

Allina Health System Quarterly Financial Disclosure Statement



NINE MONTHS ENDED SEPTEMBER 30, 2020
OVERVIEW OF THE SYSTEM

For additional information please visit www.allinahealth.org.
Direct questions regarding disclosure information to treasury@allina.com.



Allina Health System

Quarterly Financial Disclosure Statement

Nine Months Ended September 30, 2020

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Allina Health System

Quarterly Financial Disclosure Statement

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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 nine months ended September 30, 2020, 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: November 12, 2020

By: /s/ Richard Magnuson

Richard Magnuson

Executive Vice President – Chief Financial Officer

Allina Health System

Allina Health System

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Nine Months Ended September 30, 2020

OVERVIEW OF THE SYSTEM

Introduction

Allina Health System, primarily 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, including two critical access hospitals. Allina Health is staffed by employed physicians and a large aligned provider network. With nearly 27,300 full and part-time employees, Allina Health is one of the largest employers in Minnesota. Allina Health’s consolidated revenue for the nine months ended September 30, 2020, was \$3.1 billion. As an integrated health care system that includes hospitals; employed physicians; emergency medical services, ambulatory, pharmacy, 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 also considers the non-clinical components of their patients’ lives as they provide 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 more than 67,900 inpatient admissions and nearly 771,000 outpatient visits during the nine months ended September 30, 2020. As of September 30, 2020, Allina Health hospitals had licensed bed capacity of 2,451 acute care beds, 1,790 of which were staffed for inpatient services.

Allina Health provides clinical services through its Allina Health Group and hospital-based physicians and employs 1,460 physicians. These physicians include approximately 770 in the Allina Health Group, which controls and operates 65 clinics and operates the clinical services lines. They include approximately 250 hospitalists in three hospitalist programs operated by Allina Health on the Abbott Northwestern, United, and Mercy hospital campuses. They include approximately 90 physicians consisting of cardiologists, cardiothoracic and vascular surgeons within Allina Specialty Associates, Inc. (“ASA”), operating under the name Minneapolis Heart Institute®. In addition, these physicians include approximately 350 specialty physicians including intensivists, perinatologists, and psychiatrists in the Allina Health hospitals. Allina Health physicians and allied professionals

generated nearly 5,299,000 work RVUs¹ during the nine months ended September 30, 2020. The Allina Integrated Medical (“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 31.2% inpatient market share as of March 31, 2020.

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.

The impact of responding to the global COVID-19 pandemic, as well as the unrest throughout the Twin Cities in the aftermath of the killing of George Floyd are discussed throughout this document.

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: Mind, Body, 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.

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

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 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 advanced 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 to interact with its providers. Relative to the national health care market, Allina Health's digital capabilities are leading-edge, with strong offerings in digitized self-service like 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 systemwide 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, Equity and Inclusion: In the aftermath of the death of George Floyd, which occurred blocks from Allina Health's headquarters and Abbott Northwestern Hospital, the organization is accelerating its plans around Diversity, Equity and Inclusion, along with its commitment to the long-term recovery of the communities that incurred significant damage in the unrest. Allina leadership has taken an active role in community conversations related to the importance of racial equity. Part of this effort included the creation of a community principles document that has been signed by 29 other organizations who pledge to use their roles as employees, providers of care, purchasers and community leaders to address systemic racial inequities in health care.

Key components of Allina's Diversity, Equity and Inclusion plan include increasing diversity at all levels in the organization with a focus on leadership, and providing implicit bias training to leaders throughout the organization in order to build leader readiness to ensure that the culture is trusting, supportive and collaborative. Additional work includes building infrastructure throughout the organization to support this work and to create accountability for achieving progress.

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 that builds scale over time.

Blue Cross and Blue Shield Agreement

In August of 2020, Allina Health announced a new six-year agreement with Blue Cross and Blue Shield of MN (Blue Cross) that will significantly advance our payment model to support efforts to increase connected care and reduce health inequities.

This value-based payment agreement is designed to provide enhanced value for insurance plan members while fostering even more high-quality care and healthy outcomes for patients.

COVID-19 accelerated the realization that health care in the U.S. can and should be more sustainable, through better coordination, accessibility and affordability. The pandemic underscores the timeliness and importance of this agreement, as we have seen dramatic acceleration of alternative modalities of care that are central to a value-based care model, including telehealth, our Home Hospital Care Program and more.

Blue Cross is Allina Health's largest payer and Allina Health is Blue Cross' largest provider of care for its Minnesota members. Altogether, this agreement has the potential to positively impact the cost and quality of care for approximately 130,000 people. We believe the sheer scale of this agreement will set a high bar for value-based care, driving innovation and transformation in health care at a pace that could take significantly longer under more moderate contract terms.

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, at the time, 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

Impact of and Planning for COVID-19

Allina Health entered the COVID-19 pandemic in a strong financial and operational position, with total 2019 revenue of \$4.47 billion and second half operating income of approximately \$94 million. As previously disclosed, Allina Health experienced patient service revenue losses of approximately \$40 million per week during a seven-week shutdown of non-emergent procedures that ended May 10, 2020.

In the subsequent weeks and continuing through the date of this disclosure, Allina Health has adapted to operating in a COVID-19 environment while delivering the full spectrum of care in the communities it serves. While inpatient hospital admissions were reduced by almost 40% in April 2020, versus April 2019, such activity had recovered to 90% of the comparable period in September 2020. Surgeries, which were reduced by 75% in April 2020, recovered to 75% of the comparable 2019 period for the nine months ended September 30, 2020. Operating income for the third quarter 2020 was \$53.6 million, versus an approximately \$85 million operating loss for the second quarter.

While recovering capacity to deliver patient care, Allina Health has undertaken initiatives to ensure its operational and financial stability for the duration of the pandemic and beyond.

Equipment, Supply Chain and Surge Capacity

Under Minnesota Governor Walz's executive order 20-51 allowing resumption of non-emergent procedures (the "Order"), any facility that offers procedures that utilize personal protective equipment ("PPE") or ventilators must develop and implement an internal oversight structure and written plan, following State Department of Health guidance (a "Plan"). Plan requirements include a process for prioritizing cases; collaboration to ensure adequate supplies and capacity are available to respond to a potential surge in COVID-19 cases without resorting to crisis standards of care; the reduction or cessation of low- and medium-priority procedures in the event of a surge in COVID-19 cases; patient, staff and visitor screening and testing protocols and conservation of PPE. Pursuant to the Order, public PPE reserves will not be available for use in non-COVID procedures and scheduling of non-emergent procedures may be subject to continued availability of capacity for treatment of COVID-19 patients.

Pursuant to Minnesota executive order 20-74, a copy of Allina Health's COVID-19 preparedness plan is accessible [here](#).

Allina Health is also screening all patients, employees and visitors to its facilities for COVID-19 symptoms in addition to requiring masking. Allina Health is testing all surgical patients for COVID-19 as part of pre-operative care, all hospital inpatients, as well as all other symptomatic patients, and has added HEPA filters to create negative pressure in designated inpatient rooms to accommodate viral patients. Allina Health is closely monitoring its supply of PPE through a dashboard that care staff have access to.

Current information on COVID-19 case volumes and statewide preparedness is available at <https://mn.gov/covid19/data/covid-dashboard/index.jsp> and <https://mn.gov/covid19/data/response-prep/response-capacity.jsp>. Such information is not incorporated herein, and Allina Health undertakes no duty to maintain or update such materials.

Through September, pandemic conditions in Minnesota and Wisconsin did not require Allina Health to activate surge protocols, however there is no guarantee that delivery of patient care will not be limited by future public health measures and directives, maintenance of adequate supplies and capacity for patient care, or an increase in COVID-19 case volume in the near-term or long-term.

Expense Reduction; Capital Planning

Allina Health is implementing labor and non-labor expense reduction and cash conservation measures for the remainder of 2020. Recent actions to preserve the financial health of the organization include delaying capital projects not already underway; amendments to contracts with vendors; temporary and long-term furloughs, layoffs and suspension of merit pay increases for non-contract staff as well as reductions of certain benefits.

Government Assistance

Allina Health has benefited from government assistance in the second quarter and since, receiving \$322 million in funds through the Centers for Medicare & Medicaid Services (CMS) advance payment program (“APP Funds”) in April 2020¹. These advanced funds will begin to be paid back starting April 2021 through a process established by CMS. APP funds will be recognized under revenue as earned during the payback process. Through September 30, 2020, Allina Health has also received and recognized as other revenue, \$166.8 million from state funding sources and the first three releases under the Coronavirus Aid, Relief and Economic Security Act (“CARES Act”).² Allina Health expects to apply for all appropriate COVID-19 related resources, but the availability of further grants, reimbursements or funding provisions under the CARES Act or other government programs is not assured. While government assistance has been very appreciated and helpful to support health care operations during the pandemic, the current and anticipated funds received will not make Allina Health whole and we still expect to absorb losses related to the pandemic response.

Liquidity, Debt and Investments

As of September 30, 2020, Allina Health had \$1,275 million in cash, cash equivalents and short-term investments (\$627 million net of APP Funds, 364-day Term Loan and line of credit draws) that serve as an institutional liquidity reserve within an overall investment portfolio of approximately \$3.4 billion. An additional \$1.6 billion of this portfolio could be accessed in seven days or less. To increase its liquidity profile, Allina Health increased its lines of credit by \$200 million in April and subsequently has fully drawn upon these lines of credit. The total drawn is \$225.8 million. Allina Health entered into a 364-day Term Loan Agreement dated August 5, 2020, with Wells Fargo Bank, National Association in the amount of \$100 million.

To simplify its debt structure and align financial covenants with revenue flow, Allina Health has redeemed its Health Care System Revenue Notes, Series 2014, which were outstanding in the principal amount of \$16,790,000. In addition, Allina Health has worked with lenders to proactively amend outstanding credit agreements³.

Additional discussion on the financial impact of COVID-19 begins on page 32 under *Management’s Discussion and Analysis of Results of Operations*.

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.

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 system-wide 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.

1 Amount equal to 100% of three months’ Medicare payments, except for acute care hospitals (100% of six months) and critical access hospitals (125% of six months). Payments under the Medicare Accelerated and Advance Payment Program will be recouped by CMS beginning one year after receipt by the provider by withholding future Medicare fee-for-service payments. The program currently requires that any outstanding balance remaining after 29 months must be repaid by the provider or be subjected to a 4.0% interest rate.

2 CARES Act grants received to date are not required to be repaid provided that recipients attest to and comply with certain terms and conditions, including limitations on balance billing and not using funds received to reimburse expenses or losses that other sources are obligated to reimburse.

3 <https://emma.msrb.org/RE1364936-RE1060714-RE1470315.pdf>

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 210 ambulatory surgery centers 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 2020, 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; www.moodys.com; www.fitchratings.com; or www.standardandpoors.com.

Board Member Updates

The Allina Health Board added two new members and had three members who departed the Allina Health Board.

The new members are:

Name	Profession/Association
Shari Ballard	Former Best Buy Executive
Amy Ronneberg	Chief Executive Officer Be the Match

The members departed are:

Name	Profession/Association	On Board Since
John Church	Chief Supply Chain Officer General Mills	2013
Joseph Goswitz, MD	Pathologist Hospital Pathology Associates	2013
Greg Heinemann	Co-Founder Adrenaline Enterprises	2014

Executive Leadership Team

Following are the Executive Leadership Team members and their biographies:

Penny Wheeler, MD (62) – Chief Executive Officer

Dr. Wheeler is the 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 (58) – 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 (55) – President and Chief Operating Officer

Ms. Shannon joined Allina Health as Chief Operating Officer in July 2017 and was promoted to President and Chief Operating Officer in September 2020. 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 (57) – 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 (63) – 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 (59) – 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 (50) – Senior Vice President, Chief Information and Improvement Officer

Mr. Shoemaker was appointed Senior Vice President, Chief Information and Improvement 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 (54) – 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. Dr. Sielaff's last day at Allina Health was November 2, 2020. Dr. Ryan Else, Vice President of Medical Affairs (VPMA) at Mercy Hospital assumed the interim role of Acute Care Medical Officer. Dr. John Misa, Vice President of Medical Operations for Allina Health Group (AHG) assumed the interim role of AHG Medical Officer.

Sarah Kleaveland Kupczak (57) – 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.

Scott Leighty (57) – Senior Vice President of Operations, Regional Hospitals and Clinical Services

Scott Leighty joined Allina Health in June 2020. Mr. Leighty came to Allina Health from Atrium Health in Charlotte, North Carolina, where he led a division of enterprise clinical services, achieving top decile performance through system-wide standardization, local integration and continuous improvement. He previously served in an executive roles at Mercy Medical Center – North Iowa in Mason City, Iowa and OhioHealth in Columbus, Ohio. Mr. Leighty has a bachelor's degree from Yale University and a Master of Business Administration from the Kellogg School of Management, Northwestern University.

Allina Health System

Consolidated Balance Sheets

(Unaudited)

(Dollars in thousands)

	September 30 2020	December 31 2019
Assets		
Current assets:		
Cash and cash equivalents	\$ 933,205	\$ 174,288
Short-term investments	341,844	471,112
Patient accounts receivable	469,797	543,509
Inventories	83,497	75,256
Other current assets	138,330	124,922
	<u>1,966,673</u>	<u>1,389,087</u>
Long-term investments	2,111,121	2,119,432
Investments with limited uses	176,590	166,877
Land, buildings, and equipment, net	1,295,146	1,275,489
Operating lease right of use assets, net	206,543	219,542
Other assets	309,485	308,965
Total assets	<u>\$ 6,065,558</u>	<u>\$ 5,479,392</u>
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 482,118	\$ 453,277
Current portion - long-term debt	23,528	26,735
Current portion - operating lease liabilities	32,814	30,348
Advanced Medicare Payments	80,501	-
Other current liabilities	475,866	140,636
	<u>1,094,827</u>	<u>650,996</u>
Long-term debt	1,170,032	1,192,228
Long-term portion operating lease liabilities	190,488	205,505
Advanced Medicare Payments - long term	241,505	-
Other liabilities	462,871	383,010
Total liabilities	3,159,723	2,431,739
Net assets:		
Without donor restriction	2,728,555	2,880,307
With donor restriction	177,280	167,346
Total net assets	<u>2,905,835</u>	<u>3,047,653</u>
Total liabilities and net assets	<u>\$ 6,065,558</u>	<u>\$ 5,479,392</u>

See accompanying notes.

Allina Health System

Consolidated Statements of Operations and Changes in Net Assets

(Unaudited)

(Dollars in thousands)

	Nine Months Ended		Three Months Ended	
	September 30 2020	September 30 2019	September 30 2020	September 30 2019
Revenue:				
Patient service revenue	2,767,334	3,057,607	1,029,666	1,043,001
Other operating revenue	365,465	204,711	128,799	68,786
Total revenues	<u>3,132,799</u>	<u>3,262,318</u>	<u>1,158,465</u>	<u>1,111,787</u>
Expenses:				
Salaries and benefits	2,048,354	2,071,503	685,400	690,113
Supplies and services	737,241	760,621	274,320	259,011
Depreciation and amortization	140,886	137,578	47,776	46,263
Financing costs	37,914	36,159	12,292	13,481
State assessments and taxes	58,295	66,645	14,357	16,677
Utilities and maintenance	55,477	57,058	18,863	20,932
Other operating expenses	153,415	148,972	51,845	49,862
Total expenses	<u>3,231,582</u>	<u>3,278,536</u>	<u>1,104,853</u>	<u>1,096,339</u>
Operating (loss) income	(98,783)	(16,218)	53,612	15,448
Nonoperating:				
Investment return	(21,037)	194,268	68,127	31,382
Interest rate swap agreements	(28,872)	(31,044)	868	(10,699)
Other	(4,961)	(4,608)	(1,059)	(1,202)
(Deficit) excess of revenues over expenses	<u>\$ (153,653)</u>	<u>\$ 142,398</u>	<u>\$ 121,548</u>	<u>\$ 34,929</u>

Continued on next page.

Allina Health System

Consolidated Statements of Operations and Changes in Net Assets

(Unaudited)

(Dollars in thousands)

	Nine Months Ended		Three Months Ended	
	September 30 2020	September 30 2019	September 30 2020	September 30 2019
Net assets without donor restrictions				
(Deficit) excess of revenue over expenses	\$ (153,653)	\$ 142,398	\$ 121,548	\$ 34,929
Net assets released from restrictions for capital purposes	2,394	5,964	1,555	4,509
Amortization of unrealized loss on interest rate swap agreement	655	655	218	218
Other	(1,148)	5,712	(184)	(1,079)
(Decrease) increase in net assets without donor restrictions	(151,752)	154,729	123,137	38,577
Net assets with donor restrictions				
Contributions	15,625	10,789	5,789	3,448
Investment return	360	12,192	7,388	379
Net assets released from restrictions	(5,993)	(11,835)	(3,004)	(7,265)
Other	(58)	(160)	(60)	24
Increase (decrease) in net assets with donor restrictions	9,934	10,986	10,113	(3,414)
(Decrease) increase in net assets	(141,818)	165,715	133,250	35,163
Net assets at beginning of period	3,047,653	2,720,596	2,772,585	2,851,148
Net assets at end of period	<u>\$ 2,905,835</u>	<u>\$ 2,886,311</u>	<u>\$ 2,905,835</u>	<u>\$ 2,886,311</u>

See accompanying notes.

Allina Health System

Consolidated Statement of Cash Flows

(Unaudited)

(Dollars in thousands)

	Nine Months Ended	
	September 30 2020	September 30 2019
Operating activities		
(Decrease) increase in net assets	\$ (141,818)	\$ 165,715
Adjustments to reconcile increase in net assets to net cash and cash equivalents provided by operating activities:		
Depreciation and amortization	140,886	137,578
Gain on sale of land, buildings, and equipment	(1,018)	(1,342)
Change in fair value of interest rate swaps	20,862	24,643
Change in realized and unrealized loss (gain) on investments, net	47,307	(158,437)
Restricted contributions including cash for long-lived assets	(15,625)	(10,789)
Loss (earnings) on joint ventures	291	(5,499)
Distributions received from joint ventures	3,201	2,849
Advanced Medicare Payments	322,006	-
Changes in assets and liabilities:		
Accounts receivable	73,712	(16,306)
Other current assets	(16,697)	(8,971)
Accounts payable and other current liabilities	(1,772)	(42)
Other assets and liabilities	55,034	(11,007)
Net cash and cash equivalents provided by operating activities	486,369	118,392
Investing activities		
Proceeds from sales of land, buildings, and equipment	3,452	4,607
Purchases of land, buildings, and equipment	(162,977)	(171,862)
Contributions of cash for long-lived assets	1,322	16
Purchases and sales of investments classified as trading, net	80,558	(253,387)
Contributions to joint ventures	(527)	(2,900)
Net cash and cash equivalents used in investing activities	(78,172)	(423,526)
Financing activities		
Restricted contributions, net	8,846	10,773
Change in outstanding checks payable	40,028	244
Proceeds from issuance of short-term note	100,000	-
Line of Credit Draws	225,815	-
Principal payments of long-term debt	(23,969)	(6,491)
Proceeds from issuance of long-term debt	-	300,000
Deferred debt acquisition costs	-	(4,305)
Net cash and cash equivalents provided by financing activities	350,720	300,221
Increase (decrease) in cash and cash equivalents	758,917	(4,913)
Cash and cash equivalents at beginning of year	174,288	135,580
Cash and cash equivalents at end of period	\$ 933,205	\$ 130,667

See accompanying notes.

Allina Health System

Abridged Notes to the Consolidated Financial Statements

Nine Months Ended September 30, 2020 and 2019

(Unaudited)

(Dollars in thousands)

1. Patient Revenue and Accounts Receivable

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 and outpatient services. Revenue for performance obligations satisfied at a point in time is recognized when goods or services are provided and Allina Health does not believe it is required to provide additional goods or services to the patient. Performance obligations for patients that are in house at period end generally complete within days or possibly weeks of period end, therefore are estimated on a pro rata basis.

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

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

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

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

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 nine months ended September 30, 2020 and 2019, successful appeals, cost report settlements, and other adjustments to prior year estimates of variable consideration resulted in an increase in patient service revenue of \$1,153 and \$14,193, respectively.

Allina Health System

Abridged Notes to the Consolidated Financial Statements

Nine Months Ended September 30, 2020 and 2019

(Unaudited)

(Dollars in thousands)

Patient Revenue and accounts Receivable (continued)

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.

2. Fair Value Disclosures

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

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

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

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

Allina Health System

Abridged Notes to the Consolidated Financial Statements

Nine Months Ended September 30, 2020 and 2019

(Unaudited)

(Dollars in thousands)

Fair Value Disclosures (continued)

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 September 30, 2020, 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

Nine Months Ended September 30, 2020 and 2019

(Unaudited)

(Dollars in thousands)

Fair Value Disclosures (continued)

	Total	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Total Cash and Cash Equivalents	\$ 933,205	933,205	-	-
Investments - Trading Securities				
Short-Term Fixed and Money Market	227,451	227,447	4	-
Equity	401,992	400,165	1,827	-
Fixed Income	1,101,084	503,670	597,414	-
Other Investments	147,935	147,935	-	-
Investments Accounted for at Net Asset Value	574,503			
Total Investments - Trading Securities	\$ 2,452,965	1,279,217	599,245	-
Total Unrestricted Cash and Investments	\$ 3,386,170	2,212,422	599,245	-
Investments with Limited Uses - Trading Securities				
Money Market Fund	\$ 39,962	39,962	-	-
Equity	22,678	22,575	103	-
Fixed Income	61,615	28,288	33,327	-
Real Return Mutual Funds	6,122	6,122	-	-
Multi-Asset Opportunistic Mutual Funds	2,223	2,223	-	-
Restricted Foundation Trusts	8,694	-	8,694	-
Investments Accounted for at Net Asset Value	35,296			
Total Investments with Limited Uses	\$ 176,590	99,170	42,124	-
Total Cash and Investments	\$ 3,562,760	2,311,592	641,369	-
Liabilities:				
Interest Rate Swaps	\$ 105,955	-	105,955	-

Allina Health System

Abridged Notes to the Consolidated Financial Statements

Nine Months Ended September 30, 2020 and 2019

(Unaudited)

(Dollars in thousands)

Fair Value Disclosures (continued)

Fair value measurements of investments in certain entities that calculate net asset value per share (or its equivalent) as of September 30, 2020, is as follows:

	Net Asset Value*	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period	Redemption Settlement Period
Emerging Markets Equity Fund	\$ 95,500	-	Daily/Weekly	5/10 Days	Up to 7-10 days
Global Equity Fund	90,966	-	Bi-Monthly	10 Days	Up to 10 days
Private Capital Funds	103,969	\$ 199,666	Not redeemable	NA	NA
Equity Long/Short Hedge Funds	105,640	-	Monthly/Quarterly	5-90 Days	Up to 10-90 days
Emerging Market Debt Fund	45,877	-	Daily	Same Day	Up to 15 days
Opportunistic Fixed Income Hedge Funds	167,847	-	Qtrly/Semi-Annual	45-90 Days	1-90 days
	<u>\$ 609,799</u>	<u>\$ 199,666</u>			

*Includes restricted and unrestricted assets

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.

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.

Allina Health System

Abridged Notes to the Consolidated Financial Statements

Nine Months Ended September 30, 2020 and 2019

(Unaudited)

(Dollars in thousands)

Fair Value Disclosures (continued)

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.

3. 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	43,382	123,394	3.73%	% of Libor	JP Morgan
2009B & C	Other liabilities	14,485	41,131	3.74%	% of Libor	Wells Fargo
2007C	Other liabilities	29,612	117,450	3.58%	% of Libor	US Bank
2001	Other liabilities	18,158	47,395	5.17%	SIFMA	Goldman Sachs
1998A	Other liabilities	318	5,975	4.44%	SIFMA	Goldman Sachs
Total		\$ 105,955	\$ 335,345			

Allina Health System

Abridged Notes to the Consolidated Financial Statements

Nine Months Ended September 30, 2020 and 2019

(Unaudited)

(Dollars in thousands)

Derivative Instruments (continued)

As of September 30, 2020, Allina Health posted collateral of \$16,609 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 \$3,306 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	
	Nine months ended Sep. 30		Nine months ended Sep. 30		Nine months ended Sep. 30		Nine months ended Sep. 30	
	2020	2019	2020	2019	2020	2019	2020	2019
2009 B&C	\$ (12,201)	\$ (14,360)	\$ -	\$ -	\$ (3,048)	\$ (2,432)	\$ (15,249)	\$ (16,792)
2007C	(6,102)	(7,019)	-	-	(2,472)	(1,662)	(8,574)	(8,681)
2001	(2,720)	(3,423)	-	-	(1,570)	(1,347)	(4,290)	(4,770)
1998A	161	159	(655)	(655)	(265)	(305)	(759)	(801)
	<u>\$ (20,862)</u>	<u>\$ (24,643)</u>	<u>\$ (655)</u>	<u>\$ (655)</u>	<u>\$ (7,355)</u>	<u>\$ (5,746)</u>	<u>\$ (28,872)</u>	<u>\$ (31,044)</u>
	Three months ended Sep. 30		Three months ended Sep. 30		Three months ended Sep. 30		Totals	
	2020		2019		2020		2020	
	2020	2019	2020	2019	2020	2019	2020	2019
2009 B&C	\$ 2,218	\$ (5,500)	\$ -	\$ -	\$ (1,344)	\$ (832)	\$ 874	\$ (6,332)
2007C	1,212	(2,361)	-	-	(933)	(567)	279	(2,928)
2001	544	(763)	-	-	(610)	(458)	(66)	(1,221)
1998A	81	92	(218)	(218)	(82)	(92)	(219)	(218)
	<u>\$ 4,055</u>	<u>\$ (8,532)</u>	<u>\$ (218)</u>	<u>\$ (218)</u>	<u>\$ (2,969)</u>	<u>\$ (1,949)</u>	<u>\$ 868</u>	<u>\$ (10,699)</u>

Allina Health System

Abridged Notes to the Consolidated Financial Statements

Nine Months Ended September 30, 2020 and 2019

(Unaudited)

(Dollars in thousands)

4. 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.

5. Subsequent Events

Allina Health has evaluated subsequent events from the consolidated balance sheet date through November 12, 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)

	September 30 2020	December 31 2019
Assets		
Current assets:		
Cash and cash equivalents	\$ 921,049	\$ 160,209
Short-term investments	341,844	471,112
Patient accounts receivable	454,872	526,045
Inventories	82,981	74,733
Other current assets	128,606	120,125
	<u>1,929,352</u>	<u>1,352,224</u>
Long-term investments	2,057,045	2,068,991
Investments with limited uses	26,943	15,591
Beneficial interest in net assets of Allina Foundations	201,621	194,409
Land, buildings, and equipment, net	1,292,217	1,271,123
Operating lease right of use assets, net	203,215	215,554
Other assets	195,383	195,987
Total assets	<u>\$ 5,905,776</u>	<u>\$ 5,313,879</u>
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 456,577	\$ 423,847
Current portion long-term debt	22,563	25,820
Current portion - operating lease liabilities	32,124	29,696
Advanced Medicare Payments	80,501	-
Other current liabilities	475,866	140,636
	<u>1,067,631</u>	<u>619,999</u>
Long-term debt	1,169,436	1,190,900
Long-term portion operating lease liabilities	187,786	202,123
Advanced Medicare Payments - long term	241,505	-
Other liabilities	371,350	294,294
Total liabilities	<u>3,037,708</u>	<u>2,307,316</u>
Net assets:		
Without donor restriction	2,657,530	2,802,533
With donor restriction	210,538	204,030
Total net assets	<u>2,868,068</u>	<u>3,006,563</u>
Total liabilities and net assets	<u>\$ 5,905,776</u>	<u>\$ 5,313,879</u>

Allina Obligated Group

Combined Statements of Operations and Changes in Net Assets

(Unaudited)

(Dollars in thousands)

	Nine Months Ended		Three Months Ended	
	September 30 2020	September 30 2019	September 30 2020	September 30 2019
Revenue:				
Patient service revenue	2,746,784	3,033,939	1,022,053	1,034,919
Other operating revenue	333,061	173,001	117,827	58,522
Total revenues	<u>3,079,845</u>	<u>3,206,940</u>	<u>1,139,880</u>	<u>1,093,441</u>
Expenses:				
Salaries and benefits	2,037,699	2,060,792	681,941	686,592
Supplies and services	693,197	720,193	258,845	245,789
Depreciation and amortization	139,540	136,210	47,345	45,807
Financing costs	37,626	35,783	12,170	13,355
State assessments and taxes	58,954	66,110	15,322	16,496
Utilities and maintenance	54,938	56,532	18,692	20,739
Other	147,793	142,872	50,559	47,332
Total expenses	<u>3,169,747</u>	<u>3,218,492</u>	<u>1,084,874</u>	<u>1,076,110</u>
Operating (loss) income	(89,902)	(11,552)	55,006	17,331
Nonoperating:				
Investment return	(20,979)	191,720	67,022	31,388
Interest rate swap agreements	(28,872)	(31,044)	868	(10,699)
Other	(4,767)	(3,220)	(989)	(1,127)
(Deficit) excess of revenues over expenses	<u>\$ (144,520)</u>	<u>\$ 145,904</u>	<u>\$ 121,907</u>	<u>\$ 36,893</u>

Continued on next page.

Allina Obligated Group

Combined Statements of Operations and Changes in Net Assets

(Unaudited)

(Dollars in thousands)

	Nine Months Ended		Three Months Ended	
	September 30 2020	September 30 2019	September 30 2020	September 30 2019
Net assets without donor restriction				
Excess of revenues over expenses	\$ (144,520)	\$ 145,904	\$ 121,907	\$ 36,893
Net assets released from restrictions for capital purposes	2,465	6,570	1,554	5,086
Amortization of unrealized loss on interest rate swap agreement	655	655	218	218
Capital contributions to nonobligated group affiliates, net	(3,720)	(2,578)	3,587	2,257
Other	117	7,145	10	(408)
(Decrease) increase in net assets without donor restriction	<u>(145,003)</u>	<u>157,696</u>	<u>127,276</u>	<u>44,046</u>
Net assets with donor restriction				
Contributions	1,449	454	861	146
Investment return	(66)	468	185	27
Net assets released from restrictions	(1,322)	(16)	(1,211)	-
Change in beneficial interest in net assets of Allina Foundations	7,212	7,190	10,465	(5,696)
Other	<u>(765)</u>	<u>(180)</u>	<u>-</u>	<u>-</u>
Increase (decrease) in net assets with donor restrictions	<u>6,508</u>	<u>7,916</u>	<u>10,300</u>	<u>(5,523)</u>
(Decrease) increase in net assets	(138,495)	165,612	137,576	38,523
Net assets at beginning of period	<u>3,006,563</u>	<u>2,682,895</u>	<u>2,730,492</u>	<u>2,809,984</u>
Net assets at end of period	<u>\$ 2,868,068</u>	<u>\$ 2,848,507</u>	<u>\$ 2,868,068</u>	<u>\$ 2,848,507</u>

Allina Obligated Group

Combined Statement of Cash Flows

(Unaudited)

(Dollars in thousands)

	Nine Months Ended	
	September 30 2020	September 30 2019
Operating activities		
(Decrease) increase in net assets	\$ (138,495)	\$ 165,612
Adjustments to reconcile increase in net assets to net cash and cash equivalents provided by operating activities:		
Depreciation and amortization	139,540	136,210
Gain on sale of land, buildings, and equipment	(1,018)	(1,342)
Change in fair value of interest rate swaps	20,862	24,643
Change in realized and unrealized losses (gain) on investments, net	45,336	(144,164)
Restricted contributions including cash for long-lived assets	(1,449)	(454)
Change in beneficial interest in net assets of Allina Foundations	(7,212)	(7,190)
Capital contributions to non-obligated group affiliates, net	3,720	2,578
Loss (earnings) on joint ventures	291	(5,499)
Distributions received from joint ventures	3,201	2,202
Advanced Medicare Payments	322,006	-
Changes in assets and liabilities:		
Accounts receivable	71,173	(18,028)
Other current assets	(16,729)	(7,175)
Accounts payable and other current liabilities	2,117	10,165
Other assets and liabilities	52,830	(14,146)
Net cash and cash equivalents provided by operating activities	496,173	143,412
Investing activities		
Proceeds from sales of land, buildings, and equipment	3,452	4,606
Purchases of land, buildings, and equipment	(163,068)	(171,804)
Contributions of cash for long-lived assets	1,322	16
Purchases and sales of investments classified as trading, net	84,526	(265,258)
Contributions to joint ventures	(527)	(2,900)
Capital contributions to non-obligated group affiliates, net	(3,720)	(2,578)
Net cash and cash equivalents used in investing activities	(78,015)	(437,918)
Financing activities		
Restricted contributions	127	438
Change in outstanding checks payable	40,028	244
Proceeds from issuance of short-term note	100,000	0
Line of Credit Draws	225,815	-
Principal payments of long-term debt	(23,288)	(5,857)
Proceeds from issuance of long-term debt	-	300,000
Deferred debt acquisition costs	-	(4,305)
Net cash and cash equivalents provided by financing activities	342,682	290,520
Increase (decrease) in cash and cash equivalents	760,840	(3,986)
Cash and cash equivalents at beginning of year	160,209	126,359
Cash and cash equivalents at end of period	\$ 921,049	\$ 122,373

Allina Health System

Consolidating Balance Sheet

(Unaudited)

(Dollars in thousands)

September 30, 2020

	Obligated Group	Other Allina Health Entities*	Allina Health System
Assets			
Current assets:			
Cash and cash equivalents	\$ 921,049	\$ 12,156	\$ 933,205
Short-term investments	341,844	-	341,844
Patient accounts receivable	454,872	14,925	469,797
Inventories	82,981	516	83,497
Other current assets	128,606	9,724	138,330
	<u>1,929,352</u>	<u>37,321</u>	<u>1,966,673</u>
Long-term investments	2,057,045	54,076	2,111,121
Investments with limited uses	26,943	149,647	176,590
Beneficial interest in net assets of Allina Foundations	201,621	(201,621)	-
Land, buildings, and equipment, net	1,292,217	2,929	1,295,146
Long-term portion operating lease liabilities	203,215	3,328	206,543
Other assets	195,383	114,102	309,485
Total assets	<u>\$ 5,905,776</u>	<u>\$ 159,782</u>	<u>\$ 6,065,558</u>
Liabilities and net assets			
Current liabilities:			
Accounts payable and accrued expenses	\$ 456,577	\$ 25,541	\$ 482,118
Current portion long-term debt	22,563	965	23,528
Current portion - operating lease liabilities	32,124	690	32,814
Medicare Advance payments	80,501	-	80,501
Other current liabilities	475,866	-	475,866
	<u>1,067,631</u>	<u>27,196</u>	<u>1,094,827</u>
Long-term debt	1,169,436	596	1,170,032
Long-term portion operating lease liabilities	187,786	2,702	190,488
Medicare Advance payments - long term	241,505	-	241,505
Other liabilities	371,350	91,521	462,871
Total liabilities	<u>3,037,708</u>	<u>122,015</u>	<u>3,159,723</u>
Net assets:			
Without donor restrictions	2,657,530	71,025	2,728,555
With donor restrictions	210,538	(33,258)	177,280
Total net assets	<u>2,868,068</u>	<u>37,767</u>	<u>2,905,835</u>
Total liabilities and net assets	<u>\$ 5,905,776</u>	<u>\$ 159,782</u>	<u>\$ 6,065,558</u>

*Including eliminations.

Allina Health System

Consolidating Statement of Operations and Changes in Net Assets

(Unaudited)

(Dollars in thousands)

Nine Months Ended September 30, 2020

	Obligated Group	Other Allina Health Entities*	Allina Health System
Revenue:			
Patient service revenue	2,746,784	20,550	2,767,334
Other operating revenue	333,061	32,404	365,465
Total revenues	3,079,845	52,954	3,132,799
Expenses:			
Salaries and benefits	2,037,699	10,655	2,048,354
Supplies and services	693,197	44,044	737,241
Depreciation and amortization	139,540	1,346	140,886
Financing costs	37,626	288	37,914
State assessments and taxes	58,954	(659)	58,295
Utilities and maintenance	54,938	539	55,477
Other	147,793	5,622	153,415
Total expenses	3,169,747	61,835	3,231,582
Operating loss	(89,902)	(8,881)	(98,783)
Nonoperating:			
Investment return	(20,979)	(58)	(21,037)
Interest rate swap agreements	(28,872)	-	(28,872)
Other	(4,767)	(194)	(4,961)
(Deficit) excess of revenues over expenses	\$ (144,520)	\$ (9,133)	\$ (153,653)

*Including eliminations.

Continued on next page.

Allina Health System

Consolidating Statement of Operations and Changes in Net Assets

(Unaudited)

(Dollars in thousands)

Nine Months Ended September 30, 2020

	Obligated Group	Other Allina Health Entities*	Allina Health System
Net assets without donor restrictions			
Deficit of revenue over expenses	\$ (144,520)	\$ (9,133)	\$ (153,653)
Net assets released from restrictions for capital purposes	2,465	(71)	2,394
Amortization of unrealized loss on interest rate swap agreement	655	-	655
Capital contributions from nonobligated group affiliates, net	(3,720)	3,720	-
Other	117	(1,265)	(1,148)
Decrease in net assets without donor restrictions	<u>(145,003)</u>	<u>(6,749)</u>	<u>(151,752)</u>
Net assets with donor restrictions			
Contributions	1,449	14,176	15,625
Investment return	(66)	426	360
Net assets released from restrictions	(1,322)	(4,671)	(5,993)
Change in beneficial interest in net assets of Allina Foundations	7,212	(7,212)	-
Other	(765)	707	(58)
Increase in net assets with donor restrictions	<u>6,508</u>	<u>3,426</u>	<u>9,934</u>
Decrease in net assets	(138,495)	(3,323)	(141,818)
Net assets at beginning of period	3,006,563	41,090	3,047,653
Net assets at end of period	<u>\$ 2,868,068</u>	<u>\$ 37,767</u>	<u>\$ 2,905,835</u>

*Including eliminations.

Allina Health System

Management's Discussion and Analysis of Results of Operations

Nine Months Ended September 30, 2020

(Dollars in millions)

Operating Results

Allina Health's operating margin was -3.2% for the nine months ended September 30, 2020, compared to -0.5% for the same period in 2019. Operating income decreased by \$82.6 million when compared to the same period in 2019. Allina Health experienced a disruption in services provided, especially non-emergent surgeries and clinic visits, in the last two weeks of the first quarter related to the coronavirus pandemic, which continued into second quarter. Allina Health prepared for an expected surge of COVID-19 patients, including procuring personal protective equipment, staffing and available beds, and turned to a significantly higher utilization of telehealth clinical visits. Allina Health is now focusing on recovery and accelerating our established strategies to better position the system to be successful in a dynamic and rapidly changing environment going forward. In an attempt to offset revenue losses due to its COVID-19 response, Allina Health has been pursuing access to state grants and special funding available under the CARES Act and other sources, as well as implementing employee furloughs, temporarily reducing certain benefits, and other cost saving measures, and has recognized \$166.8 million in other revenue for the nine months ended September 30, 2020. Additional discussion on the impact and planning for COVID-19 is on page 7 under *Recent Initiatives and Developments*.

Allina Health's Earnings Before Interest, Depreciation and Amortization (EBIDA) margin was 2.5% for the nine months ended September 30, 2020, compared to 4.8% for the same period in 2019. Non-operating investment return and swap unrealized losses were consistent with market conditions.

EARNINGS SUMMARY	ALLINA HEALTH		OBLIGATED GROUP	
	Nine Months Ended September 30		Nine Months Ended September 30	
	2020	2019	2020	2019
EBIDA	\$ 79.2	\$ 156.5	\$ 87.0	160.3
Interest income	0.8	1.1	0.2	0.1
Financing costs	(37.9)	(36.2)	(37.6)	(35.8)
Depreciation and amortization	(140.9)	(137.6)	(139.5)	(136.2)
Operating (loss) income	(98.8)	(16.2)	(89.9)	(11.6)
Investment return	(21.0)	194.2	(21.0)	191.7
Interest rate swap agreements	(28.9)	(31.0)	(28.9)	(31.0)
Non-operating other	(5.0)	(4.6)	(4.7)	(3.2)
(Deficit) excess of revenues over expenses	\$ (153.7)	\$ 142.4	\$ (144.5)	\$ 145.9

Allina Health System

Management's Discussion and Analysis of Results of Operations

Nine Months Ended September 30, 2020

(Dollars in millions)

Revenues

Allina Health's total revenue, which includes \$166.8 million of COVID-19 related funding, decreased \$129.5 million, or 4.0% for the nine months ended September 30, 2020, as compared to 2019, directly related to reduced volumes during the mandatory shutdown period. In addition, the unrest experienced in Minneapolis and St. Paul in the aftermath of the death of George Floyd at the end of May 2020 through the first half of June 2020 directly impacted Allina Health. Abbott Northwestern hospital briefly diverted patients in an abundance of caution amid large scale protests in the immediate area. Inpatient revenue decreased 2.6%. Through September 2020, 42.6% of patient revenue is inpatient revenue, up from 39.6% in 2019.

PATIENT REVENUE	ALLINA HEALTH		OBLIGATED GROUP	
	Nine Months Ended September 30		Nine Months Ended September 30	
	2020	2019	2020	2019
Inpatient	\$ 1,179.8	\$ 1,211.8	\$ 1,179.1	\$ 1,211.0
Change	-2.6%		-2.6%	
Outpatient/Ambulatory	924.0	1,054.4	923.5	1,053.7
Change	-12.4%		-12.4%	
Clinic	649.3	776.4	630.0	754.2
Change	-16.4%		-16.5%	
Transitional Rehabilitation Program	14.2	15.0	14.2	15.0
Change	-5.3%		-5.3%	
Total Patient Service Revenue	<u>\$ 2,767.3</u>	<u>\$ 3,057.6</u>	<u>\$ 2,746.8</u>	<u>\$ 3,033.9</u>
Change	-9.5%		-9.5%	

Payer Mix

Allina Health 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 22.5% of total patient revenue for the nine months ended September 30, 2020.

ALLINA HEALTH	Patient Revenue September 30	
PAYER MIX PERCENTAGE	2020	2019
Medicare	31.6%	31.1%
Medicaid	10.0	9.9
Contracted Payers	53.5	54.3
Self Pay	2.3	2.3
Other	2.6	2.4
Total	<u>100.0%</u>	<u>100.0%</u>

Allina Health System

Management's Discussion and Analysis of Results of Operations

Nine Months Ended September 30, 2020

(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) decreased \$22.1 million in gross charges, or 12.3% in 2020 compared to prior year. 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 price concessions. The estimated cost of providing charity care, by applying a cost to charge ratio to charges identified as charity care, was \$13.8 million and \$18.2 million for the nine months ended September 30, 2020, and 2019, respectively.

UNCOMPENSATED CARE	ALLINA HEALTH	
	Nine Months Ended	
	September 30	
	2020	2019
Uninsured Discount	\$ 33.0	\$ 36.7
Charity Care Discount	33.6	47.0
Implicit Price Concessions	91.1	96.1
Total Uncompensated Care	<u>\$ 157.7</u>	<u>\$ 179.8</u>
Change	-12.3%	
Total Uncompensated Care as a % of Patient Charges before price concessions	2.2%	2.3%

Allina Health System

Management's Discussion and Analysis of Results of Operations

Nine Months Ended September 30, 2020

(Dollars in millions)

Volume

Inpatient admissions decreased by 13.8%, while inpatient surgeries decreased 15.8% for the nine months ended September 30, 2020, from 2019. Volumes decreased dramatically during the mandatory shutdown in April, but have returned closer to normal levels as of September 30, 2020.

VOLUME STATISTICS	ALLINA HEALTH		ALLINA HEALTH		ALLINA HEALTH		ALLINA HEALTH		ALLINA HEALTH		ALLINA HEALTH	
	Nine Months Ended September 30		Month of September 30		Month of August 31		Month of July 31		Six Months Ended June 30		Three Months Ended March 31	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Inpatient Hospital Admissions	67,915	78,797	7,892	8,666	7,934	8,907	8,222	9,206	43,867	52,018	23,623	25,415
Inpatient change from prior period	-13.8%		-8.9%		-10.9%		-10.7%		-15.7%		-7.1%	
Observation Days	20,313	21,113	2,609	2,441	2,562	2,578	2,243	2,414	12,899	13,680	7,495	6,612
Observation days change from prior period	-3.8%		6.9%		-0.6%		-7.1%		-5.7%		13.4%	
Outpatient Hospital Admissions	770,952	1,053,923	103,880	114,556	97,393	121,186	92,297	121,584	477,382	696,597	315,326	337,333
Outpatient change from prior period	-26.8%		-9.3%		-19.6%		-24.1%		-31.5%		-6.5%	
Average Length of Stay (days)	4.4	4.2							4.4	4.3	4.5	4.4
Hospital Patient Days	296,961	334,564	33,743	36,375	35,079	37,129	34,795	37,693	193,344	223,367	105,257	112,567
Patient days change from prior period	-11.2%		-7.2%		-5.5%		-7.7%		-13.4%		-6.5%	
Hospital Occupancy (based on staffed beds)	60.5%	68.8%							60.0%	69.3%	65.8%	69.8%
Inpatient Surgeries	19,670	23,369	2,528	2,500	2,412	2,707	2,429	2,710	12,301	15,452	6,878	7,568
Outpatient Surgeries	30,898	43,095	4,510	4,624	3,949	5,006	3,758	4,787	18,681	28,678	11,920	13,707
Total Surgeries	50,568	66,464	7,038	7,124	6,361	7,713	6,187	7,497	30,982	44,130	18,798	21,275
Total surgeries change from prior period	-23.9%		-1.2%		-17.5%		-17.5%		-29.8%		-11.6%	
Clinic Work RVUs	5,298,886	6,193,054	676,444	685,114	658,546	706,467	654,938	698,969	3,308,958	4,102,504	1,949,523	1,996,671
Work RVUs change from prior period	-14.4%		-1.3%		-6.8%		-6.3%		-19.3%		-2.4%	
Total Case Mix	1.65	1.57							1.63	1.57	1.61	1.58
Medicare Case Mix	2.01	1.89							1.98	1.89	1.93	1.90

Allina Health System

Management's Discussion and Analysis of Results of Operations

Nine Months Ended September 30, 2020

(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 March 31, 2020.

MARKET SHARE STATISTICS	ALLINA HEALTH	
	March 31 2020	December 31 2019
Allina Metro Hospital Inpatient Market Share *	31.2%	32.0%
Change in Total Metro Market Volume**	-3.2%	-3.0%
* Hospitals Include: Abbott Northwestern, United, Mercy, Regina and St. Francis		
** year over year change of the eleven county metro hospital inpatient market volume for the twelve months ending March 2020 and December 2019		

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 -0.9% for the nine months ended September 30, 2020, consistent with the market conditions for the period, which was an improvement to the losses experienced in March 2020. 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	
	Nine Months Ended September 30		Nine Months Ended September 30	
	2020	2019	2020	2019
Interest and dividends	\$ 24.3	\$ 29.9	\$ 24.2	\$ 30.1
Realized gains on sales of investments	125.6	15.3	124.0	15.0
Unrealized (losses) gains on investments	(170.9)	149.0	(169.2)	146.6
Interest rate swap agreements - fair value	(20.9)	(24.6)	(20.9)	(24.6)
Interest rate swap agreements - counterparty interest	(8.0)	(6.4)	(8.0)	(6.4)
Other	(5.0)	(4.6)	(4.7)	(3.2)
Total non-operating	<u>\$ (54.9)</u>	<u>\$ 158.6</u>	<u>\$ (54.6)</u>	<u>\$ 157.5</u>

Allina Health System

Management's Discussion and Analysis of Results of Operations

Nine Months Ended September 30, 2020

(Dollars in millions)

Balance Sheet and Cash Flow

Allina Health has closely monitored its liquidity profile and pursued actions to increase its lines of credit by \$200 million and subsequently has fully drawn upon its available lines of credit in the amount of \$225.8 million. On August 5, 2020 Allina Health closed on a \$100 million, 364-day Term Loan Agreement with Wells Fargo Bank. Allina Health also applied for, and received, funds through the Centers for Medicare & Medicaid Services (CMS) advance payment program in the amount of \$322 million. CMS will begin recoupment of the advanced funds in April 2021.

Allina Health had 268 days cash on hand (DCOH) as of September 30, 2020, compared with 239 days at December 31, 2019. Amounts drawn on the lines of credit and proceeds of the Term Loan are not included in the DCOH calculation.

Leverage increased to 30.4% at September 30, 2020, from 29.7% in December 31, 2019. Cash to debt is 256.0% as of September 30, 2020, compared to 226.8% at December 31, 2019. Amounts drawn on the lines of credit and proceeds of the Term Loan are not included in the cash to debt calculation.

The historical annual debt service coverage ratio is calculated on a twelve month look back and without nonrecurring expense adjustments for September 30, 2020. Such nonrecurring expense adjustments are possible in future calculations. Allina Health has worked with lenders to proactively amend outstanding credit agreements, which includes a temporary alternative for a 24 month look back for calculating debt service coverage ratio.

Allina Health capital spending was \$163 million for the nine months ended September 30, 2020, compared to capital spending of \$171.9 million for the same time period in 2019. In response to the COVID-19 pandemic, Allina Health is restricting capital spending outside of the Abbott Northwestern Hospital infrastructure updates.

BALANCE SHEET & LIQUIDITY STATISTICS	ALLINA HEALTH		OBLIGATED GROUP	
	September 30 2020	December 31 2019	September 30 2020	December 31 2019
Unrestricted cash & investments	\$ 3,386.2	\$ 2,764.8	\$ 3,319.9	\$ 2,700.3
Days cash on hand	268	239	267	238
Total Debt	\$ 1,193.6	\$ 1,219.0	\$ 1,192.0	\$ 1,216.7
Net assets without donor restrictions	\$ 2,728.6	\$ 2,880.3	\$ 2,657.5	\$ 2,802.5
Debt to capitalization *	30.4%	29.7%	31.9%	31.1%
Patient receivables	\$ 469.8	\$ 543.5	\$ 454.9	\$ 526.0
Days revenue in receivables, net	44	47	43	46
Cash to debt	256%	227%	251%	222%
Historical annual debt service coverage	4.9	4.2	4.9	4.3

* Obligated Group includes Letters of Credit and Surety indebtedness

Allina Health System

Management's Discussion and Analysis of Results of Operations

Nine Months Ended September 30, 2020

(Dollars in millions)

DAYS CASH ON HAND ROLL-FORWARD	ALLINA HEALTH	
	Cash	Days
December 31, 2019	\$2,764.8	238.8
Operations	178.1	15.5
Growth in daily expenditures		2.9
Medicare advance payments	322.0	28.1
Investment losses	(21.0)	(1.8)
Proceeds from sales of properties	3.5	0.3
Capital expenditures	(163.0)	(14.2)
Debt payments	(24.0)	(2.1)
September 30, 2020	<u>\$3,060.4</u> *	<u>267.5</u>

*balance does not include amounts drawn on lines of credit or proceeds of the Term Loan.

DEBT TO CAPITALIZATION ROLL-FORWARD	ALLINA HEALTH		
	Debt	Equity	Cap %
December 31, 2019	\$ 1,219.0	\$ 2,880.3	29.7%
Operating income		(98.8)	
Investment losses		(21.0)	
Loss on interest rate swap agreements		(28.9)	
Other non-operating losses		(5.0)	
Other changes in net assets		2.0	
Debt payments and amortization of bond premium, net	(25.4)		
September 30, 2020	<u>\$1,193.6</u>	<u>\$2,728.6</u>	30.4%

Allina Health System

Consolidated Utilization Statistics

	Nine Months Ended		Twelve Months Ended	
	September 30 2020	September 30 2019	December 31 2019	December 31 2018
Hospitals				
Admissions *	67,915	78,797	104,976	105,485
Patient Days *	296,961	334,564	445,171	443,658
Average length of stay	4.4	4.2	4.2	4.2
Observation days	20,313	21,113	28,646	22,068
Licensed beds	2,451	2,451	2,451	2,451
Staffed beds	1,790	1,782	1,783	1,775
Outpatient admissions	770,952	1,053,923	1,414,212	1,421,198
Emergency room visits	204,743	232,844	312,338	307,421
Inpatient surgical procedures	19,670	23,369	31,545	31,682
Outpatient surgical procedures	30,898	43,095	58,728	59,842
Physicians and allied professionals				
Work RVUs	5,298,886	6,193,054	8,398,037	8,154,397
Ambulance transports	59,810	63,511	84,601	79,791

* Results exclude newborns.

Allina Health System

Debt and Investment Appendix

Nine Months Ended September 30, 2020

(Dollars in thousands)

Debt Structure

Allina Health's current debt structure as of September 30, 2020					
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	2.58%
2015	250,000	Fixed Rate	2045	None	4.81%
2009B	114,525	Daily VRDB	2035	JP Morgan LOC	0.13%
2009C	50,000	Weekly VRDB	2035	Wells Fargo LOC	0.11%
2007C	117,450	Weekly VRDB	2034	Wells Fargo LOC	0.11%
1998A	5,475	Auction Rate	2022	MBIA Insured	0.12%
	<u>\$ 1,177,645</u>	Total Bonds			
Other ***	<u>15,915</u>				
	\$ 1,193,560	Total Debt			
Fixed Rate		\$ 890,195	74.6%		
Hedged Variable Rate**		287,450	24.1%	(2009B, 2009C, 2007C & 1998A)	
Other		<u>15,915</u>	1.3%		
Total		\$ 1,193,560			

* 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 \$47,395 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.

In June 2020, Allina Health elected to call its 2014 fixed rate loan in the amount of \$16.790.

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>\$ 281,975</u>				

Allina Health System

Debt and Investment Appendix

Nine Months Ended September 30, 2020

(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	9/30/2020		9/30/2019	
Cash and Cash Equivalents		27.7%	933,205	4.9%	130,667
Short-Term Fixed Income		10.0%	341,844	21.1%	559,432
Total Liquidity Assets	15.0%	37.7%	1,275,049	26.0%	690,099
Long-Term Assets	85.0%	62.3%	2,111,121	74.0%	1,962,395
Total Unrestricted Assets		100.0%	3,386,170	100.0%	2,652,494

Asset Allocation - Asset Class					
Investment	Current Target Allocation	9/30/2020 % of Long Term Assets	9/30/2020 % Total Unrestricted Investments	9/30/2019 % of Long Term Assets	9/30/2019 % Total Unrestricted Investments
Global Equity	30.0%	29.2%	18.2%	29.0%	21.5%
Long/Short Equity Hedge Funds	4.0%	4.7%	2.9%	5.1%	3.8%
Global Fixed Income	30.0%	30.7%	19.1%	30.6%	22.6%
Alternatives	28.0%	29.8%	18.6%	27.7%	20.5%
Real Return	8.0%	5.6%	3.5%	7.6%	5.6%
Total Long-Term	100.0%	100.0%	62.3%	100.0%	74.0%
Cash and Cash Equivalents			27.7%		4.9%
Short-Term Fixed Income			10.0%		21.1%
Total Liquidity			37.7%		26.0%

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 September 30, 2020, these private capital holdings represented approximately 3.0% of unrestricted assets.

Allina Health System

Debt and Investment Appendix

Nine Months Ended September 30, 2020

(Dollars in thousands)

Summary of Key Financial Ratios

Indicators	Nine Months Ended September 30,		Year Ended December 31,		
	2020	2019	2019	2018	2017
Liquidity Ratios:					
Monthly DCOH*	236	204	207	171	188
Annual DCOH**	259	224	230	193	207
Traditional DCOH	268	229	239	199	213
Days Cash on Hand (Obligated Group)	267	229	238	198	212
Cash to Debt	256%	214%	227%	236%	231%
Days Revenue in Receivables, net					
Hospitals	53	49	51	49	51
Clinics	40	38	36	24	26
VRDB Debt (in millions)	\$282	\$283	\$282	\$283	\$284
Monthly liquidity to VRDB debt	959%	835%	849%	679%	699%
Capital Structure Ratios:					
Historical Coverage Ratio (x) (Obligated Group)	4.9	4.2	4.7	5.0	5.6
Cushion Ratio (x) (Obligated Group)	38.2	35.3	36.7	31.9	31.9
Leverage (Obligated Group)	31.9%	32.6%	31.1%	28.6%	29.4%
Leverage	30.4%	31.3%	29.7%	27.0%	27.8%
Profitability Ratios:					
EBIDA Margin	2.5%	4.8%	6.6%	7.1%	8.6%
Operating Margin	-3.2%	-0.5%	1.4%	2.0%	3.5%
Net Income Margin	-4.9%	4.4%	6.8%	0.5%	7.1%
Revenue Growth	-4.0%	1.8%	2.3%	4.5%	4.7%

Note: All ratios are for Allina Health consolidated financial results, unless otherwise noted.
DCOH excludes draws on revolving lines of credit, proceeds on 364-day Term Loan, and outstanding checks reported as a liability within accounts payable and accrued expenses.

* Days cash on hand available within 0 – 30 days

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