

Allina Health System Quarterly Financial Disclosure Statement



THREE MONTHS ENDED MARCH 31, 2021
OVERVIEW OF THE SYSTEM

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

Allina Health 

Allina Health System

Quarterly Financial Disclosure Statement

Three Months Ended March 31, 2021

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Allina Health System

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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 three months ended March 31, 2021, have been prepared in reasonable detail and are accurate in accordance with generally accepted accounting principles applied on a basis consistent with the accounting practices reflected in the annual financial statements.

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

Dated: May 14, 2021

By: /s/ Richard Magnuson
Richard Magnuson
Executive Vice President – Chief Financial Officer
Allina Health System

Allina Health System

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Three Months Ended March 31, 2021

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 over 27,500 full and part-time employees, Allina Health is one of the largest employers in Minnesota. Allina Health’s consolidated revenue for the three months ended March 31, 2021, was \$1.2 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 nearly 23,300 inpatient admissions and nearly 323,400 outpatient visits during the three months ended March 31, 2021. As of March 31, 2021, Allina Health hospitals had licensed bed capacity of 2,451 acute care beds, 1,738 of which were staffed for inpatient services.

Allina Health provides clinical services through its Allina Health Group and hospital-based physicians and employs 1,465 physicians. These physicians include approximately 760 in the Allina Health Group, which controls and operates 66 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 85 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 370 specialty physicians including intensivists, perinatologists, and psychiatrists in the Allina Health hospitals. Allina Health physicians and allied professionals

generated over 2,129,500 work RVUs¹ during the three months ended March 31, 2021. 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 31.3% inpatient market share as of September 30, 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 has accelerated 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 Health 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 Health'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.

Allina Health and HealthPartners Partnership

In April 2021, Allina Health announced a five-year partnership with HealthPartners, implementing value-based care across both organizations with the goal of providing better outcomes, better access to care and lower premiums for members and patients.

The partnership builds on the non-profit organizations' collaborative approach, including their work together over the past 10 years on the Northwest Metro Alliance, an accountable care organization (ACO). Started in 2010, the Northwest Metro Alliance brought together the HealthPartners health plan, four HealthPartners clinics, five Allina Health clinics, the RiverWay Pain Clinic, Mercy Hospital campuses in Coon Rapids and Fridley, as well as other affiliated specialists, all in an effort to improve the health of residents in the northwest metro area.

The new value-based care partnership elevates the quality of care delivered over the quantity of care provided. Reimbursement structures are directly connected to patient outcomes and improving quality of care based on specific measures, such as reducing hospital readmissions, improving coordination of care, ultimately leading to the improvement of both individual and community health. Additionally, the length of the partnership allows for a longer-term focus on population health strategies.

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 Minnesota (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 December 31, 2020, AHAIC total membership was approximately 27,000, including approximately 12,000 Medicare Advantage members.

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 has adapted to operating in a COVID-19 environment while delivering the full spectrum of care in the communities it serves.

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 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 March 31, 2021, 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.

COVID-19 Vaccination Efforts

Allina Health is proud to be a significant part of the COVID-19 vaccination infrastructure in Minnesota and Western Wisconsin in support of the effort to bring an end to the pandemic. Beginning in December 2020, Allina Health began vaccinating employees as health care workers were in the first priority group. Since that time, Allina Health has administered COVID-19 vaccines to patients and community members in a variety of settings: dedicated vaccine clinics, clinics and urgent care sites, as well as pop-up community events designed to create equitable access to the vaccine in communities that might otherwise experience barriers.

Government Assistance

Allina Health received \$327 million in funds through the Centers for Medicare & Medicaid Services (CMS) advance payment program (“APP Funds”) in 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. Additional Coronavirus Aid, Relief and Economic Security Act (“CARES Act”)² funding of \$37.9 million was received in January 2021 and recognized \$5 million as other revenue for the three months ended March 31, 2021. 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.

Liquidity, Debt and Investments

As of March 31, 2021, Allina Health had \$1,123 million in cash, cash equivalents and short-term investments (\$696 million net of APP Funds and a 364-day Term Loan) that serve as an institutional liquidity reserve within an overall investment portfolio of approximately \$3.5 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 2020. Effective April 2021, Allina Health entered into amendments to reduce its lines of credit by \$100 million. There were no draws on the lines of credit at March 31, 2021. 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.

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. The updates include \$77 million for a Transportation HUB project which will serve Abbott Northwestern Hospital, Allina Health Headquarters, and Midtown Commons in South Minneapolis. Planning for the new structure, located at the southern end of the Campus, has been guided by Abbott Northwestern Hospital’s commitment to sustainability and supports multi-modal transportation options. The project balances the hospital’s commitment to promoting the use of single occupancy vehicle (SOV) alternatives with the need to ensure parking and access to the campus for patients and their families. This project has started in phases and the first phase was completed last winter moving the bulk oxygen tanks. Construction on the actual site has now begun and is expected to be completed in the fall of 2022.

A \$120 million Central Utility Plant project is progressing through the required Minnesota Pollution Control Agency (“MPCA”) permitting process, which is expected to be completed in the summer of 2022. Work will begin once MPCA permitting is completed. The Central Utility Plant project is expected to take three years to complete.

Allina Health Oncology Institute

Allina Health is committing 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

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.

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.

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. In 2020, four ambulatory surgery centers were acquired by the joint venture. In 2021, the joint venture is in the process of acquiring an additional ambulatory surgery center and developing three de novo ambulatory surgery centers throughout the Twin Cities beginning with building an 18,000 square foot center located in Brooklyn Park that was announced in February 2021 and is expected to open in early 2022. The joint venture could develop up to a dozen new ambulatory surgery centers over the next five years.

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 March 2021, 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.moody.com; www.fitchratings.com; or www.standardandpoors.com.

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 (58) – 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 (60) – 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 (51) – 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.

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 (46) – 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 (58) – 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)

	March 31 2021	December 31 2020
Assets		
Current assets:		
Cash and cash equivalents	\$ 781,160	\$ 698,509
Short-term investments	342,238	341,563
Patient accounts receivable	487,177	517,305
Inventories	88,497	89,732
Other current assets	224,699	151,694
	<u>1,923,771</u>	<u>1,798,803</u>
Long-term investments	2,332,042	2,276,604
Investments with limited uses	187,209	188,517
Land, buildings, and equipment, net	1,258,325	1,288,566
Operating lease right of use assets, net	190,780	199,106
Other assets	322,777	303,457
Total assets	<u>\$ 6,214,904</u>	<u>\$ 6,055,053</u>
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 600,234	\$ 514,254
Current portion - long-term debt	25,320	25,549
Current portion - operating lease liabilities	32,995	33,009
Current portion of Medicare Advance Payments	163,644	115,915
364-day Term Loan	100,000	100,000
Other current liabilities	121,701	143,010
	<u>1,043,894</u>	<u>931,737</u>
Long-term debt	1,149,820	1,148,838
Long-term portion operating lease liabilities	182,314	184,043
Medicare Advance Payments	163,644	211,373
Other liabilities	381,488	399,335
Total liabilities	2,921,160	2,875,326
Net assets:		
Without donor restriction	3,101,632	2,993,025
With donor restriction	192,112	186,702
Total net assets	<u>3,293,744</u>	<u>3,179,727</u>
Total liabilities and net assets	<u>\$ 6,214,904</u>	<u>\$ 6,055,053</u>

Allina Health System

Consolidated Statements of Operations and Changes in Net Assets

(Unaudited)

(Dollars in thousands)

	Three Months Ended	
	March 31 2021	March 31 2020
Revenue:		
Patient service revenue	\$ 1,067,910	\$ 984,928
Other operating revenue	88,887	62,435
Total revenues	<u>1,156,797</u>	<u>1,047,363</u>
Expenses:		
Salaries and benefits	711,167	704,803
Supplies and services	275,885	254,732
Depreciation and amortization	47,427	46,551
Financing costs	11,296	12,816
State assessments and taxes	24,347	23,850
Utilities and maintenance	17,519	18,394
Other operating expenses	55,298	53,679
Total expenses	<u>1,142,939</u>	<u>1,114,825</u>
Operating income (loss)	13,858	(67,462)
Nonoperating:		
Investment return	55,276	(245,351)
Interest rate swap agreements	15,516	(28,823)
Other	(1,332)	(901)
Excess (deficiency) of revenues over expenses	<u>\$ 83,318</u>	<u>\$ (342,537)</u>

Continued on next page.

Allina Health System

Consolidated Statements of Operations and Changes in Net Assets

(Unaudited)

(Dollars in thousands)

	Three Months Ended	
	March 31 2021	March 31 2020
Net assets without donor restrictions		
Excess (deficiency) of revenue over expenses	\$ 83,318	\$ (342,537)
Net assets released from restrictions for capital purposes	130	754
Amortization of unrealized loss on interest rate swap agreement	218	218
Other	24,941	(485)
Increase (decrease) in net assets without donor restrictions	<u>108,607</u>	<u>(342,050)</u>
Net assets with donor restrictions		
Contributions	2,284	6,633
Investment return	4,739	(17,123)
Net assets released from restrictions	(1,614)	(2,085)
Other	1	(2)
Increase (decrease) in net assets with donor restrictions	<u>5,410</u>	<u>(12,577)</u>
Increase (decrease) in net assets	114,017	(354,627)
Net assets at beginning of period	<u>3,179,727</u>	<u>3,047,653</u>
Net assets at end of period	<u>\$ 3,293,744</u>	<u>\$ 2,693,026</u>

See accompanying notes.

Allina Health System

Consolidated Statement of Cash Flows

(Unaudited)

(Dollars in thousands)

	Three Months Ended	
	March 31 2021	March 31 2020
Operating activities		
Increase (decrease) in net assets	\$ 114,017	\$ (354,627)
Adjustments to reconcile increase (decrease) in net assets to net cash and cash equivalents provided by (used in) operating activities:		
Depreciation and amortization	47,427	46,551
Gain on sale of land, buildings, and equipment	(11,425)	(1,031)
Change in fair value of interest rate swaps	(18,727)	26,877
Change in realized and unrealized loss (gain) on investments, net	(54,142)	273,356
Restricted contributions including cash for long-lived assets	(2,284)	(6,633)
Earnings on joint ventures	(1,131)	4,817
Distributions received from joint ventures	1,726	1,787
Changes in assets and liabilities:		
Accounts receivable	30,128	89,878
Other current assets	(72,477)	(82,562)
Accounts payable and other current liabilities	49,828	(90,950)
Other assets and liabilities	(12,967)	(5,839)
Net cash and cash equivalents provided by (used in) operating activities	69,973	(98,376)
Investing activities		
Proceeds from sales of land, buildings, and equipment	26,350	1,583
Purchases of land, buildings, and equipment	(32,111)	(53,348)
Contributions of cash for long-lived assets	-	100
Purchases and sales of investments classified as trading, net	(663)	61,492
Net cash and cash equivalents (used in) provided by investing activities	(6,424)	9,827
Financing activities		
Restricted contributions, net	2,991	2,195
Change in outstanding checks payable	14,843	33,242
Refinancing and principal payments of long-term debt	1,267	(978)
Net cash and cash equivalents provided by financing activities	19,101	34,459
Increase in cash and cash equivalents	82,651	(54,090)
Cash and cash equivalents at beginning of year	698,509	174,288
Cash and cash equivalents at end of period	\$ 781,160	\$ 120,198

See accompanying notes.

Allina Health System

Abridged Notes to the Consolidated Financial Statements

Three Months Ended March 31, 2021 and 2020

(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.

Allina Health System

Abridged Notes to the Consolidated Financial Statements

Three Months Ended March 31, 2021 and 2020

(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

Three Months Ended March 31, 2021 and 2020

(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 March 31, 2021, 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

Three Months Ended March 31, 2021 and 2020

(Unaudited)

(Dollars in thousands)

Fair Value Disclosures (continued)

	Total	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Cash and Cash Equivalents				
Cash	\$ 91,856	91,856	-	-
Money Market Funds	689,304	689,304	-	-
Total Cash and Cash Equivalents	\$ 781,160	781,160	-	-
Investments - Trading Securities				
Short-Term Fixed Income	230	230	-	-
Money Market Fund	134,236	134,236	-	-
Total Short-Term Fixed and Money Market	134,466	134,466	-	-
Equity	523,232	330,572	192,660	-
Fixed Income	1,133,784	513,633	620,151	-
Other Investments				
Real Return Mutual Funds	129,349	129,349	-	-
Multi-Asset Opportunistic Mutual Funds	44,972	44,972	-	-
Total Other Investments	174,321	174,321	-	-
Investments Accounted for at Net Asset Value	708,477			
Total Investments - Trading Securities	\$ 2,674,280	1,152,992	812,811	-
Total Unrestricted Cash and Investments	\$ 3,455,440	1,934,152	812,811	-
		Fair value measurements using		
	Total	Level 1	Level 2	Level 3
Investments with Limited Uses				
Money Market Fund	26,913	26,879	34	-
Equity	30,950	19,554	11,396	-
Fixed Income	67,171	30,406	36,765	-
Real Return Mutual Funds	7,651	7,651	-	-
Multi-Asset Opportunistic Mutual Funds	2,660	2,660	-	-
Restricted Foundation Trusts	8,794	-	8,794	-
Investments Accounted for at Net Asset Value	43,070			
Total Investments with Limited Uses	\$ 187,209	87,150	56,989	-
Total Cash and Investments	\$ 3,642,649	2,021,302	869,800	-
Liabilities:				
Interest Rate Swaps	\$ 79,668	-	79,668	-

Allina Health System

Abridged Notes to the Consolidated Financial Statements

Three Months Ended March 31, 2021 and 2020

(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 March 31, 2021, is as follows:

	Net Asset Value*	Unfunded Commitments	Redemption Frequency (if currently eligible)	Redemption Notice Period	Redemption Settlement Period
Global Bond Fund		-	Monthly	15 Days	Up to 30 days
Emerging Markets Equity Fund	117,577	-	Daily/Weekly	5/10 Days	Up to 7-10 days
Global Equity Fund	163,140	-	Bi-Monthly	10 Days	Up to 10 days
Private Capital Funds	150,163	\$ 254,816	Not redeemable	NA	NA
Equity Long/Short Hedge Funds	102,944	-	Monthly/Quarterly	5-90 Days	Up to 10-90 days
Emerging Market Debt Fund	47,337	-	Daily	Same Day	Up to 15 days
Opportunistic Fixed Income Hedge Funds	170,386	-	Qtrly/Semi-Annual	45-90 Days	1-90 days
	<u>\$ 751,547</u>	<u>\$ 254,816</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

Three Months Ended March 31, 2021 and 2020

(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	32,097	123,394	3.73%	% of Libor	JP Morgan
2009B & C	Other liabilities	10,722	41,131	3.74%	% of Libor	Wells Fargo
2007C	Other liabilities	22,272	116,500	3.58%	% of Libor	US Bank
2001	Other liabilities	14,386	47,395	5.17%	SIFMA	Goldman Sachs
1998A	Other liabilities	191	5,975	4.44%	SIFMA	Goldman Sachs
Total		\$ 79,668	\$ 334,395			

Allina Health System

Abridged Notes to the Consolidated Financial Statements

Three Months Ended March 31, 2021 and 2020

(Unaudited)

(Dollars in thousands)

Derivative Instruments (continued)

As of March 31, 2021, Allina Health posted collateral of \$3,380 related to the swaps.

Fair value swap valuations require non-performance risk (i.e. credit risk) to be included in the valuation. Non-performance risk is defined as the risk that the obligation will not be fulfilled and affects the value at which the liability is transferred. This non-performance risk is determined by adjusting the discounting rate by a credit spread as of the reporting date. The addition of the credit spread to the discounting rate reduces the reported liability. The fair value reported liability of the swaps is approximately \$1,362 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	
	Three Months ended Mar 31		Three Months ended Mar 31		Three Months ended Mar 31		Three Months ended Mar 31	
	2021	2020	2021	2020	2021	2020	2021	2020
2009 B&C	\$ 10,782	\$ (15,542)	\$ -	\$ -	\$ (1,358)	\$ (476)	\$ 9,424	\$ (16,018)
2007C	5,281	(7,764)	-	-	(956)	(681)	4,325	(8,445)
2001	2,601	(3,584)	-	-	(605)	(497)	1,996	(4,081)
1998A	63	13	(218)	(218)	(74)	(74)	(229)	(279)
	\$ 18,727	\$ (26,877)	\$ (218)	\$ (218)	\$ (2,993)	\$ (1,728)	\$ 15,516	\$ (28,823)

Allina Health System

Abridged Notes to the Consolidated Financial Statements

Three Months Ended March 31, 2021 and 2020

(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 May 14, 2021, the date at which the consolidated financial statements were distributed, and determined there are no other items to disclose other than the following:

Allina Obligated Group

Combined Balance Sheets

(Unaudited)

(Dollars in thousands)

	March 31 2021	December 31 2020
Assets		
Current assets:		
Cash and cash equivalents	\$ 752,801	\$ 684,840
Short-term investments	342,238	341,563
Patient accounts receivable	476,723	503,211
Inventories	87,938	89,193
Other current assets	203,419	143,325
	<u>1,863,119</u>	<u>1,762,132</u>
Long-term investments	2,278,226	2,223,016
Investments with limited uses	13,994	24,249
Beneficial interest in net assets of Allina Foundations	218,396	213,253
Land, buildings, and equipment, net	1,249,176	1,285,997
Operating lease right of use assets, net	187,323	196,079
Other assets	197,097	206,038
Total assets	<u>\$ 6,007,331</u>	<u>\$ 5,910,764</u>
Liabilities and net assets		
Current liabilities:		
Accounts payable and accrued expenses	\$ 556,961	\$ 485,449
Current portion long-term debt	24,513	24,565
Current portion - operating lease liabilities	31,703	32,293
Current portion of Advanced Medicare Payments	163,644	115,915
364-day Term Loan	100,000	100,000
Other current liabilities	121,698	143,010
	<u>998,519</u>	<u>901,232</u>
Long-term debt	1,147,215	1,148,494
Long-term portion operating lease liabilities	179,840	181,569
Advanced Medicare Payments - long term	163,644	211,373
Other liabilities	313,424	331,686
Total liabilities	<u>2,802,642</u>	<u>2,774,354</u>
Net assets:		
Without donor restriction	2,976,735	2,913,869
With donor restriction	227,954	222,541
Total net assets	<u>3,204,689</u>	<u>3,136,410</u>
Total liabilities and net assets	<u>\$ 6,007,331</u>	<u>\$ 5,910,764</u>

Allina Obligated Group

Combined Statements of Operations and Changes in Net Assets

(Unaudited)

(Dollars in thousands)

	Three Months Ended	
	March 31 2021	March 31 2020
Revenue:		
Patient service revenue	1,059,791	977,247
Other operating revenue	79,835	51,838
Total revenues	1,139,626	1,029,085
Expenses:		
Salaries and benefits	683,960	701,191
Supplies and services	272,153	239,796
Depreciation and amortization	46,896	46,089
Financing costs	11,143	12,749
State assessments and taxes	24,237	23,683
Utilities and maintenance	17,114	18,209
Other	53,218	51,490
Total expenses	1,108,721	1,093,207
Operating income (loss)	30,905	(64,122)
Nonoperating:		
Investment return	54,551	(242,250)
Interest rate swap agreements	15,516	(28,823)
Other	(1,238)	(816)
Excess (deficiency) of revenues over expenses	\$ 99,734	\$ (336,011)

Continued on next page.

Allina Obligated Group

Combined Statements of Operations and Changes in Net Assets

(Unaudited)

(Dollars in thousands)

	Three Months Ended	
	March 31 2021	March 31 2020
Net assets without donor restriction		
Excess (deficiency) of revenues over expenses	\$ 99,734	\$ (336,011)
Net assets released from restrictions for capital purposes	130	754
Amortization of unrealized loss on interest rate swap agreement	218	218
Capital contributions to nonobligated group affiliates, net	(9,252)	(987)
Other	(27,964)	(118)
Increase (decrease) in net assets without donor restriction	<u>62,866</u>	<u>(336,144)</u>
Net assets with donor restriction		
Contributions	395	235
Investment return	-	(67)
Net assets released from restrictions	(130)	(100)
Change in beneficial interest in net assets of Allina Foundations	5,143	(16,481)
Other	5	-
Increase (decrease) in net assets with donor restrictions	<u>5,413</u>	<u>(16,413)</u>
Increase (decrease) in net assets	68,279	(352,557)
Net assets at beginning of period	<u>3,136,410</u>	<u>3,006,563</u>
Net assets at end of period	<u>\$ 3,204,689</u>	<u>\$ 2,654,006</u>

Allina Obligated Group

Combined Statement of Cash Flows

(Unaudited)

(Dollars in thousands)

	Three Months Ended	
	March 31 2021	March 31 2020
Operating activities		
Increase (decrease) in net assets	\$ 68,279	\$ (352,557)
Adjustments to reconcile increase (decrease) in net assets to net cash and cash equivalents provided by (used in) operating activities:		
Depreciation and amortization	46,896	46,089
Gain on sale of land, buildings, and equipment	(11,425)	(1,031)
Change in fair value of interest rate swaps	(18,727)	26,877
Change in realized and unrealized losses (gain) on investments, net	(49,403)	250,861
Restricted contributions including cash for long-lived assets	(395)	(235)
Change in beneficial interest in net assets of Allina Foundations	(5,143)	16,481
Capital contributions to non-obligated group affiliates, net	9,252	987
(Earnings) loss on joint ventures	(1,131)	4,817
Distributions received from joint ventures	1,726	1,787
Changes in assets and liabilities:		
Accounts receivable	26,488	89,117
Other current assets	(58,839)	(82,699)
Accounts payable and other current liabilities	36,311	(86,657)
Other assets and liabilities	14,734	(13,086)
Net cash and cash equivalents provided by (used in) operating activities	58,623	(99,249)
Investing activities		
Proceeds from sales of land, buildings, and equipment	26,350	7,662
Purchases of land, buildings, and equipment	(25,000)	(53,432)
Contributions of cash for long-lived assets	-	100
Purchases and sales of investments classified as trading, net	3,773	64,860
Capital contributions to non-obligated group affiliates, net	(9,252)	(987)
Net cash and cash equivalents (used in) provided by investing activities	(4,129)	18,203
Financing activities		
Restricted contributions	395	135
Change in outstanding checks payable	13,889	33,242
Refinancing and principal payments of long-term debt	(817)	(755)
Net cash and cash equivalents provided by financing activities	13,467	32,622
Increase (decrease) in cash and cash equivalents	67,961	(48,424)
Cash and cash equivalents at beginning of year	684,840	160,209
Cash and cash equivalents at end of period	\$ 752,801	\$ 111,785

Allina Health System

Consolidating Balance Sheet

(Unaudited)

(Dollars in thousands)

March 31, 2021

	Obligated Group	Other Allina Health Entities*	Allina Health System
Assets			
Current assets:			
Cash and cash equivalents	\$ 752,801	\$ 28,359	\$ 781,160
Short-term investments	342,238	-	342,238
Patient accounts receivable	476,723	10,454	487,177
Inventories	87,938	559	88,497
Other current assets	203,419	21,280	224,699
	<u>1,863,119</u>	<u>60,652</u>	<u>1,923,771</u>
Long-term investments	2,278,226	53,816	2,332,042
Investments with limited uses	13,994	173,215	187,209
Beneficial interest in net assets of Allina Foundations	218,396	(218,396)	-
Land, buildings, and equipment, net	1,249,176	9,149	1,258,325
Long-term portion operating lease liabilities	187,323	3,457	190,780
Other assets	197,097	125,680	322,777
Total assets	<u>\$ 6,007,331</u>	<u>\$ 207,573</u>	<u>\$ 6,214,904</u>
Liabilities and net assets			
Current liabilities:			
Accounts payable and accrued expenses	\$ 556,961	\$ 43,273	\$ 600,234
Current portion long-term debt	24,513	807	25,320
Current portion - operating lease liabilities	31,703	1,292	32,995
Medicare Advance payments	163,644	-	163,644
364-day Term Loan	100,000	-	100,000
Other current liabilities	121,698	3	121,701
	<u>998,519</u>	<u>45,375</u>	<u>1,043,894</u>
Long-term debt	1,147,215	2,605	1,149,820
Long-term portion operating lease liabilities	179,840	2,474	182,314
Medicare Advance payments - long term	163,644	-	163,644
Other liabilities	313,424	68,064	381,488
Total liabilities	<u>2,802,642</u>	<u>118,518</u>	<u>2,921,160</u>
Net assets:			
Without donor restrictions	2,976,735	124,897	3,101,632
With donor restrictions	227,954	(35,842)	192,112
Total net assets	<u>3,204,689</u>	<u>89,055</u>	<u>3,293,744</u>
Total liabilities and net assets	<u>\$ 6,007,331</u>	<u>\$ 207,573</u>	<u>\$ 6,214,904</u>

*Including eliminations.

Allina Health System

Consolidating Statement of Operations and Changes in Net Assets

(Unaudited)

(Dollars in thousands)

Three Months Ended March 31, 2021

	Obligated Group	Other Allina Health Entities*	Allina Health System
Revenue:			
Patient service revenue	1,059,791	8,119	1,067,910
Other operating revenue	79,835	9,052	88,887
Total revenues	<u>1,139,626</u>	<u>17,171</u>	<u>1,156,797</u>
Expenses:			
Salaries and benefits	683,960	27,207	711,167
Supplies and services	272,153	3,732	275,885
Depreciation and amortization	46,896	531	47,427
Financing costs	11,143	153	11,296
State assessments and taxes	24,237	110	24,347
Utilities and maintenance	17,114	405	17,519
Other	53,218	2,080	55,298
Total expenses	<u>1,108,721</u>	<u>34,218</u>	<u>1,142,939</u>
Operating income (loss)	30,905	(17,047)	13,858
Nonoperating:			
Investment return	54,551	725	55,276
Interest rate swap agreements	15,516	-	15,516
Other	(1,238)	(94)	(1,332)
Excess of revenues over expenses	<u>\$ 99,734</u>	<u>\$ (16,416)</u>	<u>\$ 83,318</u>

*Including eliminations.

Continued on next page.

Allina Health System

Consolidating Statement of Operations and Changes in Net Assets

(Unaudited)

(Dollars in thousands)

Three Months Ended March 31, 2020

	Obligated Group	Other Allina Health Entities*	Allina Health System
Net assets without donor restrictions			
Excess (deficiency) of revenue over expenses	\$ 99,734	\$ (16,416)	\$ 83,318
Net assets released from restrictions for capital purposes	130	-	130
Amortization of unrealized loss on interest rate swap agreement	218	-	218
Capital contributions (to) from nonobligated group affiliates, net	(9,252)	9,252	-
Other	(27,964)	52,905	24,941
Increase in net assets without donor restrictions	<u>62,866</u>	<u>45,741</u>	<u>108,607</u>
Net assets with donor restrictions			
Contributions	395	1,889	2,284
Investment return	-	4,739	4,739
Net assets released from restrictions	(130)	(1,484)	(1,614)
Change in beneficial interest in net assets of Allina Foundations	5,143	(5,143)	-
Other	5	(4)	1
Increase (decrease) in net assets with donor	<u>5,413</u>	<u>(3)</u>	<u>5,410</u>
Increase in net assets	68,279	45,738	114,017
Net assets at beginning of period	3,136,410	43,317	3,179,727
Net assets at end of period	<u>\$ 3,204,689</u>	<u>\$ 89,055</u>	<u>\$ 3,293,744</u>

*Including eliminations.

Allina Health System

Management's Discussion and Analysis of Results of Operations

Three Months Ended March 31, 2021

(Dollars in millions)

Operating Results

Allina Health's operating margin was 1.2% for the three months ended March 31, 2021, compared to -6.4% for the same period in 2020. Operating income increased by \$81.3 million when compared to the same period in 2020.

Allina Health's Earnings Before Interest, Depreciation and Amortization (EBIDA) margin was 6.3% for the three months ended March 31, 2021, compared to -0.8% for the same period in 2020. Non-operating investment return and swap unrealized losses were consistent with market conditions.

EARNINGS SUMMARY	ALLINA HEALTH		OBLIGATED GROUP	
	Three Months Ended March 31		Three Months Ended March 31	
	2021	2020	2021	2020
EBIDA	\$ 72.4	\$ (8.3)	\$ 88.9	(5.4)
Interest income	0.1	0.2	-	0.1
Financing costs	(11.3)	(12.8)	(11.1)	(12.7)
Depreciation and amortization	(47.4)	(46.6)	(46.9)	(46.1)
Operating income (loss)	13.8	(67.5)	30.9	(64.1)
Investment return	55.3	(245.3)	54.5	(242.3)
Interest rate swap agreements	15.5	(28.8)	15.5	(28.8)
Non-operating other	(1.3)	(0.9)	(1.2)	(0.8)
Excess of revenues over expenses	<u>\$ 83.3</u>	<u>\$ (342.5)</u>	<u>\$ 99.7</u>	<u>\$ (336.0)</u>

Allina Health System

Management's Discussion and Analysis of Results of Operations

Twelve Months Ended December 31, 2020

(Dollars in millions)

Revenues

Allina Health's total revenue increased \$109.4 million, or 10.4% for the three months ended March 31, 2021, as compared to 2020, directly related to reduced volumes during the mandatory shutdown period in 2020. Through March 2021, 41.4% of patient revenue is inpatient revenue, compared to 41.3% in 2020.

PATIENT REVENUE	ALLINA HEALTH		OBLIGATED GROUP	
	Three Months Ended March 31		Three Months Ended March 31	
	2021	2020	2021	2020
Inpatient	\$ 441.7	\$ 407.2	\$ 441.5	\$ 407.0
Change	8.5%		8.5%	
Outpatient/Ambulatory	353.0	329.8	350.2	329.6
Change	7.0%		6.3%	
Clinic	266.5	243.0	264.3	235.8
Change	9.7%		12.1%	
Transitional Rehabilitation Program	6.7	4.9	3.8	4.9
Change	36.7%		-22.4%	
Total Patient Service Revenue	<u>\$ 1,067.9</u>	<u>\$ 984.9</u>	<u>\$ 1,059.8</u>	<u>\$ 977.3</u>
Change	8.4%		8.4%	

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 and Blue Shield of Minnesota at 21.76% of total patient revenue for the three months ended March 31, 2021.

ALLINA HEALTH	Patient Revenue March 31	
PAYER MIX PERCENTAGE	2021	2020
Medicare	32.4%	31.6%
Medicaid	10.3	9.8
Contracted Payers	53.4	54.4
Self Pay	1.7	2.1
Other	2.2	2.1
Total	<u>100.0%</u>	<u>100.0%</u>

Allina Health System

Management's Discussion and Analysis of Results of Operations

Three Months Ended March 31, 2021

(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 \$23.6 million in gross charges, or 38.6% in 2021 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 \$4.0 million and \$7.5 million for the three months ended March 31, 2021, and 2020, respectively.

UNCOMPENSATED CARE	ALLINA HEALTH	
	Three Months Ended March 31	
	2021	2020
Uninsured Discount	\$ 7.2	\$ 12.5
Charity Care Discount	10.1	18.4
Implicit Price Concessions	20.3	30.3
Total Uncompensated Care	<u>\$ 37.6</u>	<u>\$ 61.2</u>
Change	-38.6%	
Total Uncompensated Care as a % of Patient Charges before price concessions	1.3%	2.4%

Allina Health System

Management's Discussion and Analysis of Results of Operations

Three Months Ended March 31, 2021

(Dollars in millions)

Volume

Inpatient admissions decreased by 1.5%, while inpatient surgeries increased 1.05% for the three months ended March 31, 2021, from 2020.

VOLUME STATISTICS	ALLINA HEALTH	
	Three Months Ended March 31	
	2021	2020
Inpatient Hospital Admissions	23,280	23,623
Inpatient change from prior period	-1.5%	
Observation Days	7,760	7,495
Observation days change from prior period	3.5%	
Outpatient Hospital Admissions	323,393	315,326
Outpatient change from prior period	2.6%	
Average Length of Stay (days)	4.5	4.5
Hospital Patient Days	104,792	105,257
Patient days change from prior period	-0.4%	
Hospital Occupancy (based on staffed beds)	67.0%	65.8%
Inpatient Surgeries	6,950	6,878
Outpatient Surgeries	13,387	11,920
Total Surgeries	20,337	18,798
Total surgeries change from prior period	8.2%	
Clinic Work RVUs	2,129,547	1,949,523
Work RVUs change from prior period	9.2%	
Total Case Mix	1.75	1.63
Medicare Case Mix	2.11	1.96

Allina Health System

Management's Discussion and Analysis of Results of Operations

Three Months Ended March 31, 2021

(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 September 30, 2020.

MARKET SHARE STATISTICS	ALLINA HEALTH	
	September 30 2020	December 31 2019
Allina Metro Hospital Inpatient Market Share *	31.3%	32.0%
Change in Total Metro Market Volume**	-9.5%	-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 September 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 2.2% for the three months ended March 31, 2021, consistent with the market conditions for the period, which was an improvement to the losses experienced prior to fourth quarter 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	
	Three Months Ended March 31		Three Months Ended March 31	
	2021	2020	2021	2020
Interest and dividends	\$ 5.2	\$ 8.6	\$ 5.1	\$ 8.5
Realized gains on sales of investments	4.1	1.7	4.1	1.6
Unrealized gains (losses) on investments	46.0	(255.6)	45.3	(252.4)
Interest rate swap agreements - fair value	18.7	(26.9)	18.7	(26.9)
Interest rate swap agreements - counterparty interest	(3.2)	(1.9)	(3.2)	(1.9)
Other	(1.3)	(0.9)	(1.2)	(0.8)
Total non-operating	<u>\$ 69.5</u>	<u>\$ (275.0)</u>	<u>\$ 68.8</u>	<u>\$ (271.9)</u>

Allina Health System

Management's Discussion and Analysis of Results of Operations

Three Months Ended March 31, 2021

(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 in 2020. In April 2021, Allina Health reduced its lines of credit by \$100 million. There were no draws on the lines of credit as of March 31, 2021. 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 \$327 million in 2020. CMS will begin recoupment of the advanced funds in April 2021.

Allina Health had 289 days cash on hand (DCOH) as of March 31, 2021, compared with 280 days at December 31, 2020. Proceeds of the Term Loan are not included in the DCOH calculation.

Leverage decreased to 26.9% at March 31, 2021, from 28.2% at December 31, 2020. Cash to debt is 286% as of March 31, 2021, compared to 274% at December 31, 2020. 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 March 31, 2021. 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 \$32.1 million for the three months ended March 31, 2021, compared to capital spending of \$53.3 million for the same time period in 2020. 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	
	March 31 2021	December 31 2020	March 31 2021	December 31 2020
Unrestricted cash & investments	\$ 3,455.4	\$ 3,316.7	\$ 3,373.3	\$ 3,249.4
Days cash on hand	289	280	288	279
Total Debt	\$ 1,175.1	\$ 1,174.4	\$ 1,171.7	\$ 1,173.1
Net assets without donor restrictions	\$ 3,101.6	\$ 2,993.0	\$ 2,976.7	\$ 2,913.9
Debt to capitalization *	27.5%	28.2%	29.1%	29.6%
Patient receivables	\$ 487.2	\$ 517.3	\$ 476.7	\$ 503.2
Days revenue in receivables, net	45	48	44	47
Cash to debt	286%	274%	279%	268%
Historical annual debt service coverage	7.1	4.7	6.3	4.8

* Obligated Group includes Letters of Credit and Surety indebtedness

Allina Health System

Management's Discussion and Analysis of Results of Operations

Three Months Ended March 31, 2021

(Dollars in millions)

DAYS CASH ON HAND ROLL-FORWARD	ALLINA HEALTH	
	Cash	Days
December 31, 2020	\$3,216.7	279.8
Operations	87.8	7.6
Growth in daily expenditures		(2.6)
Investment return	55.3	4.8
Proceeds from sales of properties	26.4	2.3
Capital expenditures	(32.1)	(2.8)
Debt payments	1.3	0.1
March 31, 2021	<u>\$3,355.4</u> *	<u>289.2</u>

*balance does not include proceeds of the 364-day Term Loan.

DEBT TO CAPITALIZATION ROLL-FORWARD	ALLINA HEALTH		
	Debt	Equity	Cap %
December 31, 2020	\$ 1,174.4	\$ 2,993.0	28.2%
Operating income		13.8	
Investment return		55.3	
Loss on interest rate swap agreements		15.5	
Other non-operating losses		(1.3)	
Other changes in net assets		25.3	
Debt payments and amortization of bond premium, net	0.7		
March 31, 2021	<u>\$1,175.1</u>	<u>\$3,101.6</u>	27.5%

Allina Health System

Consolidated Utilization Statistics

	Three Months Ended		Year-ended	
	March 31 2021	March 31 2020	December 31 2020	December 31 2019
Hospitals				
Admissions *	23,280	23,623	91,583	104,976
Patient Days *	104,792	105,257	407,519	445,171
Average length of stay	4.5	4.5	4.4	4.2
Observation days	7,760	7,495	27,340	28,646
Licensed beds	2,451	2,451	2,451	2,451
Staffed beds	1,738	1,758	1,778	1,783
Outpatient admissions	323,393	315,326	1,097,058	1,414,212
Emergency room visits	65,202	75,042	274,592	312,338
Inpatient surgical procedures	6,950	6,878	26,291	31,545
Outpatient surgical procedures	13,387	11,920	44,628	58,728
Physicians and allied professionals				
Work RVUs	2,129,547	1,949,523	7,395,142	8,398,037
Ambulance transports	21,357	20,790	81,242	84,601

* Results exclude newborns.

Allina Health System

Debt and Investment Appendix

Three Months Ended March 31, 2021

(Dollars in thousands)

Debt Structure

Allina Health's current debt structure as of March 31, 2021					
Series	\$ Outstanding	Structure	Final Maturity	Credit Enhancement	YTD Average Int. Rate*
2019 Taxable	300,000	Fixed Rate	2049	None	3.89%
2019 Non-Taxable	66,475	Fixed Rate	2029	None	5.00%
2017	150,000	Fixed Rate	2042	None	4.43%
2017A	76,180	Fixed Rate	2029	None	5.00%
2017B	29,295	Fixed Rate	2022	None	2.58%
2015	250,000	Fixed Rate	2045	None	4.81%
2009B	114,525	Daily VRDB	2035	JP Morgan LOC	0.02%
2009C	50,000	Weekly VRDB	2035	Wells Fargo LOC	0.05%
2007C	116,500	Weekly VRDB	2034	Wells Fargo LOC	0.05%
1998A	5,475	Auction Rate	2022	MBIA Insured	0.11%
	<u>\$ 1,158,450</u>	Total Bonds			
Other ***	<u>16,690</u>				
	\$ 1,175,140	Total Debt			
Fixed Rate		\$ 871,950	74.2%		
Hedged Variable Rate**		286,500	24.4%	(2009B, 2009C, 2007C & 1998A)	
Other		<u>16,690</u>	1.4%		
Total		\$ 1,175,140			

* 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.

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 2024	Allina Rating Less Than BBB	3 Year	JP Morgan
2009C	Letter of Credit	50,000	January 2023	Allina Rating Less Than BBB	3 Year	Wells Fargo
2007C	Letter of Credit	<u>116,500</u>	January 2023	Allina Rating Less Than BBB	3 Year	Wells Fargo
		<u>\$ 281,025</u>				

Allina Health System

Debt and Investment Appendix

Three Months Ended March 31, 2021

(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.

Unrestricted Cash and Investments - Asset Allocation					
Unrestricted Balances	Target	3/31/2021		3/31/2020	
Cash and Cash Equivalents		22.6%	781,160	5.0%	120,199
Short-Term Fixed Income		9.9%	342,238	14.2%	337,306
Total Liquidity Assets	15.0%	32.5%	1,123,398	19.2%	457,505
Long-Term Assets	85.0%	67.5%	2,332,042	80.8%	1,924,027
Total Unrestricted Assets		100.0%	3,455,440	100.0%	2,381,532
Asset Allocation - Asset Class					
	Current Target Allocation	3/31/2021 % of Long Term Assets	3/31/2021 % Total Unrestricted Investments	3/31/2020 % of Long Term Assets	3/31/2020 % Total Unrestricted Investments
Investment					
Global Equity	30.0%	33.4%	22.5%	27.9%	22.5%
Long/Short Equity Hedge Funds	4.0%	4.1%	2.8%	5.0%	4.0%
Global Fixed Income	30.0%	28.1%	19.0%	31.9%	25.8%
Alternatives	28.0%	28.7%	19.4%	30.4%	24.6%
Real Return	8.0%	5.7%	3.8%	4.8%	3.9%
Total Long-Term	100.0%	100.0%	67.5%	100.0%	80.8%
Cash and Cash Equivalents			22.6%		5.0%
Short-Term Fixed Income			9.9%		14.2%
Total Liquidity			32.5%		19.2%

Allina Health is invested in 10 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 22 investments in private capital with funding commitments that will be drawn down over time. As of March 31, 2021, these private capital holdings represented approximately 3.0% of unrestricted assets.

Allina Health System

Debt and Investment Appendix

Three Months Ended March 31, 2021
(Dollars in thousands)

Summary of Key Financial Ratios

Indicators	Three Months Ended March 31,		Year Ended December 31,		
	2021	2020	2020	2019	2018
Liquidity Ratios:					
Monthly DCOH*	255	176	247	207	171
Annual DCOH**	277	195	269	230	193
Traditional DCOH	289	204	280	239	199
Days Cash on Hand (Obligated Group)	288	199	279	238	198
Cash to Debt	286%	196%	274%	227%	236%
Days Revenue in Receivables	45	40	48	47	46
VRDB Debt (in millions)	\$281	\$282	\$281	\$282	\$283
Monthly liquidity to VRDB debt	1052%	729%	1011%	849%	679%
Capital Structure Ratios:					
Historical Coverage Ratio (x) (Obligated Group)	6.3	3.9	4.8	4.7	5.0
Cushion Ratio (x) (Obligated Group)	43.0	29.7	40.0	36.7	31.9
Leverage (Obligated Group)	29.1%	33.9%	29.6%	31.1%	28.6%
Leverage	27.5%	32.4%	28.2%	29.7%	27.0%
Profitability Ratios:					
EBIDA Margin	6.3%	-0.8%	4.7%	6.6%	7.1%
Operating Margin	1.2%	-6.4%	-80.0%	1.4%	2.0%
Net Income Margin	7.2%	-32.7%	1.7%	6.8%	0.5%
Revenue Growth	10.4%	-1.3%	-2.4%	2.3%	4.5%

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