial statements.

### 2. Net Patient Revenue and Accounts Receivable

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

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

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

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



# Allina Health System

## Abridged Notes to the Consolidated Financial Statements

Twelve Months Ended December 31, 2019 and 2018

(Unaudited)

(Dollars in thousands)

### Net Patient Revenue and Accounts Receivable (continued)

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

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

These settlements are estimated based on the terms of the payment agreement with the payer, correspondence from the payer and historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known, or as years are settled or are no longer subject to such audits, reviews, and investigations. Allina Health utilizes a process to identify and appeal certain settlements by government payers. Additional reimbursement is recorded in the year the appeal is successful. During the twelve months ended December 31, 2019, and 2018, successful appeals, cost report settlements, and other adjustments to prior year estimates of variable consideration resulted in an increase in net patient revenue of \$21,306 and \$17,556, respectively.

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

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

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

### 3. Fair Value Disclosures

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

# Allina Health System

## Abridged Notes to the Consolidated Financial Statements

Twelve Months Ended December 31, 2019 and 2018

(Unaudited)

(Dollars in thousands)

### Fair Value Disclosures (continued)

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

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

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

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

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

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

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

# Allina Health System

## Abridged Notes to the Consolidated Financial Statements

Twelve Months Ended December 31, 2019 and 2018

(Unaudited)

(Dollars in thousands)

### Fair Value Disclosures (continued)

	Total	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
<b>Cash and Cash Equivalents</b>				
Cash	\$ 33,766	33,766	-	-
Money Market Funds	140,522	140,522	-	-
<b>Total Cash and Cash Equivalents</b>	<b>\$ 174,288</b>	<b>174,288</b>	<b>-</b>	<b>-</b>
<b>Investments - Trading Securities</b>				
Short-Term Fixed Income	567	567	-	-
Money Market Fund	82,479	82,479	-	-
<b>Total Short-Term Fixed and Money Market</b>	<b>83,046</b>	<b>83,046</b>	<b>-</b>	<b>-</b>
Equity	394,479	231,839	162,640	-
Fixed Income	1,202,790	521,726	681,064	-
Other Investments				
Real Return Mutual Funds	117,018	117,018	-	-
Multi-Asset Opportunistic Mutual Funds	44,767	44,767	-	-
<b>Total Other Investments</b>	<b>161,785</b>	<b>161,785</b>	<b>-</b>	<b>-</b>
Investments Accounted for at Net Asset Value	748,444			
<b>Total Investments - Trading Securities</b>	<b>\$ 2,590,544</b>	<b>998,396</b>	<b>843,704</b>	<b>-</b>
<b>Total Unrestricted Cash and Investments</b>	<b>\$ 2,764,832</b>	<b>1,172,684</b>	<b>843,704</b>	<b>-</b>
	Total	Fair value measurements using		
		Level 1	Level 2	Level 3
<b>Investments with Limited Uses</b>				
Money Market Fund	18,911	18,911	-	-
Equity	23,289	13,687	9,602	-
Fixed Income	62,043	29,029	33,014	-
Real Return Mutual Funds	6,908	6,908	-	-
Multi-Asset Opportunistic Mutual Funds	2,643	2,643	-	-
Restricted Foundation Trusts	8,898	-	8,898	-
Investments Accounted for at Net Asset Value	44,185			
<b>Total Investments with Limited Uses</b>	<b>166,877</b>	<b>71,178</b>	<b>51,514</b>	<b>-</b>
<b>Total Cash and Investments</b>	<b>\$ 2,931,709</b>	<b>1,243,862</b>	<b>895,218</b>	<b>-</b>
<b>Liabilities:</b>				
Interest Rate Swaps	\$ 85,094	-	85,094	-

# Allina Health System

## Abridged Notes to the Consolidated Financial Statements

Twelve Months Ended December 31, 2019 and 2018

(Unaudited)

(Dollars in thousands)

### Fair Value Disclosures (continued)

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

	Net Asset Value*	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period	Redemption Settlement Period
Global Bond Fund	\$ 99,167	-	Monthly	15 Days	Up to 30 days
Emerging Markets Equity Fund	102,488	-	Daily/Weekly	5/10 Days	Up to 7-10 days
Global Equity Fund	150,711	-	Bi-Monthly	10 Days	Up to 10 days
Private Capital Funds	104,503	\$ 234,492	Not redeemable	NA	NA
Equity Long/Short Hedge Funds	111,476	-	Monthly/Quarterly	5-90 Days	Up to 10-90 days
Emerging Market Debt Fund	48,783	-	Daily	Same Day	Up to 15 days
Opportunistic Fixed Income Hedge Funds	175,501	-	Qtrly/Semi-Annual	45-90 Days	1-90 days
	<u>\$ 792,629</u>	<u>\$ 234,492</u>			

\*Includes restricted and unrestricted assets

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

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

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

The Private Capital Funds represent investments in private equity, private credit, and real assets. These funds include two limited partnership investments that focus on health care services and information technology companies, three limited partnerships that make venture capital investments in health care companies, a limited partnership that makes investments in early growth stage health care private equity investments, a limited partnership that makes senior secured and floating rate loans to middle market U.S. companies, a limited partnership that co-invests in intermediate-term opportunities sourced by absolute return, private capital, and real asset managers, a limited partnership that invests in value-add and opportunistic real estate, a limited partnership that invests in technology companies, a limited partnership that takes minority equity stakes in asset managers, a limited partnership that seeks out special situation and other opportunistic investments, two limited partnerships that invest in distressed and opportunistic real estate investments, a limited partnership that makes investments in single family rental properties, a limited partnership that makes investments in the financial services industry, two limited partnerships that make investments in companies in the energy industry, and a limited partnership that makes buyout investments globally. The value of the investments in this category has been estimated using the net asset value per share of the investments.



# Allina Health System

## Abridged Notes to the Consolidated Financial Statements

Twelve Months Ended December 31, 2019 and 2018

(Unaudited)

(Dollars in thousands)

### Fair Value Disclosures (continued)

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

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

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

### 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:

Fixed Payer Interest Rate Swaps						
Swap	Balance Sheet Location	Fair Value Liability	Notional Outstanding	Rate Paid	Rate Received	Counterparty
2009B & C	Other liabilities	34,232	123,394	3.73%	% of Libor	JP Morgan
2009B & C	Other liabilities	11,435	41,131	3.74%	% of Libor	Wells Fargo
2007C	Other liabilities	23,510	117,450	3.58%	% of Libor	US Bank
2001	Other liabilities	15,439	48,705	5.17%	SIFMA	Goldman Sachs
1998A	Other liabilities	478	10,675	4.44%	SIFMA	Goldman Sachs
<b>Total</b>		<b>\$ 85,094</b>	<b>\$ 341,355</b>			

# Allina Health System

## Abridged Notes to the Consolidated Financial Statements

Twelve Months Ended December 31, 2019 and 2018

(Unaudited)

(Dollars in thousands)

### Derivative Instruments (continued)

As of December 31, 2019, Allina Health had \$5,170 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 \$814 less than the mark-to-market valuations.

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	
	Twelve months ended Dec. 31		Twelve months ended Dec. 31		Twelve months ended Dec. 31		Twelve months ended Dec. 31	
	2019	2018	2019	2018	2019	2018	2019	2018
2009 B&C	\$ (9,827)	\$ 5,808	\$ -	\$ -	\$ (3,367)	\$ (3,711)	\$ (13,194)	\$ 2,097
2007C	(4,586)	3,747	-	-	(2,312)	(2,567)	(6,898)	1,180
2001	(2,246)	2,126	-	-	(1,816)	(1,908)	(4,062)	218
1998A	247	489	(874)	(874)	(392)	(457)	(1,019)	(842)
	\$ (16,412)	\$ 12,170	\$ (874)	\$ (874)	\$ (7,887)	\$ (8,643)	\$ (25,173)	\$ 2,653
	Three months ended Dec. 31		Three months ended Dec. 31		Three months ended Dec. 31		Three months ended Dec. 31	
	2019	2018	2019	2018	2019	2018	2019	2018
2009 B&C	\$ 4,533	\$ (4,407)	\$ -	\$ -	\$ (935)	\$ (854)	\$ 3,598	\$ (5,261)
2007C	2,433	(2,401)	-	-	(649)	(588)	1,784	(2,989)
2001	1,177	(1,146)	-	-	(472)	(445)	705	(1,591)
1998A	88	24	(218)	(218)	(86)	(108)	(216)	(302)
	\$ 8,231	\$ (7,930)	\$ (218)	\$ (218)	\$ (2,142)	\$ (1,995)	\$ 5,871	\$ (10,143)

# Allina Health System

## Abridged Notes to the Consolidated Financial Statements

Twelve Months Ended December 31, 2019 and 2018

*(Unaudited)*

*(Dollars in thousands)*

### 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 February 14, 2020, 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)

	December 31 2019	December 31 2018
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 160,209	\$ 126,359
Short-term investments	471,112	278,587
Patient accounts receivable, net	526,045	491,915
Inventories	74,733	72,055
Other current assets	120,125	108,458
	<u>1,352,224</u>	<u>1,077,374</u>
Long-term investments	2,068,991	1,778,940
Investments with limited uses	15,591	9,739
Beneficial interest in net assets of Allina Foundations	194,409	183,529
Land, buildings, and equipment, net	1,271,123	1,218,454
Operating lease right of use assets, net	182,233	-
Other assets	195,987	224,080
Total assets	<u>\$ 5,280,558</u>	<u>\$ 4,492,116</u>
<b>Liabilities and net assets</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 423,847	\$ 419,012
Current portion long-term debt	25,820	26,639
Current portion - operating lease liabilities	25,524	-
Other current liabilities	140,636	110,174
	<u>615,827</u>	<u>555,825</u>
Long-term debt	1,190,900	918,643
Long-term portion operating lease liabilities	172,974	-
Other liabilities	294,294	334,753
Total liabilities	<u>2,273,995</u>	<u>1,809,221</u>
Net assets:		
Without donor restriction	2,802,533	2,490,989
With donor restriction	204,030	191,906
Total net assets	<u>3,006,563</u>	<u>2,682,895</u>
Total liabilities and net assets	<u>\$ 5,280,558</u>	<u>\$ 4,492,116</u>

# Allina Obligated Group

## Combined Statements of Operations and Changes in Net Assets

(Unaudited)

(Dollars in thousands)

	Twelve Months Ended		Three Months Ended	
	December 31	December 31	December 31	December 31
	2019	2018	2019	2018
Revenue:				
Net patient service revenue	4,149,495	4,041,023	1,115,556	1,068,087
Other operating revenue	242,905	250,155	69,903	71,329
Total revenues	4,392,400	4,291,178	1,185,459	1,139,416
Expenses:				
Salaries and benefits	2,759,730	2,687,350	698,939	691,169
Supplies and services	987,619	913,973	267,426	234,106
Depreciation and amortization	182,316	179,733	46,106	46,398
Financing costs	48,844	43,423	13,061	11,267
State assessments and taxes	88,340	89,618	22,230	24,785
Utilities and maintenance	78,029	78,017	21,496	23,113
Other	184,113	210,827	41,240	72,006
Total expenses	4,328,991	4,202,941	1,110,498	1,102,844
Operating income	63,409	88,237	74,961	36,572
Nonoperating:				
Investment return	273,103	(57,907)	81,383	(79,712)
Interest rate swap agreements	(25,173)	2,653	5,871	(10,143)
Loss on debt refinancing	(943)	-	(943)	
Nonservice periodic pension costs	(3,009)	921	(3,009)	921
Other	(6,469)	(6,367)	(3,249)	(3,161)
Excess (deficit) of revenues over expenses	\$ 300,918	\$ 27,537	\$ 155,014	\$ (55,523)

Continued on next page.

# Allina Obligated Group

## Combined Statements of Operations and Changes in Net Assets

(Unaudited)

(Dollars in thousands)

	Twelve Months Ended		Three Months Ended	
	December 31	December 31	December 31	December 31
	2019	2018	2019	2018
<b>Net assets without donor restriction</b>				
Excess of revenues over expenses	\$ 300,918	\$ 27,537	\$ 155,014	\$ (55,523)
Net assets released from restrictions for capital purposes	11,295	15,993	4,725	7,520
Amortization of unrealized loss on interest rate swap agreement	874	874	218	218
Capital contributions to nonobligated group affiliates, net	(5,153)	(24,741)	(2,575)	(13,977)
Other	3,610	(253)	(3,534)	691
Increase (decrease) in net assets without donor restriction	311,544	19,410	153,848	(61,071)
<b>Net assets with donor restriction</b>				
Contributions	727	326	272	127
Investment return	655	(152)	187	(274)
Net assets released from restrictions	(82)	(265)	(66)	(66)
Change in beneficial interest in net assets of Allina Foundations	10,880	(20,736)	3,690	(15,642)
Other	(56)	(1,804)	125	(1,338)
Increase (decrease) in net assets with donor restrictions	12,124	(22,631)	4,208	(17,193)
Increase (decrease) in net assets	323,668	(3,221)	158,056	(78,264)
Net assets at beginning of period	2,682,895	2,686,116	2,848,507	2,761,159
Net assets at end of period	<u>\$ 3,006,563</u>	<u>\$ 2,682,895</u>	<u>\$ 3,006,563</u>	<u>\$ 2,682,895</u>



# Allina Obligated Group

## Combined Statement of Cash Flows

(Unaudited)

(Dollars in thousands)

	Twelve Months Ended	
	December 31	December 31
	2019	2018
<b>Operating activities</b>		
Increase in net assets	\$ 323,668	\$ (3,221)
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	182,316	179,733
Gain on sale of properties and equity investments	(2,968)	(2,522)
Loss on refinancing of debt	943	-
Unrealized loss (gain) on interest rate swaps, net	16,412	(12,170)
Realized and unrealized (gain) loss on investments, net	(225,860)	104,227
Restricted contributions including cash for long-lived assets	(727)	(326)
Beneficial interest in net assets of Allina Foundations	(10,880)	20,736
Capital contributions to non-obligated group affiliates, net	5,153	24,741
Earnings on equity investments	(8,839)	(8,742)
Distributions received from equity investments	6,596	6,282
Change in assets and liabilities net of impact from acquisitions:		
Accounts receivable	(34,130)	(6,439)
Other current assets	(14,345)	(18,639)
Accounts payable and other current liabilities	69,456	(8,395)
Other assets and liabilities	(18,774)	8,557
Net cash and cash equivalents provided by operating activities	288,021	283,822
<b>Investing activities</b>		
Proceeds from sales of properties	6,295	15,120
Purchases of land, buildings, and equipment	(246,933)	(196,850)
Contributions of cash for long-lived assets	82	265
Purchases and sales of investments classified as trading, net	(244,511)	(91,741)
Contributions to joint ventures	(4,800)	(1,400)
Capital contributions to non-obligated group affiliates, net	(5,153)	(24,741)
Net cash and cash equivalents used in investing activities	(495,020)	(299,347)
<b>Financing activities</b>		
Restricted contributions	645	61
Change in outstanding checks payable	(31,174)	29,412
Principal payments of long-term debt	(26,370)	(25,743)
Refinancing of long-term debt	(79,790)	-
Proceeds from issuance of long-term debt	382,732	-
Deferred debt acquisition costs	(5,194)	-
Net cash and cash equivalents provided by (used in) financing activities	240,849	3,730
Increase (decrease) in cash and cash equivalents	33,850	(11,795)
Cash and cash equivalents at beginning of year	126,359	138,154
Cash and cash equivalents at end of period	\$ 160,209	\$ 126,359

# Allina Health System

## Consolidating Balance Sheet

(Unaudited)

(Dollars in thousands)

December 31, 2019

	Obligated Group	Other Allina Health Entities*	Allina Health System
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ 160,209	\$ 14,079	\$ 174,288
Short-term investments	471,112	-	471,112
Patient accounts receivable, net	526,045	17,464	543,509
Inventories	74,733	523	75,256
Other current assets	120,125	4,797	124,922
	<u>1,352,224</u>	<u>36,863</u>	<u>1,389,087</u>
Long-term investments	2,068,991	50,441	2,119,432
Investments with limited uses	15,591	151,286	166,877
Beneficial interest in net assets of Allina Foundations	194,409	(194,409)	-
Land, buildings, and equipment, net	1,271,123	4,366	1,275,489
Long-term portion operating lease liabilities	182,233	3,494	185,727
Other assets	195,987	112,978	308,965
Total assets	<u>\$ 5,280,558</u>	<u>\$ 165,019</u>	<u>\$ 5,445,577</u>
<b>Liabilities and net assets</b>			
Current liabilities:			
Accounts payable and accrued expenses	\$ 423,847	\$ 29,430	\$ 453,277
Current portion long-term debt	25,820	915	26,735
Current portion - operating lease liabilities	25,524	590	26,114
Other current liabilities	140,636	-	140,636
	<u>615,827</u>	<u>30,935</u>	<u>646,762</u>
Long-term debt	1,190,900	1,328	1,192,228
Long-term portion operating lease liabilities	172,974	2,950	175,924
Other liabilities	294,294	88,716	383,010
Total liabilities	<u>2,273,995</u>	<u>123,929</u>	<u>2,397,924</u>
Net assets:			
Without donor restrictions	2,802,533	77,774	2,880,307
With donor restrictions	204,030	(36,684)	167,346
Total net assets	<u>3,006,563</u>	<u>41,090</u>	<u>3,047,653</u>
Total liabilities and net assets	<u>\$ 5,280,558</u>	<u>\$ 165,019</u>	<u>\$ 5,445,577</u>

\*Including eliminations.

# Allina Health System

## Consolidating Statement of Operations and Changes in Net Assets

(Unaudited)

(Dollars in thousands)

Twelve Months Ended December 31, 2019

	Obligated Group	Other Allina Health Entities *	Allina Health System
Revenue:			
Net patient service revenue	4,149,495	32,961	4,182,456
Other operating revenue	242,905	47,277	290,182
Total revenues	4,392,400	80,238	4,472,638
Expenses:			
Salaries and benefits	2,759,730	14,325	2,774,055
Supplies and services	987,619	52,643	1,040,262
Depreciation and amortization	182,316	1,830	184,146
Financing costs	48,844	510	49,354
State assessments and taxes	88,340	2,080	90,420
Utilities and maintenance	78,029	776	78,805
Other	184,113	8,898	193,011
Total expenses	4,328,991	81,062	4,410,053
Operating income (loss)	63,409	(824)	62,585
Nonoperating:			
Investment return	273,103	3,323	276,426
Interest rate swap agreements	(25,173)	-	(25,173)
Loss on debt refinancing	(943)	-	(943)
Nonservice periodic pension costs	(3,009)	-	(3,009)
Other	(6,469)	(1,413)	(7,882)
Excess of revenues over expenses	\$ 300,918	\$ 1,086	\$ 302,004

\*Including eliminations.

Continued on next page.

# Allina Health System

## Consolidating Statement of Operations and Changes in Net Assets

(Unaudited)

(Dollars in thousands)

Twelve Months Ended December 31, 2019

	Obligated Group	Other Allina Health Entities*	Allina Health System
<b>Unrestricted net assets</b>			
Excess of revenue over expenses	\$ 300,918	\$ 1,086	\$ 302,004
Net assets released from restrictions for capital purposes	11,295	(1,225)	10,070
Amortization of unrealized loss on interest rate swap agreement	874	-	874
Capital contributions from nonobligated group affiliates, net	(5,153)	5,153	-
Other	3,610	(1,798)	1,812
Increase in net assets without donor restrictions	<u>311,544</u>	<u>3,216</u>	<u>314,760</u>
<b>Temporarily restricted net assets</b>			
Contributions	727	14,153	14,880
Investment return	655	18,427	19,082
Net assets released from restrictions	(82)	(21,397)	(21,479)
Change in beneficial interest in net assets of			
Allina Foundations	10,880	(10,880)	-
Other	(56)	(130)	(186)
Increase in net assets with donor restrictions	<u>12,124</u>	<u>173</u>	<u>12,297</u>
Increase in net assets	323,668	3,389	327,057
Net assets at beginning of period	<u>2,682,895</u>	<u>37,701</u>	<u>2,720,596</u>
Net assets at end of period	<u>\$ 3,006,563</u>	<u>\$ 41,090</u>	<u>\$ 3,047,653</u>

\*Including eliminations.

# Allina Health System

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

Twelve Months Ended December 31, 2019

(Dollars in millions)

### Operating Results

Allina Health's operating margin was 1.4% for the twelve months ended December 31, 2019, compared to 2.0% for the same period in 2018. Operating income decreased by \$23.7 million when compared to the same period in 2018 which has been impacted by several factors. Volumes have been low for Allina Health and most health care systems in Minnesota. The trend of patients shifting from the inpatient to outpatient setting continues as well as the dramatic increase of observation cases. The Twin Cities health care market is experiencing a disruption in the payer environment relating to both commercial and government payers. Allina Health is focusing on disciplined management of productivity, operating expenses and length of stay to meet financial targets to allow for reinvestment in care. Allina Health management is coordinating plans systemwide to drive growth, capture revenue for services provided and reduce expenses in order to improve financial results. Several activities to optimize operations were executed in the last half of 2019, which resulted in favorable results for the fourth quarter.

Allina Health's Earnings Before Interest, Depreciation and Amortization (EBIDA) margin was 6.6% for the twelve months ended December 31, 2019, compared to 7.1% for the same period in 2018. Non-operating investment return and swap unrealized losses were consistent with market conditions.

EARNINGS SUMMARY	ALLINA HEALTH		OBLIGATED GROUP	
	Twelve Months Ended December 31		Twelve Months Ended December 31	
	2019	2018	2019	2018
EBIDA	\$ 294.3	\$ 310.6	\$ 294.1	311.0
Interest income	1.8	1.2	0.4	0.2
Financing costs	(49.4)	(43.9)	(48.8)	(43.4)
Depreciation and amortization	(184.1)	(181.6)	(182.3)	(179.7)
Operating (loss) income	62.6	86.3	63.4	88.1
Investment return	276.4	(59.7)	273.1	(57.9)
Interest rate swap agreements	(25.2)	2.7	(25.2)	2.7
Loss on debt refinancing	(0.9)	-	(0.9)	-
Non-operating other	(10.9)	(6.9)	(9.5)	(5.4)
Excess of revenues over expenses	<u>\$ 302.0</u>	<u>\$ 22.4</u>	<u>\$ 300.9</u>	<u>\$ 27.5</u>

# Allina Health System

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

Twelve Months Ended December 31, 2019

(Dollars in millions)

### Revenues

Allina Health's total revenue increased \$102.2 million, or 2.3% for the twelve months ended December 31, 2019, as compared to 2018. Inpatient revenue increased 1.1%. Through December 2019, 39.7% of net patient revenue is net inpatient revenue, down from 40.3% in 2018.

NET PATIENT REVENUE	ALLINA HEALTH		OBLIGATED GROUP	
	Twelve Months Ended December 31		Twelve Months Ended December 31	
	2019	2018	2019	2018
Inpatient	\$ 1,660.1	\$ 1,641.7	\$ 1,659.0	\$ 1,641.1
Change	1.1%		1.1%	
Outpatient/Ambulatory	1,437.1	1,398.3	1,436.2	1,398.0
Change	2.8%		2.7%	
Clinic	1,065.8	1,012.2	1,034.8	982.4
Change	5.3%		5.3%	
Transitional Rehabilitation Program	19.5	19.5	19.5	19.5
Change	0.0%		0.0%	
Total Net Patient Service Revenue	<u>\$ 4,182.5</u>	<u>\$ 4,071.7</u>	<u>\$ 4,149.5</u>	<u>\$ 4,041.0</u>
Change	2.7%		2.7%	

### 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 23.7% of total net patient revenue and 15.3% of total gross patient revenue for the twelve months ended December 31, 2019.

PAYER MIX PERCENTAGE	ALLINA HEALTH		Net Patient Revenue		Gross Patient Revenue	
			December 31		December 31	
	2019	2018	2019	2018	2019	2018
Medicare	31.0%	30.9%			44.7%	43.9%
Medicaid	9.9	10.3			14.7	15.2
Contracted Payers	54.7	54.4			35.9	36.4
Self Pay	2.3	2.5			1.9	1.9
Other	2.1	1.9			2.8	2.6
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

Twelve Months Ended December 31, 2019

(Dollars in millions)

### 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 \$39.3 million in gross charges, or 20.0% in 2019 compared to prior year as health care insurance plans place a greater financial burden on patients. Allina Health has incorporated changes in revenue cycle management to improve transparency for patients, payment collections and try to mitigate implicit price concessions for services provided.

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 \$23.4 million and \$20.7 million for the twelve months ended December 31, 2019, and 2018, respectively.

UNCOMPENSATED CARE AT GROSS CHARGES	ALLINA HEALTH	
	Twelve Months Ended December 31	
	2019	2018
Uninsured Discount	\$ 47.8	\$ 39.1
Charity Care Discount	61.2	50.0
Implicit Price Concessions	127.7	108.3
Total Uncompensated Care	<u>\$ 236.7</u>	<u>\$ 197.4</u>
Change	19.9%	
Total Uncompensated Care as a % of Gross Patient Charges	2.2%	2.0%

# Allina Health System

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

Twelve Months Ended December 31, 2019

(Dollars in millions)

### Volume

Inpatient admissions decreased by 0.5%, while inpatient surgeries decreased 0.4% for the twelve months ended December 31, 2019, from 2018. Clinic work RVUs increased 3.0%. Outpatient surgeries decreased by 1.9% while outpatient hospital admissions decreased 0.5%.

VOLUME STATISTICS	ALLINA HEALTH	
	Twelve Months Ended	
	December 31	
	2019	2018
Inpatient Hospital Admissions	104,976	105,485
Inpatient change from prior period	-0.5%	
Observation days	28,646	22,068
Observation days change from prior period	29.8%	
Outpatient Hospital Admissions	1,414,212	1,421,198
Outpatient change from prior period	-0.5%	
Average Length of Stay (days)	4.2	4.2
Hospital Patient Days	445,171	443,658
Patient days change from prior period	0.3%	
Hospital Occupancy (based on staffed beds)	68.4%	68.5%
Inpatient Surgeries	31,545	31,682
Outpatient Surgeries	58,728	59,842
Total Surgeries	90,273	91,524
Total surgeries change from prior period	-1.4%	
Clinic Work RVUs	8,398,037	8,154,397
Work RVUs change from prior period	3.0%	
Total Case Mix	1.60	1.57
Medicare Case Mix	1.91	1.90

# Allina Health System

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

Twelve Months Ended December 31, 2019

(Dollars in millions)

### 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, 2019.

MARKET SHARE STATISTICS	ALLINA HEALTH	
	June 30 2019	December 31 2018
Allina Metro Hospital Inpatient Market Share *	32.0%	31.3%
Change in Total Metro Market Volume**	-1.0%	1.7%
* 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 2019 and December 2018		

### Non-Operating Gains and 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 11.5% for the twelve months ended December 31, 2019, consistent with the market conditions for the period. To mitigate changes in interest rates on variable rate debt, Allina Health has entered into fixed-payer swaps, which are marked to market.

NON-OPERATING GAINS & LOSSES	ALLINA HEALTH		OBLIGATED GROUP	
	Twelve Months Ended December 31		Twelve Months Ended December 31	
	2019	2018	2019	2018
Interest and dividends	\$ 47.9	\$ 46.2	\$ 47.9	\$ 46.1
Realized gains (losses) on sales of investments	32.0	19.1	31.5	18.9
Unrealized gains (losses) on investments	196.5	(124.9)	193.7	(122.9)
Interest rate swap agreements - fair value	(16.4)	12.2	(16.4)	12.2
Interest rate swap agreements - counterparty interest	(8.8)	(9.5)	(8.8)	(9.5)
Loss on debt refinancing	(0.9)	-	(0.9)	-
Other	(10.9)	(6.9)	(9.5)	(5.4)
Total non-operating gains	<u>\$ 239.4</u>	<u>\$ (63.9)</u>	<u>\$ 237.5</u>	<u>\$ (60.6)</u>

# Allina Health System

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

Twelve Months Ended December 31, 2019

(Dollars in millions)

### Balance Sheet and Cash Flow

Allina Health had 239 days cash on hand (DCOH) as of December 31, 2019, compared with 199 days at December 31, 2018, due to the 2019 \$300 million debt issuance and strong investment returns.

Leverage increased to 29.7% at December 31, 2019, from 27.0% in December 31, 2018, due to the 2019 \$300 million debt issuance. Cash to debt is 226.8% as of December 31, 2019, compared to 236.0% at December 31, 2018.

System level capital spending was \$247.8 million for the twelve months ended December 31, 2019, compared to capital spending of \$198.2 million for the same time period in 2018.

BALANCE SHEET & LIQUIDITY STATISTICS	ALLINA HEALTH		OBLIGATED GROUP	
	December 31 2019	December 31 2018	December 31 2019	December 31 2018
Unrestricted cash & investments	\$ 2,764.8	\$ 2,238.3	\$ 2,700.3	\$ 2,183.9
Days cash on hand	239	199	238	198
Total Debt	\$ 1,219.0	\$ 948.4	\$ 1,216.7	\$ 945.3
Unrestricted net assets	\$ 2,880.3	\$ 2,565.5	\$ 2,802.5	\$ 2,491.0
Debt to capitalization *	29.7%	27.0%	31.1%	28.6%
Patient receivables	\$ 543.5	\$ 511.7	\$ 526.0	\$ 491.9
Days revenue in receivables, net	47	46	46	44
Cash to debt	227%	236%	222%	231%
Historical annual debt service coverage	4.8	5.2	4.9	5.3

\* Obligated Group includes Letters of Credit and Surety indebtedness

# Allina Health System

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

Twelve Months Ended December 31, 2019

(Dollars in millions)

DAYS CASH ON HAND ROLL-FORWARD	ALLINA HEALTH	
	Cash	Days
December 31, 2018	\$2,238.3	199.1
Operations	136.1	11.8
Growth in daily expenditures		(5.8)
Investment gains	276.4	23.9
Proceeds from sales of properties	6.3	0.5
Capital expenditures	(247.8)	(21.4)
Debt payments	(27.2)	(2.3)
Proceeds from issuance of debt	382.7	33.1
December 31, 2019	<u>\$2,764.8</u>	<u>238.8</u>

DEBT TO CAPITALIZATION ROLL-FORWARD	ALLINA HEALTH		
	Debt	Equity	Cap %
December 31, 2018	\$ 948.4	\$ 2,565.5	27.0%
Operating income		62.6	
Investment gains		276.4	
Loss on interest rate swap agreements		(25.2)	
Other non-operating losses		(10.9)	
Loss on debt refinancing		(0.9)	
Other changes in net assets		12.8	
Proceeds from issuance of long-term debt	382.7		
Refinancing of long-term debt	(79.8)		
Debt acquisition cost on issuance of long-term debt	(5.2)		
Debt payments and amortization of bond premium, net	(27.1)		
December 31, 2019	<u>\$1,219.0</u>	<u>\$2,880.3</u>	29.7%

# Allina Health System

## Consolidated Utilization Statistics

	Twelve Months Ended		
	December 31 2019	December 31 2018	December 31 2017
Hospitals			
Admissions *	104,976	105,485	103,637
Patient Days *	445,171	443,658	427,510
Average length of stay	4.2	4.2	4.1
Observation days	28,646	22,068	21,020
Licensed beds	2,451	2,451	2,451
Staffed beds	1,783	1,775	1,718
Outpatient admissions	1,414,212	1,421,198	1,426,223
Emergency room visits	312,338	307,421	304,265
Inpatient surgical procedures	31,545	31,682	31,171
Outpatient surgical procedures	58,728	59,842	57,576
Physicians and allied professionals			
Work RVUs	8,398,037	8,154,397	7,869,653
Ambulance transports	84,601	79,791	81,171

\* Results exclude newborns.



# Allina Health System

## Debt and Investment Appendix

Twelve Months Ended December 31, 2019

(Dollars in thousands)

### Debt Structure

Allina Health's current debt structure as of December 31, 2019					
Series	\$ Outstanding	Structure	Final Maturity	Credit Enhancement	YTD Average Int. Rate*
2019 Taxable	300,000	Fixed Rate	2049	None	3.89%
2019 Non-Taxable	68,180	Fixed Rate	2029	None	5.00%
2017	150,000	Fixed Rate	2042	None	4.43%
2017A	78,515	Fixed Rate	2029	None	5.00%
2017B	43,500	Fixed Rate	2022	None	2.59%
2015	250,000	Fixed Rate	2045	None	4.81%
2014	16,790	Fixed Rate	2028	None	3.10%
2009B	114,525	Daily VRDB	2035	JP Morgan LOC	1.43%
2009C	50,000	Weekly VRDB	2035	Wells Fargo LOC	1.44%
2007C	117,450	Weekly VRDB	2034	Wells Fargo LOC	1.45%
1998A	10,175	Auction Rate	2022	MBIA Insured	3.23%
	<u>\$ 1,199,135</u>	Total Bonds			
Other ***	<u>19,828</u>				
	<u><b>\$ 1,218,963</b></u>	<b>Total Debt</b>			
Fixed Rate		\$ 906,985	74.4%		
Hedged Variable Rate**		292,150	24.0%	(2009B, 2009C, 2007C & 1998A)	
Other		<u>19,828</u>	1.6%		
<b>Total</b>		<u><b>\$ 1,218,963</b></u>			

\* Interest rates are interest cost only, and do not include premium/discount, administrative, credit facility, broker, or other costs related to the issuance of the bonds.

\*\* There is a \$48,705 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 and other small notes and loans that are included in debt on the balance sheet.

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

Liquidity Support						
Debt	Liquidity Support	Amount	Expiration	Termination Trigger - Rating	Term-Out Provisions	Counterparty
2009B	Letter of Credit	\$ 114,525	January 2021	Allina Rating Less Than BBB	3 Year	JP Morgan
2009C	Letter of Credit	50,000	January 2021	Allina Rating Less Than BBB	3 Year	Wells Fargo
2007C	Letter of Credit	<u>117,450</u>	January 2021	Allina Rating Less Than BBB	3 Year	Wells Fargo
		<u><b>\$ 281,975</b></u>				

# Allina Health System

## Debt and Investment Appendix

Twelve Months Ended December 31, 2019

(Dollars in thousands)

### Asset Allocation and Liquidity

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

Allina Health periodically reviews asset allocation to ensure that the organization is maintaining the appropriate portfolio allocation, to consider other asset classes, and to address shifts in market expectations. The short-term fixed income balance is temporarily reflecting the proceeds of a recent debt issuance.

Unrestricted Cash and Investments - Asset Allocation					
Unrestricted Balances	Target	12/31/2019		12/31/2018	
Cash and Cash Equivalents		6.3%	174,288	6.1%	135,580
Short-Term Fixed Income		17.0%	471,112	12.4%	278,587
<b>Total Liquidity Assets</b>	<b>15.0%</b>	<b>23.3%</b>	645,400	<b>18.5%</b>	414,167
<b>Long-Term Assets</b>	<b>85.0%</b>	<b>76.7%</b>	2,119,432	<b>81.5%</b>	1,824,119
<b>Total Unrestricted Assets</b>		<b>100.0%</b>	2,764,832	<b>100.0%</b>	2,238,286

  

Asset Allocation - Asset Class					
Investment	Current Target Allocation	12/31/2019 % of Long Term Assets	12/31/2019 % Total Unrestricted Investments	12/31/2018 % of Long Term Assets	12/31/2018 % Total Unrestricted Investments
Global Equity	30.0%	30.4%	23.4%	27.2%	22.1%
Long/Short Equity Hedge Funds	4.0%	5.0%	3.8%	4.5%	3.7%
Global Fixed Income	30.0%	29.5%	22.6%	31.4%	25.6%
Alternatives	28.0%	29.6%	22.7%	29.4%	24.0%
Real Return	8.0%	5.5%	4.2%	7.5%	6.1%
<b>Total Long-Term</b>	<b>100.0%</b>	<b>100.0%</b>	<b>76.7%</b>	<b>100.0%</b>	<b>81.5%</b>
Cash and Cash Equivalents			6.3%		6.1%
Short-Term Fixed Income			17.0%		12.4%
<b>Total Liquidity</b>			<b>23.3%</b>		<b>18.5%</b>

Allina Health is invested in ten direct hedge funds. Four of these direct hedge funds are invested in distressed debt and strategic fixed income and are included in the alternatives allocation. Five additional long/short equity direct hedge funds and one market neutral hedge fund are considered a part of the long/short equity hedge fund allocation. Allina Health also has twenty-two investments in private capital with funding commitments that will be drawn down over time. As of December 31, 2019, these private capital holdings represented approximately 3.57% of unrestricted assets.

# Allina Health System

## Debt and Investment Appendix

Twelve Months Ended December 31, 2019

(Dollars in thousands)

### Summary of Key Financial Ratios

Indicators	Twelve Months Ended December 31,			
	2019	2018	2017	2016
<b>Liquidity Ratios:</b>				
Monthly DCOH*	207	171	188	170
Annual DCOH**	230	193	207	187
Traditional DCOH	239	199	213	193
Days Cash on Hand (Obligated Group)	238	198	212	190
Cash to Debt	227%	236%	231%	232%
Days Revenue in Receivables, net				
Hospitals	51	49	51	49
Clinics	36	24	26	27
VRDB Debt (in millions)	\$282	\$283	\$284	\$284
Monthly liquidity to VRDB debt	849%	679%	699%	606%
<b>Capital Structure Ratios:</b>				
Historical Coverage Ratio (x) (Obligated Group)	4.9	5.3	5.6	5.4
Cushion Ratio (x) (Obligated Group)	36.7	31.9	31.9	29.8
Leverage (Obligated Group)	31.1%	28.6%	29.4%	29.4%
Leverage	29.7%	27.0%	27.8%	27.5%
<b>Profitability Ratios:</b>				
EBIDA Margin	6.6%	7.1%	8.6%	8.0%
Operating Margin	1.4%	2.0%	3.5%	3.0%
Net Income Margin	6.8%	0.5%	7.1%	1.2%
Revenue Growth	2.3%	4.5%	4.7%	3.9%

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

\* Days cash on hand available within 0 – 30 days

\*\* Days cash on hand available within 0 – 365 days