



ALLINA HEALTH SYSTEM

Consolidated Financial Statements

December 31, 2019 and 2018

(With Independent Auditors' Reports Thereon)

ALLINA HEALTH SYSTEM

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KPMG LLP
4200 Wells Fargo Center
90 South Seventh Street
Minneapolis, MN 55402

Independent Auditors' Report

The Board of Directors
Allina Health System:

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Allina Health System and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2019 and 2018, and the related consolidated statements of operations and changes in net assets and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Allina Health System and its subsidiaries as of December 31, 2019 and 2018, and the results of their operations, changes in net assets, and their cash flows for the years then ended, in accordance with U.S. generally accepted accounting principles.

Emphasis of matter

As described in note 2(j) and note 2(t) to the consolidated financial statements, in 2019, Allina Health System and its subsidiaries adopted Accounting Standards Codification (ASC) Topic 842, *Leases*, Accounting Standards Update (ASU) No. 2018-15, *Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That is a Service Contract*; ASU No. 2018-08, *Clarifying the Scope and Accounting for Contributions Received and Contributions Made*; and ASU No. 2016-18, *Restricted Cash*. Our opinion is not modified with respect to these matters.

KPMG LLP

Minneapolis, Minnesota
March 11, 2020

ALLINA HEALTH SYSTEM
Consolidated Balance Sheets
December 31, 2019 and 2018
(Dollars in thousands)

| Assets | 2019 | 2018 |
|--|--------------|-------------|
| Current assets: | | |
| Cash and cash equivalents | \$ 174,288 | 135,580 |
| Short-term investments | 471,112 | 278,587 |
| Patient accounts receivable, net | 543,509 | 511,662 |
| Inventories | 75,256 | 72,552 |
| Other current assets | 124,922 | 112,728 |
| | 1,389,087 | 1,111,109 |
| Investments | 2,119,432 | 1,824,119 |
| Investments with limited uses | 166,877 | 153,813 |
| Operating lease right of use assets, net | 219,542 | — |
| Land, buildings, and equipment, net | 1,275,489 | 1,223,828 |
| Other assets | 308,965 | 325,148 |
| | 5,479,392 | 4,638,017 |
| Total assets | \$ 5,479,392 | 4,638,017 |
| Liabilities and Net Assets | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | \$ 453,277 | 453,622 |
| Current portion of long-term debt | 26,735 | 27,491 |
| Current portion of operating lease liabilities | 30,348 | — |
| Other current liabilities | 140,636 | 110,174 |
| | 650,996 | 591,287 |
| Long-term debt | 1,192,228 | 920,885 |
| Operating lease liabilities | 205,505 | — |
| Other liabilities | 383,010 | 405,249 |
| | 2,431,739 | 1,917,421 |
| Total liabilities | 2,431,739 | 1,917,421 |
| Net assets: | | |
| Without donor restriction | 2,880,307 | 2,565,547 |
| With donor restriction | 167,346 | 155,049 |
| | 3,047,653 | 2,720,596 |
| Total net assets | 3,047,653 | 2,720,596 |
| Total liabilities and net assets | \$ 5,479,392 | 4,638,017 |

See accompanying notes to consolidated financial statements.

ALLINA HEALTH SYSTEM

Consolidated Statements of Operations and Changes in Net Assets

Years ended December 31, 2019 and 2018

(Dollars in thousands)

| | <u>2019</u> | <u>2018</u> |
|--|-------------------|------------------|
| Revenues: | | |
| Patient service revenue | \$ 4,182,456 | 4,071,714 |
| Other operating revenue | 290,182 | 298,725 |
| Total revenues | <u>4,472,638</u> | <u>4,370,439</u> |
| Expenses: | | |
| Salaries and benefits | 2,774,055 | 2,701,224 |
| Supplies and services | 1,040,262 | 979,609 |
| Depreciation and amortization | 184,146 | 181,647 |
| Financing costs | 49,354 | 43,893 |
| State assessments and taxes | 90,420 | 75,792 |
| Utilities and maintenance | 78,805 | 78,842 |
| Other operating expenses | 193,011 | 223,174 |
| Total expenses | <u>4,410,053</u> | <u>4,284,181</u> |
| Operating income | 62,585 | 86,258 |
| Nonoperating gains (losses): | | |
| Investment return | 276,426 | (59,647) |
| Gain (losses) on interest rate swap agreements | (25,173) | 2,653 |
| Loss on debt refinancing | (943) | — |
| Nonservice periodic pension costs | (3,009) | 921 |
| Other | (7,882) | (7,801) |
| Excess of revenues over expenses | <u>\$ 302,004</u> | <u>22,384</u> |

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Consolidated Statements of Operations and Changes in Net Assets

Years ended December 31, 2019 and 2018

(Dollars in thousands)

| | <u>2019</u> | <u>2018</u> |
|---|---------------------|------------------|
| Net assets without donor restrictions: | | |
| Excess of revenues over expenses | \$ 302,004 | 22,384 |
| Net assets released from restrictions for capital purposes | 10,070 | 14,037 |
| Amortization of unrealized loss on interest rate swap agreement | 874 | 874 |
| Other | <u>1,812</u> | <u>(2,309)</u> |
| Increase in net assets without donor restrictions | <u>314,760</u> | <u>34,986</u> |
| Net assets with donor restrictions: | | |
| Contributions | 14,880 | 16,962 |
| Investment return | 19,082 | (5,259) |
| Net assets released from restrictions | (21,479) | (25,718) |
| Other | <u>(186)</u> | <u>(2,294)</u> |
| Increase (decrease) in net assets with donor restrictions | <u>12,297</u> | <u>(16,309)</u> |
| Increase in net assets | 327,057 | 18,677 |
| Net assets at beginning of year | <u>2,720,596</u> | <u>2,701,919</u> |
| Net assets at end of year | <u>\$ 3,047,653</u> | <u>2,720,596</u> |

See accompanying notes to consolidated financial statements.

ALLINA HEALTH SYSTEM

Consolidated Statements of Cash Flows

Years ended December 31, 2019 and 2018

(Dollars in thousands)

| | <u>2019</u> | <u>2018</u> |
|--|--------------------------|--------------------------|
| Cash flows from operating activities: | | |
| Increase in net assets | \$ 327,057 | 18,677 |
| Adjustments to reconcile increase in net assets to net cash and cash equivalents provided by operating activities: | | |
| Depreciation and amortization | 184,146 | 181,647 |
| Gain on sale of land, buildings, and equipment | (2,969) | (1,981) |
| Change in fair value of interest rate swaps | 16,412 | (12,170) |
| Loss on debt refinancing | 943 | — |
| Change in realized and unrealized gains on investments, net | (245,270) | 113,636 |
| Restricted contributions including cash for long-lived assets | (14,880) | (16,962) |
| Earnings on joint ventures | (8,839) | (8,742) |
| Distributions received from joint ventures | 6,597 | 6,282 |
| Changes in assets and liabilities: | | |
| Change in accounts receivable and other current assets | (47,949) | (26,393) |
| Change in accounts payable and other current liabilities | 64,538 | (9,320) |
| Change in other assets and liabilities | (12,807) | 1,067 |
| Net cash and cash equivalents provided by operating activities | <u>266,979</u> | <u>245,741</u> |
| Cash flows from investing activities: | | |
| Proceeds from sales of land, buildings, and equipment | 6,298 | 16,730 |
| Purchases of land, buildings, and equipment | (247,757) | (198,206) |
| Contributions of cash for long-lived assets | 82 | 265 |
| Purchases of investments classified as trading | (2,428,964) | (1,652,999) |
| Sales of investments classified as trading | 2,191,389 | 1,547,952 |
| Contributions to joint ventures | (4,800) | (1,400) |
| Net cash and cash equivalents used in investing activities | <u>(483,752)</u> | <u>(287,658)</u> |
| Cash flows from financing activities: | | |
| Restricted contributions, net | 16,129 | 27,015 |
| Change in outstanding checks payable | (31,174) | 29,412 |
| Proceeds from issuance of long-term debt, including premium | 382,732 | — |
| Payment of deferred debt acquisition costs | (5,194) | — |
| Refinancing and principal payments of long-term debt | (107,012) | (26,450) |
| Net cash and cash equivalents provided by financing activities | <u>255,481</u> | <u>29,977</u> |
| Increase (decrease) in cash and cash equivalents | 38,708 | (11,940) |
| Cash and cash equivalents at beginning of year | <u>135,580</u> | <u>147,520</u> |
| Cash and cash equivalents at end of year | \$ <u><u>174,288</u></u> | \$ <u><u>135,580</u></u> |

See accompanying notes to consolidated financial statements.

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Notes to Consolidated Financial Statements

December 31, 2019 and 2018

(Dollars in thousands)

(1) Organization and Basis of Presentation

Allina Health System (the System) is a not-for-profit corporation whose consolidated financial statements include the accounts of its owned subsidiaries and controlled affiliates.

The System consists of five hospitals located in the Minneapolis and Saint Paul metropolitan area, seven hospitals located outside the metropolitan area, physician clinics employing approximately 1,450 providers, various other health care-related entities, seven foundations supporting health-related services, and a captive risk management company.

All significant intercompany accounts and transactions have been eliminated in the consolidated financial statements.

(2) Summary of Significant Accounting Policies

(a) Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in these consolidated financial statements and accompanying notes. Although estimates are considered to be fairly stated at the time the estimates are made, actual results could differ from those estimates.

(b) Cash and Cash Equivalents

Cash and cash equivalents include bank deposits and short-term investments with an original maturity of three months or less from the date of purchase that have not otherwise been classified as long-term assets due to a designation for long-term purposes.

(c) Outstanding Checks

Outstanding checks that are book or bank overdrafts are classified as cash flows from financing activities in the consolidated statements of cash flows. Outstanding checks are presented on the consolidated financial statements as a component of accounts payable and accrued expenses.

(d) Pledges Receivable

Pledges are recorded in the period that the pledges are made and represent unconditional promises to give. Pledges that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. A discount on each pledge is computed using the risk-free interest rate available at the time the pledge was made for the duration of the pledge. An allowance for uncollectible pledges receivable is determined based on a review of estimated collectibility and historical experience.

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(Dollars in thousands)

(e) *Derivative Financial Instruments*

The System uses interest rate swaps as part of its risk management strategy to manage exposure to fluctuations in interest rates and to manage the overall cost of its debt. Interest rate swaps are used to hedge identified and approved exposures. Interest rate swaps are recognized as either assets or liabilities in accordance with the netting provisions in the counterparty agreement and are measured at fair value in accordance with Accounting Standards Codification (ASC) Topic 815, *Derivatives and Hedging*.

For interest rate swaps that are not designated as cash flow hedges, gains or losses resulting from changes in the fair values of the interest rate swaps are reported as nonoperating gains or losses. Any differences between interest received and paid under nonhedged swap agreements are reported with the change in fair value of the swaps as nonoperating gains or losses.

For interest rate swaps that are designated and qualify as cash flow hedges, the effective portion of the gains or losses resulting from changes in the fair value is reported as a component of unrestricted net assets. The ineffective portion, if any, is reported in excess of revenues over expenses in the current period. If hedging relationships cease to be highly effective, gains or losses on the interest rate swaps would be reported in excess of revenues over expenses, and accumulated losses would be amortized into excess of revenues over expenses over the remaining life of the debt. Any differences between interest received and paid under the interest rate swap designated as a cash flow hedge is recorded as a component of interest expense.

As of December 31, 2019 and 2018, the System does not have any swaps designated as cash flow hedges.

(f) *Inventories*

Inventories include drugs and supplies and are recorded at the lower of cost or market on a first-in, first-out basis.

(g) *Investments in Unconsolidated Entities*

Investments in entities in which the System has the ability to exercise significant influence over operating and financial policies but does not have operational control are recorded under the equity method of accounting and are included in other assets in the consolidated balance sheets. The System's share of net earnings or losses of the entities is included in other operating revenue (note 8).

(h) *Investments with Limited Uses*

Investments with limited uses are reported at fair value and include assets held by trustees for repayment of long-term debt, assets in escrow for capital projects, vendor deposits, and donor-restricted funds.

(i) *Land, Buildings, and Equipment*

Land, buildings, and equipment are carried at cost and depreciated using the straight-line method over their estimated useful lives. Interest cost, net of related interest income, incurred during the period for

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(Dollars in thousands)

construction of capital assets is capitalized as a component of the cost of acquiring those assets and totaled \$749 and \$913 for 2019 and 2018, respectively.

The following useful lives are used in computing depreciation:

| | |
|-------------------------------------|-------------|
| Land improvements | 5–25 years |
| Buildings | 25–40 years |
| Building additions and improvements | 10–20 years |
| Equipment | 2–15 years |

(j) Leases

ASC 842, *Leases* (ASC 842), was adopted by the System effective January 1, 2019 using a modified retrospective transition approach, without adjustment to the prior period comparative financial information. ASC 842 requires lessees to recognize leases on the balance sheet and disclose key information about leasing arrangements. The new standard establishes a right-of-use (ROU) model that requires a lessee to recognize an ROU asset and lease liability on the consolidated balance sheet for all leases with a term longer than 12 months. Leases are classified as finance or operating, with classification affecting the pattern and classification of the expense recognition in the consolidated statement of operations. In adopting and applying the standard, the System elected to adopt the package of practical expedients, including not reassessing past lease accounting, not separating lease components from nonlease components, and not reassessing previously capitalized initial direct costs. As of January 1, 2019, the System recorded ROU assets of \$201,010 and a corresponding leasing obligation of the same amount, and an increase of \$8,321 to net assets without donor restriction as part of the adoption, included as part of other changes in net assets without donor restriction. The System also derecognized assets of \$8,620 and a financing obligation of \$17,024 for a historical build-to-suit transaction that had a failed sale-leaseback as part of the adoption.

The System determines if an arrangement is or contains a lease at contract inception. The System recognizes an ROU asset and a lease liability at the lease commencement date if the lease period exceeds one year. Leases less than one year are expensed monthly as incurred.

For operating leases, the lease liability is initially and subsequently measured at the present value of the unpaid lease payments at the lease commencement date. For finance leases, the lease liability is initially measured in the same manner and date as for operating leases and is subsequently measured at amortized cost using the effective-interest method.

Key estimates and judgments include how the System determines (1) the discount rate it uses to discount the unpaid lease payments to present value, (2) lease term, and (3) lease payments.

ASC 842 requires a lessee to discount its unpaid lease payments using the interest rate implicit in the lease or, if that rate cannot be readily determined, its incremental borrowing rate. The System generally uses its incremental borrowing rate as the discount rate for the lease.

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(Dollars in thousands)

The lease term for all of the System's leases includes the noncancelable period of the lease plus any additional periods covered by either a System option to extend (or not to terminate) the lease that the System is reasonably certain to exercise or an option to extend (or not to terminate) the lease controlled by the lessor.

Lease payments included in the measurement of the lease liability comprise the following:

- Fixed payments;
- Variable lease payments that depend on an index or rate;
- Amounts expected to be payable under a System-provided residual value guarantee; and
- The exercise price of a System option to purchase the underlying asset if the System is reasonably certain to exercise the option.

The ROU asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for lease payments made at or before the lease commencement date, plus any initial direct costs incurred less any lease incentives received.

For operating leases, the ROU asset is subsequently measured throughout the lease term at the carrying amount of the lease liability, plus initial direct costs, plus (minus) any prepaid (accrued) lease payments, less the unamortized balance of lease incentives received. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

The System monitors for events or changes in circumstances that require a reassessment of one of its leases. When a reassessment results in the remeasurement of a lease liability, a corresponding adjustment is made to the carrying amount of the corresponding ROU asset unless doing so would reduce the carrying amount of the ROU asset to an amount less than zero. In that case, the amount of the adjustment that would result in a negative ROU asset balance is recorded in profit or loss.

Operating lease ROU assets are presented as operating lease right of use assets on the consolidated balance sheet. The current portion and long-term portion of operating lease liabilities are presented separately as operating lease liabilities on the consolidated balance sheet.

(k) *Deferred Income Taxes*

The System's taxable subsidiaries record deferred income taxes due to temporary differences between financial reporting and tax reporting for certain assets and liabilities. The System accounts for income taxes under the asset-and-liability method. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

The System follows ASC Topic 740, *Income Taxes* (ASC 740), which clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements. ASC 740 prescribes a more-likely-than-not recognition threshold and measurement attribute for the financial statement

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(Dollars in thousands)

recognition and measurement of a tax position taken or expected to be taken. Under ASC 740, tax positions will be evaluated for recognition, derecognition, and measurement using consistent criteria and will provide more information about the uncertainty in income tax assets and liabilities. As of December 31, 2019 and 2018, the System does not have any significant assets or liabilities recorded for uncertain tax benefits. The System has not recorded any reserves or related accruals for interest and penalties for uncertain income tax positions.

(l) Self-Insurance

The System insures its general and professional liability exposures under claims-made policies. Under these policies, the System self-insures the first \$8 million in any one loss. Premiums paid to the captive risk management subsidiary are based on claims in the self-insured retention layer and are eliminated upon consolidation. Claim payments required in excess of certain occurrence and annual aggregate amounts are covered under umbrella policies. A Single Parent Cell (SPC) has been established on June 1, 2017 to fund claims that occur over \$4 million self-insured retention beginning June 1, 2017. Actuarially determined amounts are contributed as premiums to pay for the estimated cost of claims. The System also participates in the Minnesota state workers' compensation reinsurance program and retains self-insurance of \$5 million with the fund responsible for losses above that amount. If claims-made policies presently in force are not renewed or replaced with equivalent insurance, claims asserted after the end of the policy term will be uninsured.

The provision for estimated claims includes estimates of ultimate costs for both reported claims and claims incurred but not reported.

(m) Net Assets With Donor Restrictions

Net assets with donor restrictions are those whose use by the System has been limited by donors to a specific time period or purpose and those that are required to be maintained in perpetuity.

(n) Donor-Restricted Gifts

Unconditional promises to give cash and other assets to the System are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value at the date the gift is received. Gifts are reported as restricted if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions in the consolidated statements of operations and changes in net assets. In the absence of a donor specification that restricts income and gains on restricted gifts, such income and gains are reported as income of net assets without donor restrictions. In order to protect permanently restricted gifts from a loss of purchasing power, the System uses a spending rate policy to determine the portion of investment return that can be used to support operations of the current period.

The System reports gifts of equipment or other long-lived assets as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations

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about how long those long-lived assets must be maintained, the System reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

(o) Other Operating Revenue

Other operating revenue includes income from investments in unconsolidated entities, rental income, pharmacy and ancillary sales, grant revenue, and services charged to unconsolidated entities as cost recoveries. Revenue is generally recognized at point of service for these transactions in accordance with ASC Topic 606, *Revenue from Contracts with Customers*.

(p) Excess of Revenues over Expenses

Excess of revenues over expenses includes operating income and nonoperating gains and losses. Changes in net assets without donor restrictions, which are excluded from excess of revenues over expenses, consistent with industry practice, include investment return related to net assets with donor restrictions, interest rate swaps designated as cash flow hedges, and changes in liability relating to defined-benefit plans not marked to market.

(q) Investment Securities

The System classifies its investments as trading and are recorded at fair value. Investments in alternative investments are recorded at net asset value as a practical expedient to fair value. Unrealized gains and losses on trading securities are included in excess of revenues over expenses.

(r) Fair Value Measurements

The System utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. The System determines fair value based on assumptions that market participants would use in pricing an asset or liability in the principal or most advantageous market. When considering market participant assumptions in fair value measurements, the System follows the fair value hierarchy, as outlined in the fair value measurements and disclosures accounting guidance, which distinguishes between observable and unobservable inputs.

(s) Reclassifications

Certain reclassifications have been made to the 2018 consolidated financial statements to conform to the 2019 presentation.

(t) Recently Issued Accounting Standards

The System elected to early adopt Financial Accounting Standards Board Accounting Standards Update (ASC) No. 2018-15, *Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract* (ASU 2018-15), effective January 1, 2019. ASU 2018-15 addresses how a customer should account for the costs of implementing a cloud computing service arrangement and which costs should be capitalized and the term to use when amortizing capitalized costs. The System has applied the capitalization guidance on a prospective basis.

The System adopted ASU No. 2018-08, *Clarifying the Scope and Accounting for Contributions Received and Made*, effective January 1, 2019. ASU No. 2018-08 clarifies and improves the scope

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and the accounting guidance to determine when a transaction should be accounted for as an exchange transaction or a contribution and how to determine whether a contribution is conditional. The adoption of ASU No. 2018-08 did not have a material effect on the consolidated financial statements.

The System adopted ASU No. 2016-18, *Restricted Cash*, effective December 31, 2019. ASU No. 2016-18 addresses classification and presentation of changes in restricted cash on the statement of cash flows and requires an entity's reconciliation of the beginning-of-period and end-of-period total amounts shown on the statement of cash flows to include in cash and cash equivalents amounts generally described as restricted cash. The adoption of ASU No. 2016-18 did not have an effect on the consolidated financial statements.

(3) Patient Service Revenue

Patient service revenue is reported at the amount that reflects the consideration to which the System 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 the System 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.

The System 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 the System's policy, and/or implicit price concessions provided to uninsured patients. Estimates of contractual adjustments and discounts are based on contractual agreements, its discount policy (or policies), and historical experience. Estimate of implicit price concessions are based on its historical collection experience with this class of patients.

Agreements with third-party payers typically provide for payments at amounts less than established charges. A summary of the payment arrangements with major third-party payers follows:

- Medicare: Certain inpatient acute care services are paid at prospectively determined rates per discharge based on clinical, diagnostic, and other factors. Certain services are paid based on cost-reimbursement methodologies subject to certain limits. Physician services are paid based upon established fee schedules. Outpatient services are paid using prospectively determined rates.
- Medicaid: Reimbursements for Medicaid services are generally paid at prospectively determined rates per discharge, per occasion of service, or per covered member.
- Other: Payment agreements with managed care payers provide for payment using prospectively determined rates per discharge, discounts from established charges, and prospectively determined

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daily rates, shared savings, pay for performance, care management, or medical home management per patient fees.

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 the System'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 the System. 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 (i.e., new information becomes available), or as years are settled or are no longer subject to such audits, reviews, and investigations. The System utilizes a process to identify and appeal certain settlements by government payers. Additional reimbursement is recorded in the year the appeal is successful. During 2019 and 2018, successful appeals, cost report settlements, and other adjustments to prior year estimates of variable consideration resulted in an increase in patient service revenue of \$21,306 and \$17,556, respectively.

Generally patients who are covered by third-party payers are responsible for related deductibles and coinsurance, which vary in amount. The System also provides services to uninsured patients and offers those uninsured patients a discount, either by policy or law, from standard charges. The System 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.

The System provides care to patients regardless of their ability to pay. Therefore, the System has determined it has provided implicit price concessions to uninsured patients and patients with other uninsured balances (e.g., co-pays and deductibles). The implicit price concessions included in estimating the transaction price represent the difference between amounts billed to patients and the amounts the System expects to collect based on its collection history with those patients.

Patients who meet the System'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.

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Patient service revenue recognized in the period by type of service is as follows:

| | <u>2019</u> | <u>2018</u> |
|-------------------------------------|---------------------|------------------|
| Inpatient | \$ 1,660,121 | 1,641,666 |
| Outpatient/ambulatory | 1,437,076 | 1,398,365 |
| Clinic | 1,065,773 | 1,012,180 |
| Transitional rehabilitation program | <u>19,486</u> | <u>19,503</u> |
| | <u>\$ 4,182,456</u> | <u>4,071,714</u> |

Patient service revenue (before implicit price concessions) recognized in the period by major payer is as follows:

| | <u>2019</u> | <u>2018</u> |
|-----------------------|--------------|--------------|
| Medicare and Medicaid | 41 % | 41 % |
| Managed care | 55 | 54 |
| Commercial and other | 2 | 3 |
| Self-pay | <u>2</u> | <u>2</u> |
| | <u>100 %</u> | <u>100 %</u> |

The System grants credit without collateral to its patients, most of whom are residents in the communities that it serves and are insured under third-party payer agreements. The mix of patient accounts receivable by major payer as of December 31 consists of the following:

| | <u>2019</u> | <u>2018</u> |
|-----------------------|--------------|--------------|
| Medicare and Medicaid | 37 % | 38 % |
| Managed care | 45 | 45 |
| Commercial and other | 6 | 8 |
| Self-pay | <u>12</u> | <u>9</u> |
| | <u>100 %</u> | <u>100 %</u> |

Two managed care payers accounted for approximately 36% and 36% of patient service revenue in 2019 and 2018, respectively. Amounts due from these two managed care payers accounted for approximately 26% and 25% of patient accounts receivable at December 31, 2019 and 2018, respectively.

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(4) Community Benefits

The System follows Internal Revenue Service reporting guidelines for categories of community benefit provided in the service areas of the System. The major components are defined below.

(a) *Cost of Providing Charity Care (Also Referred to as Financial Assistance)*

The System provides medical care without charge or at reduced cost to residents of the communities that it serves through the provision of charity care. Policies have been established to identify charity care cases that meet certain guidelines for a patient's ability to pay for services. The cost of providing charity care is measured by applying a cost-to-charge ratio to the charges identified as charity care.

(b) *Costs in Excess of Medicaid Payments*

The System provides services to public program enrollees (Medicaid). Such public programs typically reimburse at amounts less than cost.

(c) *Medicaid Surcharge*

The System is a participant in the Medicaid Surcharge program. The current program includes a 1.56% surcharge on a hospital's patient service revenue (excluding Medicare revenue). Reported amounts are net of any disproportionate share adjustments.

(d) *Costs of Other Means-Tested Government Programs (MinnesotaCare Tax)*

The System also participates in the funding of medical care for the uninsured through a MinnesotaCare tax of 2.0% on certain patient service revenue through December 31, 2019. The tax was reduced to 1.8% effective January 1, 2020. Patients who are unable to get insurance through their employer are eligible to participate in MinnesotaCare.

(e) *Community Health Improvement Services*

In the furtherance of its charitable purpose, the System provides a wide variety of community health improvement programs and activities to the various communities that it serves in response to specific needs within those communities. Examples are programs and activities designed to improve the quality of life and build healthier communities. Community services activities include, but are not limited to, health screenings, support counseling for patients and families, crisis intervention, health enhancement and wellness programs, classes on specific conditions, and telephone information services. Examples of community benefit and engagement programs operated by the System include Backyard Initiative, Free Bikes 4 Kidz, Neighborhood Health Connection, Health Powered Kids, and Change to Chill.

(f) *Subsidized Health Services*

The System provides necessary health care services, which include 24-hour emergency services to the community and behavioral health services. These clinical services are provided despite financial losses so significant that negative margins remain after removing the effects of charity care and Medicaid shortfalls. These services are provided because they meet an identified community need and, if no longer offered, would either be unavailable in the area or fall to the responsibility of government or another not-for-profit organization to provide.

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(g) Health Profession Education

The System provides education and training programs and financial assistance for providers, health care students, and other health professionals.

(h) Research

The System participates in clinical and community health research that is shared with the health care community, including clinical research related to integrative medicine and cancer interventions, as well as community health research related to care model innovations and population health. Research costs are reported net of restricted grants designated and released for research purposes for the reporting of community benefit.

(i) Cash and In-Kind Contributions

The System donates funds and in-kind services to individuals and/or the community at large and other not-for-profit organizations. Examples are the donation of space for use by community groups, event sponsorships, donation of food, equipment and supplies, and grants.

(j) Other Community Benefit Cost

The System allocates staff time to manage community benefit reporting, assess community benefit programs and needs, and develop and implement programs and activities in response to those needs.

The System contributes additional resources to the communities in which it provides services. The major components are defined below:

Costs in excess of Medicare payments – The System provides services to public program enrollees (Medicare). Such public programs typically reimburse at amounts less than cost.

Other care provided without compensation (implicit price concessions) – The System provides medical care in which charges are uncollected beyond what is provided under the definition of charity care.

Discounts offered to uninsured patients – The hospitals in the System provide a discount on billed charges for medically necessary care delivered to patients who are uninsured and ineligible for government programs or otherwise medically indigent. The unbilled portion of uninsured care is excluded from patient service revenue.

Taxes and fees – The System pays property taxes to local and state government used in funding civil and education services to the community.

Community building – The System engages in community activities that address root causes of health problems, such as poverty, homelessness, and environmental issues by participating in activities, including economic development work, workforce development, public safety efforts, and community health improvement work.

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The following is an estimate of the community benefits provided by the System:

| | <u>2019</u> | <u>2018</u> |
|--|-------------------|----------------|
| Cost of providing charity care (charges foregone of \$61,186 and \$50,028, respectively) | \$ 23,400 | 20,700 |
| Costs in excess of Medicaid payments | 41,800 | 45,000 |
| Medicaid surcharge | 26,600 | 26,000 |
| MinnesotaCare tax | 54,900 | 53,700 |
| Community health improvement services | 9,200 | 8,500 |
| Subsidized health services | 12,000 | 4,900 |
| Health professions education | 21,100 | 15,700 |
| Research | 4,200 | 2,800 |
| Cash and in-kind contributions | 5,300 | 5,700 |
| Other community benefit cost | <u>3,600</u> | <u>4,000</u> |
| Total cost of community benefit | 202,100 | 187,000 |
| Costs in excess of Medicare payments | 269,100 | 258,200 |
| Other care provided without compensation (implicit price concession) | 127,700 | 108,300 |
| Discounts offered to uninsured patients | 47,800 | 39,100 |
| Taxes and fees | 4,800 | 4,700 |
| Community building | <u>300</u> | <u>300</u> |
| Total value of community contributions | <u>\$ 651,800</u> | <u>597,600</u> |

(5) Cash and Cash Equivalents and Investments

As of December 31, cash and cash equivalents and investments, including those with limited uses, consist of the following:

| | <u>2019</u> | <u>2018</u> |
|--|---------------------|------------------|
| Cash and cash equivalents | \$ 174,288 | 135,580 |
| Money market collective fund and short-term fixed income | 101,190 | 32,394 |
| Fixed income | 1,260,357 | 1,083,870 |
| Equity securities | 451,065 | 336,027 |
| Real return mutual fund | 168,497 | 145,404 |
| Investments accounted for at net asset value | <u>776,312</u> | <u>658,824</u> |
| | <u>\$ 2,931,709</u> | <u>2,392,099</u> |

The System holds cash balances that optimize large and predictable cash flows. To efficiently manage liquidity and capital, the System continually determines the necessary amount of cash and cash equivalents to hold in cash and money market funds to meet operational needs and allocates the excess to

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a separate investment account that is expected to generate higher yielding returns while still maintaining a high degree of liquidity and a focus on capital preservation. As added insurance, a line of credit is also maintained in the unlikely event there is an unexpected immediate cash need (note 11). In relation to the long-term investments of the System, approximately 87% of the funds can be liquidated within 30 days or less. Additionally, approximately 96% may be liquidated within one year or less.

As of December 31, financial assets without restriction, reduced by amounts that are considered to be illiquid within one year, consist of the following:

| | <u>2019</u> | <u>2018</u> |
|--|---------------------|------------------|
| Cash and cash equivalents | \$ 174,288 | 135,580 |
| Short-term investments | 471,112 | 278,587 |
| Patient accounts receivable, net | 543,509 | 511,662 |
| Long-term investments | 2,119,432 | 1,824,119 |
| Less assets with liquidity over one year | <u>(96,427)</u> | <u>(70,197)</u> |
| | <u>\$ 3,211,914</u> | <u>2,679,751</u> |

Certain investments are held for the following limited uses as of December 31:

| | <u>2019</u> | <u>2018</u> |
|--|-------------------|----------------|
| By trustee for repayment of long-term debt | \$ 121 | 56 |
| By trustee for swap collateralization | 5,170 | — |
| Donor-restricted funds | 159,143 | 151,314 |
| Vendor deposits | <u>2,443</u> | <u>2,443</u> |
| | <u>\$ 166,877</u> | <u>153,813</u> |

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Total investment return consists of the following:

| | <u>2019</u> | <u>2018</u> |
|--|-------------------|------------------|
| Investment earnings (losses) in unrestricted net assets: | | |
| Interest and dividend income | \$ 47,898 | 46,168 |
| Realized gains on investments | 32,048 | 19,060 |
| Change in unrealized gains and losses on investments | <u>196,480</u> | <u>(124,875)</u> |
| | <u>276,426</u> | <u>(59,647)</u> |
| Investment earnings (losses) in restricted net assets: | | |
| Interest and dividend income | 2,340 | 2,562 |
| Realized gains on investments | 2,391 | 1,369 |
| Change in unrealized gains and losses on investments | <u>14,351</u> | <u>(9,190)</u> |
| | <u>19,082</u> | <u>(5,259)</u> |
| | <u>\$ 295,508</u> | <u>(64,906)</u> |

Total investment return is reported in the consolidated statements of operations and changes in net assets as follows:

| | <u>2019</u> | <u>2018</u> |
|---|-------------------|-----------------|
| Nonoperating gains (losses) | \$ 276,426 | (59,647) |
| Changes in net assets with donor restrictions | <u>19,082</u> | <u>(5,259)</u> |
| | <u>\$ 295,508</u> | <u>(64,906)</u> |

(6) Other Current Assets

Other current assets as of December 31 consist of the following:

| | <u>2019</u> | <u>2018</u> |
|--|-------------------|----------------|
| Pledges and notes receivable | \$ 1,268 | 2,472 |
| Prepaid expenses | 19,672 | 21,719 |
| Third-party payer settlement receivables | 39,909 | 27,274 |
| Other miscellaneous receivables | <u>64,073</u> | <u>61,263</u> |
| | <u>\$ 124,922</u> | <u>112,728</u> |

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(7) Land, Buildings, and Equipment

Land, buildings, and equipment as of December 31 consist of the following:

| | <u>2019</u> | <u>2018</u> |
|--|---------------------|------------------|
| Land and land improvements | \$ 100,951 | 96,798 |
| Buildings | 1,761,997 | 1,696,524 |
| Equipment | <u>1,566,146</u> | <u>1,653,535</u> |
| | 3,429,094 | 3,446,857 |
| Less accumulated depreciation and amortization | <u>2,253,058</u> | <u>2,273,579</u> |
| | 1,176,036 | 1,173,278 |
| Construction in progress | <u>99,453</u> | <u>50,550</u> |
| | <u>\$ 1,275,489</u> | <u>1,223,828</u> |

As of December 31, 2019, the System had \$36,000 of future capital commitments.

(8) Other Assets

Other assets as of December 31 consist of the following:

| | <u>2019</u> | <u>2018</u> |
|--|-------------------|----------------|
| Cash surrender value of insurance policies | \$ 4,280 | 4,040 |
| Pledges and notes receivable, less current portion | 4,331 | 4,460 |
| Investment in unconsolidated entities | 93,926 | 104,990 |
| Deferred compensation | 162,302 | 164,440 |
| Other | <u>44,126</u> | <u>47,218</u> |
| | <u>\$ 308,965</u> | <u>325,148</u> |

The following table represents the System's investment in and share of net earnings of unconsolidated entities recorded under the equity method of accounting as of and for the years ended December 31:

| | Percentage ownership | Equity investment | | Distributions received | | Share of net earnings | |
|----------------------|----------------------|-------------------|----------------|------------------------|----------------|-----------------------|--------------|
| | | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| St. Francis Regional | | | | | | | |
| Medical Center | 47.50 % | \$ 62,830 | 56,780 | (2,375) | — | 9,040 | 7,076 |
| Other entities | 10%–50% | <u>31,096</u> | <u>48,210</u> | <u>(4,222)</u> | <u>(6,282)</u> | <u>(201)</u> | <u>1,666</u> |
| | | <u>\$ 93,926</u> | <u>104,990</u> | <u>(6,597)</u> | <u>(6,282)</u> | <u>8,839</u> | <u>8,742</u> |

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The following table reflects summarized financial information for St. Francis Regional Medical Center as of and for the years ended December 31:

| | <u>2019</u> | <u>2018</u> |
|--|-------------------|----------------|
| Total assets | \$ 196,443 | 189,378 |
| Total liabilities | <u>58,179</u> | <u>63,574</u> |
| Total net assets | \$ <u>138,264</u> | <u>125,804</u> |
| Total revenue | \$ 172,488 | 170,733 |
| Total operating expenses | 161,966 | 153,900 |
| Total investment return and other nonoperating | <u>8,246</u> | <u>(1,956)</u> |
| Excess of revenues over expenses | \$ <u>18,768</u> | <u>14,877</u> |

The following table reflects summarized financial information for all other entities as of and for the years ended December 31 (unaudited):

| | <u>2019</u> | <u>2018</u> |
|--|-------------------|----------------|
| Total assets | \$ 220,001 | 198,462 |
| Total liabilities | <u>61,986</u> | <u>68,892</u> |
| Total net assets | \$ <u>158,015</u> | <u>129,570</u> |
| Total revenue | \$ 185,595 | 139,301 |
| Total operating expenses | 185,592 | 130,928 |
| Total investment return and other nonoperating | <u>1,602</u> | <u>(1,545)</u> |
| Excess of revenues over expenses | \$ <u>1,605</u> | <u>6,828</u> |

(9) Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses as of December 31 consist of the following:

| | <u>2019</u> | <u>2018</u> |
|--------------------------------------|-------------------|----------------|
| Outstanding checks | \$ 41,763 | 72,937 |
| Trade accounts payable | 72,608 | 55,507 |
| Accrued payroll, taxes, and vacation | 204,526 | 192,739 |
| MinnesotaCare tax payable | 18,407 | 17,851 |
| Other | <u>115,973</u> | <u>114,588</u> |
| | \$ <u>453,277</u> | <u>453,622</u> |

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(10) Other Current Liabilities

Other current liabilities as of December 31 consist of the following:

| | <u>2019</u> | <u>2018</u> |
|---|-------------------|----------------|
| Current portion of estimated reserves for professional and general liability claims | \$ 15,796 | 14,752 |
| Current portion of estimated reserves for workers' compensation claims | 12,043 | 12,175 |
| Employee health plan claims incurred but not reported | 19,302 | 19,082 |
| Defined-contribution retirement plan | 73,161 | 47,607 |
| Due to third-party payers | 20,334 | 16,558 |
| | <u>\$ 140,636</u> | <u>110,174</u> |

(11) Long-Term Debt

Long-term debt as of December 31 consists of the following:

| | <u>2019</u> | <u>2018</u> |
|---|-------------|-------------|
| Fixed-Rate Revenue Bonds, Series 2009A-1 (Allina Health System), annual interest rates from 4.50% to 5.25%, advance refunded in 2019 | \$ — | 49,715 |
| Fixed-Rate Revenue Bonds, Series 2009A-2 (Allina Health System), annual interest rate from 3.25% to 5.50%, advance refunded in 2019 | — | 34,760 |
| Variable-Rate Revenue Bonds, Series 2009B and 2009C (Allina Health System), Variable-Rate Demand Notes maturing annually through 2035, annual interest rate of 1.43% during 2019 and 1.38% during 2018, and 1.66% and 1.74% at December 31, 2019 and 2018, respectively | 164,525 | 164,525 |
| Variable-Rate Revenue Bonds, Series 2007C (Allina Health System), Variable-Rate Demand Notes maturing annually through 2034, average annual interest rate of 1.45% during 2019 and 1.42% during 2018, and 1.62% and 1.70% at December 31, 2019 and 2018, respectively | 117,450 | 118,300 |

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| | <u>2019</u> | <u>2018</u> |
|--|----------------------------|--------------------------|
| Variable-Rate Revenue Bonds, Series 1998A (Allina Health System) Periodic Auction Reset, maturing annually through 2022, average annual interest rate of 3.23% during 2019 and 2.74% during 2018, and 2.29% and 3.55% at December 31, 2019 and 2018, respectively | \$ 10,175 | 14,575 |
| Fixed-Rate Taxable Bonds, Series 2015 (Allina Health System), maturing annually through 2045 annual interest rate of 4.805% | 250,000 | 250,000 |
| Fixed-Rate Health Care Facilities Revenue Note, Series 2014 (Allina Health System), maturing annually through 2028, annual interest rate of 3.01% | 16,790 | 17,300 |
| Fixed-Rate Revenue Bonds, Series 2017A (Allina Health System), maturing annually through 2029, annual interest rate of 5.00% | 78,515 | 78,515 |
| Fixed-Rate Health Care Facilities Revenue Note, Series 2017B (Allina Health System), maturing annually through 2022, annual interest rate of 2.13% | 43,500 | 57,590 |
| Fixed-Rate Taxable Bonds, Series 2017 (Allina Health System), maturing annually through 2047, annual interest rate of 4.43% | 150,000 | 150,000 |
| Fixed-Rate Taxable Bonds, Series 2019 (Allina Health System), maturing annually through 2049, annual interest rate of 3.887% | 300,000 | — |
| Fixed-Rate Revenue Refunding Bonds, Series 2019 (Allina Health System), maturing annual through 2029, annual interest rate of 5.00% | 68,180 | — |
| Other | <u>4,176</u> | <u>6,841</u> |
| | 1,203,311 | 942,121 |
| Unamortized portion of original issue premium | 25,458 | 11,897 |
| Unamortized deferred financing | (9,806) | (5,642) |
| Current portion | <u>(26,735)</u> | <u>(27,491)</u> |
| | \$ <u><u>1,192,228</u></u> | \$ <u><u>920,885</u></u> |

Certain divisions of the System are members of the Allina Obligated Group (Obligated Group), which is subject to the terms and conditions of the Master Trust Indenture dated October 1, 1998, as amended, between the System and Wells Fargo Bank Minnesota, National Association, and is jointly and severally liable for any debts and/or other obligations of each Obligated Group member and the Obligated Group as a whole. The Obligated Group members include the hospitals, nonhospital specialty care services, and certain physician clinics. The System also operates several wholly owned direct and indirect subsidiaries outside of the Obligated Group, including clinics and foundations.

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In May 2019, the System issued a fixed-rate Taxable Bond, Series 2019, in the aggregate principal amount of \$300,000. The 2019 Taxable Bonds are secured by the Obligated Group's pledge revenue and were issued for the purpose of funding new projects and strategic initiatives.

In October 2019, the City of Minneapolis and the Housing and Redevelopment Authority of the City of Saint Paul, on behalf of the System, issued fixed-rate Revenue Refunding Bonds, Series 2019, in the aggregate principal amount of \$68,180. The 2019 Revenue Refunding Bonds are secured by the Obligated Group's pledged revenue and were used to refinance and legally defease the Series 2009A-1 and 2009A-2 Bonds. The loss on the refinancing of the debt was \$943.

In November 2017, the City of Minneapolis, on behalf of the System, issued fixed-rate Revenue Refunding Bonds, Series 2017B, in the aggregate principal amount of \$77,845. The 2017B Bonds are secured by the Obligated Group's pledged revenue and was used to refinance the Series 2007A Fixed-Rate Revenue Bonds. The gain on the refinancing of the debt was \$1,769.

In April 2017, the System issued a fixed-rate Taxable Bond, Series 2017, in the aggregate principal amount of \$150,000. The 2017 Bonds are secured by the Obligated Group's pledged revenue and were issued for the purpose of funding new projects and strategic initiatives.

In April 2017, the City of Minneapolis and the Housing and Redevelopment Authority of the City of Saint Paul, on behalf of the System, issued fixed-rate Revenue Bonds, Series 2017A, in the aggregate principal amount of \$78,515. The 2017A Bonds are secured by the Obligated Group's pledged revenue and were used to refinance and legally defease, in part, the Series 2009A-1 and 2009A-2 Bonds. The loss on the refinancing of the debt was \$8,536.

The Series 2009B and 2009C Bonds are secured by letters of credit issued by two banks. Repayment of draws against the letters is secured by term credit agreements with the banks in the amount of \$114,525, which expires on January 4, 2021, and \$50,000, which expires on January 4, 2021. If the bonds were put and not remarketed, the banks would be required to purchase the bonds. Draws under the term credit agreements to repay the banks for the purchase of the bonds are payable in an amount equal to the principal payments necessary to repay the draws over five years in equal quarterly installments, beginning 367 days after the draw, based on the bank's base rate plus 2.00%.

Payment of principal and interest on the Series 1998A Bonds is insured. Interest rates on the variable rate Series 1998A is determined by auction. If an auction fails, interest rates payable to the existing bondholders are determined by a formula incorporated in the bond documents for these two series of bonds.

On June 18, 2008, the System completed a conversion of the Series 2007C Bonds from auction rate securities to variable-rate demand bonds. This conversion included the insurer's consent to remove the insurance and for a bank to support the bonds with a direct pay letter of credit. Repayment of draws against the letter is secured by a term credit agreement with the bank in the aggregate amount of \$117,450, which expires on January 4, 2021. If the bonds were put and not remarketed, the bank would be required to purchase the bonds. Draws under the term credit agreement to repay the bank for the purchase of the bonds are payable in an amount equal to the principal payments necessary to repay the draws over five years, beginning 367 days after the draw, based on the bank's base rate plus 2.00%.

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Aggregate annual maturities of long-term debt and mandatory sinking fund requirements, as stated under the actual debt terms, for each of the five years and thereafter following December 31, 2019 are as follows:

| | | |
|------------|----|-----------|
| 2020 | \$ | 26,735 |
| 2021 | | 26,924 |
| 2022 | | 26,567 |
| 2023 | | 28,295 |
| 2024 | | 29,595 |
| Thereafter | | 1,065,195 |

Aggregate principal payments of long-term debt based on the variable-rate demand notes being put back to the System and a corresponding draw being made on underlying liquidity facilities for each of the five years and thereafter following December 31, 2019 are as follows:

| | | |
|------------|----|---------|
| 2020 | \$ | 26,735 |
| 2021 | | 82,344 |
| 2022 | | 81,912 |
| 2023 | | 77,365 |
| 2024 | | 78,265 |
| Thereafter | | 856,690 |

The System 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, or interest rate exposures, and are not used for speculative purposes. One of the interest rate swaps was established for speculative purposes and is not tied directly to outstanding debt.

As of December 31, 2019, the System posted collateral of \$5,170 related to one of the System's swaps due to changes in interest rates. As of December 31, 2018, the System was not required to post collateral. The following table provides details regarding the System's fair value of the derivative instruments at December 31, 2019, none of which are designated as cash flow hedging instruments:

| Fixed payer interest rate swaps | | | | | | | |
|---------------------------------|-------------------------------------|------------------|-----------------------------|-----------|---------------|-------------------------------|---------------|
| Swap | Consolidated balance sheet location | Fair value | Notional amount outstanding | Rate paid | Rate received | Average rate received in 2019 | Counterparty |
| 2009BC | Other liabilities | \$ 11,435 | 41,131 | 3.74 % | % of LIBOR | 1.65 % | Wells Fargo |
| 2009BC | Other liabilities | 34,232 | 123,394 | 3.73 | % of LIBOR | 1.65 | JP Morgan |
| 2007C | Other liabilities | 23,510 | 117,450 | 3.58 | % of LIBOR | 1.58 | US Bank |
| 2001 | Other liabilities | 15,439 | 48,705 | 5.17 | SIFMA | 1.41 | Goldman Sachs |
| 1998A | Other liabilities | 478 | 10,675 | 4.44 | SIFMA | 1.41 | Goldman Sachs |
| Total | | \$ <u>85,094</u> | <u>341,355</u> | | | | |

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The following table provides details regarding the System's fair value of the derivative instruments at December 31, 2018, none of which are designated as cash flow hedging instruments:

| Fixed payer interest rate swaps | | | | | | | |
|--|--|------------------|-----------------------------------|-----------|------------------|-------------------------------------|---------------|
| Swap | Consolidated balance sheet location | Fair value | Notional amount outstanding | Rate paid | Rate received | Average rate received in 2018 | Counterparty |
| 2009BC | Other liabilities | \$ 8,978 | 41,131 | 3.74 % | % of LIBOR | 1.52 % | Wells Fargo |
| 2009BC | Other liabilities | 26,861 | 123,394 | 3.73 | % of LIBOR | 1.52 | JP Morgan |
| 2007C | Other liabilities | 18,924 | 118,300 | 3.58 | % of LIBOR | 1.44 | US Bank |
| 2001 | Other liabilities | 13,193 | 50,000 | 5.17 | SIFMA | 1.42 | Goldman Sachs |
| 1998A | Other liabilities | 726 | 15,075 | 4.44 | SIFMA | 1.42 | Goldman Sachs |
| Total | | <u>\$ 68,682</u> | <u>347,900</u> | | | | |

The following table provides details regarding the gains (losses) from the System derivative instruments in the consolidated statements of operations and changes in net assets, 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 on change in fair value recognized as nonoperating: gains on interest rate swap agreements | | Amount of loss reclassified from unrestricted net assets into revenues over expenses as nonoperating: losses on interest rate swap agreements | | Amount of interest paid to counterparty recognized as nonoperating: losses on interest rate swap agreements | | Total | |
|-------|--|---------------|---|--------------|--|----------------|-----------------|--------------|
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| | 2009BC \$ | (9,827) | 5,808 | — | — | (3,367) | (3,711) | (13,194) |
| 2007C | (4,586) | 3,747 | — | — | (2,312) | (2,567) | (6,898) | 1,180 |
| 2001 | (2,246) | 2,126 | — | — | (1,816) | (1,908) | (4,062) | 218 |
| 1998A | 247 | 489 | (874) | (874) | (392) | (457) | (1,019) | (842) |
| \$ | <u>(16,412)</u> | <u>12,170</u> | <u>(874)</u> | <u>(874)</u> | <u>(7,887)</u> | <u>(8,643)</u> | <u>(25,173)</u> | <u>2,653</u> |

The System records the swaps' liability at fair value, which requires nonperformance risk (i.e., credit risk), to be included in the valuation. Nonperformance risk is defined as the risk that the obligation will not be fulfilled and affects the value at which the liability is transferred. This nonperformance 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. Because of market volatility, the fair value reported liability of the swaps is \$814 and \$960 less as of December 31, 2019 and 2018, respectively, than the mark-to-market valuations (note 14).

Interest paid, net of amounts capitalized was \$37,192 and \$34,032 during 2019 and 2018, respectively.

The System has a Revolving Credit Agreement with Wells Fargo Bank through June 17, 2019, which consists of a line of credit of \$26,000. The interest rate on the line of credit is the Reserve Adjusted London Interbank Offered Rate (LIBOR) plus 0.50% and is secured by a note under the 1998 Master Trust

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Indenture. The unused line fee for the revolving line of credit is 0.15% per annum. The System had insurance-related letters of credit applied against the line of credit in the amount of \$185 and \$4,489 at December 31, 2019 and 2018, respectively. There were no draws on the line of credit at December 31, 2019 and 2018.

(12) Other Liabilities

Other liabilities as of December 31 consist of the following:

| | <u>2019</u> | <u>2018</u> |
|---|-------------------|----------------|
| Estimated reserves for professional and general liability claims, less current portion | \$ 44,234 | 55,059 |
| Estimated reserves for workers' compensation claims, less current portion | 32,501 | 30,850 |
| Net pension and postretirement liability | 23,046 | 17,338 |
| Interest rate swaps payable | 85,094 | 68,682 |
| Deferred compensation | 184,051 | 186,425 |
| Leasehold incentive allowance | — | 14,910 |
| Financing obligation | — | 17,024 |
| Other | 14,084 | 14,961 |
| | <u>\$ 383,010</u> | <u>405,249</u> |

(13) Net Assets With Donor Restrictions

Net assets with donor restrictions have been restricted by donors for the following purposes as of December 31:

| | <u>2019</u> | <u>2018</u> |
|---------------------------|-------------------|---------------|
| Capital | \$ 5,320 | 4,487 |
| Charity and indigent care | 4,941 | 4,756 |
| Education and research | 26,354 | 24,729 |
| Patient care | 25,294 | 23,281 |
| Other | 48,710 | 41,797 |
| | <u>\$ 110,619</u> | <u>99,050</u> |

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In addition, the System holds net assets with donor restrictions that are endowed into perpetuity and only the income is available for designated purposes. Income on the following endowments is restricted for the following purposes as of December 31:

| | <u>2019</u> | <u>2018</u> |
|---------------------------|------------------|---------------|
| Capital | \$ 165 | 165 |
| Charity and indigent care | 1,806 | 1,806 |
| Education and research | 19,097 | 19,031 |
| Patient care | 12,343 | 12,341 |
| Other | 23,316 | 22,656 |
| | <u>\$ 56,727</u> | <u>55,999</u> |

(14) Fair Value Measurements

The System's investments include money market, fixed-income, and equity securities, which are carried at fair value based on quoted market prices and are classified as trading securities. Investment securities are exposed to various risks, such as interest rate, credit, and overall market volatility. In addition, the System invests in limited partnerships, limited liability partnerships, limited liability companies, and corporations that hold interests in hedge funds, private equity funds, and other commingled funds, which are accounted for at net asset value as a practical expedient to fair value, and the System recognizes the increase or decrease in the partnerships' net asset value in nonoperating gains (losses). The System generally has liquidity ranging from 30 to 90 days in limited partnerships and better than 30-day liquidity in commingled trusts. Certain of the underlying partnerships may hold some securities without readily determinable fair values.

For all financial instruments other than investments, derivatives, and long-term debt (note 11), the carrying value is a reasonable estimate of fair value because of the short-term nature of the financial instruments.

Realized gains and losses on investments, interest, dividends, and declines in investment value determined to be other than temporary are recorded as nonoperating gains (losses) unless the investment return is restricted by donor or law. Changes in unrealized gains and losses that are considered temporary are recorded as nonoperating gains (losses) for investments classified as trading and as other changes in unrestricted net assets for investments classified as available-for-sale – nonequity securities. Investment return restricted by donor or law is recorded as changes in restricted net assets.

The System determines the fair value of its financial instruments based on the fair value hierarchy established in ASC Topic 820, *Fair Value Measurement*, 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

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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 a liability (including risk assumptions) developed based on the best information available in the circumstances

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

For Level 2 and Level 3 cash equivalents and fixed-income assets that rely on significant other observable inputs and significant unobservable inputs, the System 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. The System 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, the System utilizes net asset value per share or its equivalent to determine the fair value of the assets. The System 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.

The System's financial assets and liabilities that are measured at fair value on a recurring basis were recorded using the fair value hierarchy at December 31, 2019 as follows:

| | <u>Total</u> | <u>Fair value measurements using</u> | | |
|--|----------------|--------------------------------------|----------------|----------------|
| | | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> |
| Cash and cash equivalents: | | | | |
| Cash | \$ 33,766 | 33,766 | — | — |
| Money market funds | 140,522 | 140,522 | — | — |
| Total cash and cash equivalents | <u>174,288</u> | <u>174,288</u> | <u>—</u> | <u>—</u> |
| Short-term and long-term investments – trading securities: | | | | |
| Short-term fixed income | 561 | 561 | — | — |
| Money market fund | 81,742 | 81,742 | — | — |
| Total short-term fixed income and money market | <u>82,303</u> | <u>82,303</u> | <u>—</u> | <u>—</u> |

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| | <u>Total</u> | <u>Fair value measurements using</u> | | |
|--|---------------------|--------------------------------------|----------------|----------------|
| | | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> |
| Equity | 427,993 | 268,117 | 159,876 | — |
| Fixed income | 1,189,835 | 514,340 | 675,495 | — |
| Other investments – real return and multi-asset opportunistic mutual funds | 159,035 | 159,035 | — | — |
| Total investments accounted for at net asset value * | <u>731,378</u> | | | |
| Total investments – trading securities | <u>2,590,544</u> | <u>1,023,795</u> | <u>835,371</u> | <u>—</u> |
| Investments with limited uses: | | | | |
| Money market collective fund | 18,887 | 18,887 | — | — |
| Equity | 23,072 | 13,560 | 9,512 | — |
| Fixed income | 61,624 | 28,790 | 32,834 | — |
| Real return and multi-asset opportunistic funds | 9,462 | 9,462 | — | — |
| Restricted foundation trusts (fixed income) | 8,898 | — | 8,898 | — |
| Investments accounted for at net asset value * | <u>44,934</u> | | | |
| Total investments with limited uses | <u>166,877</u> | <u>70,699</u> | <u>51,244</u> | <u>—</u> |
| Total | <u>\$ 2,931,709</u> | <u>1,268,782</u> | <u>886,615</u> | <u>—</u> |
| Liabilities: | | | | |
| Interest rate swaps | \$ 85,094 | — | 85,094 | — |

* 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 this table are intended to permit reconciliation of the fair value hierarchy to amounts presented in the consolidated balance sheets.

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

| | Total | Fair value measurements using | | |
|--|--------------|-------------------------------|---------|---------|
| | | Level 1 | Level 2 | Level 3 |
| Cash and cash equivalents: | | | | |
| Cash | \$ 30,265 | 30,265 | — | — |
| Money market funds | 105,315 | 105,315 | — | — |
| Total cash and cash equivalents | 135,580 | 135,580 | — | — |
| Short-term and long-term investments – trading securities: | | | | |
| Short-term fixed income | 2,928 | 2,551 | 377 | — |
| Money market fund | 19,019 | 19,019 | — | — |
| Total short-term fixed income and money market | 21,947 | 21,570 | 377 | — |
| Equity | 315,477 | 152,425 | 163,052 | — |
| Fixed income | 1,010,238 | 453,417 | 556,821 | — |
| Other investments – real return mutual fund | 136,512 | 136,512 | — | — |
| Total investments accounted for at net asset value * | 618,532 | | | |
| Total investments – trading securities | 2,102,706 | 763,924 | 720,250 | — |
| Investments with limited uses: | | | | |
| Money market collective fund | \$ 10,447 | 10,422 | 25 | — |
| Equity | 20,550 | 9,929 | 10,621 | — |
| Fixed income | 65,807 | 29,536 | 36,271 | — |
| Real return funds | 8,892 | 8,892 | — | — |
| Restricted foundation trusts (fixed income) | 7,825 | — | 7,825 | — |
| Investments accounted for at net asset value * | 40,292 | | | |
| Total investments with limited uses | 153,813 | 58,779 | 54,742 | — |
| Total | \$ 2,392,099 | 958,283 | 774,992 | — |
| Liabilities: | | | | |
| Interest rate swaps | \$ 68,682 | — | 68,682 | — |

* 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

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amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to amounts presented in the consolidated balance sheets.

There were no significant transfers into or out of Level 1, Level 2, or Level 3 securities during the years ended December 31, 2019 and 2018.

Fair value measurements of investments in certain entities that calculate net asset value per share (or its equivalent), including restricted and unrestricted assets, as of December 31, 2019 and 2018 are as follows:

| | December 31, 2019 | | | | |
|---|----------------------------|---------------------------------|---|-------------------------------------|---|
| | Net asset value | Unfunded commitments | Redemption frequency (if currently eligible) | Redemption notice period | Redemption settlement period |
| Global bonds fund | \$ 97,126 | — | Monthly | 15 days | Up to 30 days |
| Global equity fund | 147,608 | — | Bi-Monthly | 10 days | Up to 10 days |
| Emerging markets equity fund | 100,378 | — | Daily/Weekly | 5/10 days | Up to 7–10 days |
| Equity long/short hedge funds | 109,181 | — | Monthly/Quarterly | 5–90 days | Up to 10–90 days |
| Opportunistic fixed-income hedge funds | 171,888 | — | Quarterly/Semi- Annual | 45–90 days | 1–90 days |
| Private capital funds | 102,351 | 234,275 | Not redeemable | NA | NA |
| Emerging market debt fund | <u>47,780</u> | <u>—</u> | Daily | Same day | Up to 15 days |
| Total | \$ <u>776,312</u> | <u>234,275</u> | | | |

| | December 31, 2018 | | | | |
|---|----------------------------|---------------------------------|---|-------------------------------------|---|
| | Net asset value | Unfunded commitments | Redemption frequency (if currently eligible) | Redemption notice period | Redemption settlement period |
| Global bonds fund | \$ 96,213 | — | Monthly | 15 days | Up to 30 days |
| Global equity fund | 111,007 | — | Daily/Bi-monthly | 10 days | Up to 5–10 days |
| Emerging markets equity fund | 78,084 | — | Daily/Weekly | 5/10 days | Up to 7–10 days |
| Equity long/short hedge funds | 86,831 | — | Monthly/Quarterly | 30–90 days | Up to 10–90 days |
| Opportunistic fixed-income hedge funds | 177,934 | — | Quarterly | 45–90 days | 1–90 days |
| Private capital funds | 74,770 | 109,805 | Not redeemable | NA | NA |
| Emerging market debt fund | <u>33,985</u> | <u>—</u> | Daily | Same day | Up to 15 days |
| Total | \$ <u>658,824</u> | <u>109,805</u> | | | |

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

Global equity fund 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.

Emerging markets equity fund includes two funds that invests in emerging market 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.

Equity long/short-hedge funds include investments in hedge funds that invest both long and short primarily in the United States and global common stocks through a hedge funds structure. The value of the investments in this category has been estimated using the net asset value per share of the investments.

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.

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 United States 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 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.

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.

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The System's deferred compensation investments recorded as other assets that are measured at fair value on a recurring basis were recorded using the fair value hierarchy at December 31, 2019 as follows:

| | <u>Total</u> | <u>Fair value measurements using</u> | | |
|---------------------------------|-------------------|--------------------------------------|----------------|----------------|
| | | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> |
| Assets: | | | | |
| Mutual funds | \$ 140,916 | 140,916 | — | — |
| Guaranteed investment contracts | 21,386 | — | — | 21,386 |
| Total assets | \$ <u>162,302</u> | <u>140,916</u> | <u>—</u> | <u>21,386</u> |

| | <u>Fair value measurements, Level 3</u> |
|----------------------------|---|
| Balance, December 31, 2018 | \$ 22,370 |
| Total interest income | 420 |
| Purchases | (9,908) |
| Sales | 8,504 |
| Balance, December 31, 2019 | \$ <u>21,386</u> |

The System's deferred compensation investments recorded as other assets that are measured at fair value on a recurring basis were recorded using the fair value hierarchy at December 31, 2018 as follows:

| | <u>Total</u> | <u>Fair value measurements using</u> | | |
|---------------------------------|-------------------|--------------------------------------|----------------|----------------|
| | | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> |
| Assets: | | | | |
| Mutual funds | 142,070 | 142,070 | — | — |
| Guaranteed investment contracts | 22,370 | — | — | 22,370 |
| Total assets | \$ <u>164,440</u> | <u>142,070</u> | <u>—</u> | <u>22,370</u> |

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| | | Fair value measurements, Level 3 |
|----------------------------|----|---|
| | | |
| Balance, December 31, 2017 | \$ | 21,445 |
| Total interest income | | 341 |
| Purchases | | 9,211 |
| Sales | | (8,627) |
| Balance, December 31, 2018 | \$ | 22,370 |

(15) Benefit Plans

(a) Defined-Benefit Cash Balance Plans

The System is making contributions pursuant to provisions of a collective bargaining agreement. The assets for these active participants are in a stand-alone, defined-benefit pension plan, known as the Allina Health Pension Plan for Collectively Bargained Employees. This plan holds assets of \$13,950 and \$12,824 at December 31, 2019 and 2018, respectively, which are fair value measured using Level 1 criteria. This plan has a projected benefit obligation of \$15,026 and \$13,105 using a discount rate of 4.1% and 3.4% as of December 31, 2019 and 2018, respectively. The System made contributions of \$0 and \$1,373 and recorded a total pension expense of \$795 and \$1,193 in 2019 and 2018, respectively. The unfunded balance of \$1,076 and \$281, respectively, as of December 31, 2019 and 2018 is reported in the consolidated balance sheets as a noncurrent other liability.

The defined-benefit pension plan of Courage Center was assumed in June 2013 with the acquisition of Courage Center. This plan, which was frozen in 2009, holds assets of \$28,704 and \$27,429, which are fair value measured using Level 2 criteria, and has a projected benefit obligation of \$39,228 and \$34,806 using a discount rate of 4.0% and 3.5% as of December 31, 2019 and 2018, respectively. The System made contributions of \$75 and \$1,067 in 2019 and 2018, respectively, and recorded a total pension expense of \$3,223 and return of \$1,087 in 2019 and 2018, respectively. The unfunded balance of \$10,525 and \$7,377 as of December 31, 2019 and 2018, respectively, is reported in the consolidated balance sheets as a noncurrent other liability.

During 2020, the System expects to make required pension contributions totaling approximately \$1,585 for the plans, but may elect to make additional contributions.

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Expected future benefit payments for the plans for the ten years following December 31, 2019 are as follows:

| | | |
|-----------|----|---------------|
| 2020 | \$ | 2,671 |
| 2021 | | 3,166 |
| 2022 | | 3,048 |
| 2023 | | 2,930 |
| 2024 | | 3,388 |
| 2025–2029 | | <u>16,013</u> |
| | \$ | <u>31,216</u> |

(b) Multiemployer Plans

Contributions to the union-sponsored multiemployer plans are made in accordance with collective bargaining agreements. The risks of participation in these multiemployer plans are different from single-employer plans in the following aspects: (a) assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers; (b) if a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers; and (c) if the System chooses to stop participating in some of its multiemployer plans and, if the plan is underfunded, the System may be required to pay those plans an amount based on the underfunded status of the plan, referred to as the withdrawal liability. The System's participation in these plans for the year ended December 31, 2019 is outlined in the table below. The "EIN/Pension plan number" column provides the Employee Identification Number (EIN) and the three-digit plan number, if applicable. Unless otherwise noted, the most recent Pension Protection Act (PPA) zone status available in 2019 and 2018 is for the plan's year-end at December 31, 2018 and 2017, respectively. The zone status is based on information that the System received from the plan and is certified by the plan's actuary. Among other factors, plans in the red zone are generally less than 65% funded, plans in the yellow zone are less than 80% funded, and plans in the green zone are at least 80% funded. The "FIP/RP status pending/implemented" column indicates plans for which a financial improvement plan (FIP) or a rehabilitation plan (RP) is either pending or has been implemented. The last column lists the expiration date(s) of the collective bargaining agreement(s) to which the plans are subject:

| Pension fund | EIN/Pension plan number | PPA status | | FIP/RP status pending/implemented | Contributions of the System in plan year | | Surcharge imposed | Expiration date of collective bargaining agreement |
|--|-------------------------|------------|-------|-----------------------------------|--|---------------|-------------------|--|
| | | 2018 | 2017 | | 2018 | 2017 | | |
| Tw in City Hospitals Minnesota Nurses Association Pension Plan | 41-6184922-001 | Green | Green | N/A | \$ 38,756 | 43,009 | No | May 31, 2022 |
| Other funds | | | | | <u>3,236</u> | <u>3,265</u> | | |
| Total contributions | | | | | \$ <u>41,992</u> | <u>46,274</u> | | |

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Total amounts expensed under the union-sponsored multiemployer plans were \$44,355 and \$45,171 for 2019 and 2018, respectively.

The System contributes more than 5% of the total contributions to all of the plans in which it participated for the plan years 2018 and 2017. The System is required to make minimum contributions each year and will make contributions of \$45,174 in 2020.

At the date the System's consolidated financial statements were issued, Forms 5500 were not available for the plan year ended December 31, 2019.

(c) Defined-Contribution Plans

Certain employees of the System are eligible to participate in defined-contribution plans, whereby 50% of the employees' initial 4.0% of salary contributions is matched. The System provides an additional annual nonelective employer contribution for eligible employees to the defined-contribution plans. The additional contribution is given as a percent of pay, ranging from 3.0% to 4.5%, based on years of vesting service. Contributions are made during the year following the calendar year-end. The contribution payable to employees is recorded in other current liabilities. Total amounts expensed under defined-contribution plans were \$77,130 and \$73,411 for 2019 and 2018, respectively.

(d) Postretirement Welfare Benefits

The System provides postretirement welfare benefits to certain employees. Postretirement welfare cost was \$487 and \$812 for 2019 and 2018, respectively. As of December 31, 2019 and 2018, accumulated postretirement benefit obligation was \$11,573 and \$9,821, respectively, and accrued postretirement benefit cost was \$11,445 and \$9,680, respectively. A discount rate of 3.15%, a rate of return on plan assets of 5.0%, and a medical plan trend rate of 6.5% in 2019, decreasing to 5.0% in 2025 and thereafter, have been assumed.

(16) Self-Insurance Reserves

The System has made provisions for estimated professional and general liability and workers' compensation claims that have been retained by the System because of deductible provisions of various policies or because of unasserted claims and other uninsured exposures. Reserves of \$104,574 and \$112,836 as of December 31, 2019 and 2018, respectively, have been recorded based on undiscounted historical data for professional and general liability and on a present-value basis using an annual discount rate of 2% for workers' compensation claims.

Under the comprehensive welfare benefit plan, the System has made provisions for claims reported but not paid and claims incurred but not reported of \$19,302 and \$19,082 as of December 31, 2019 and 2018, respectively. Management of the plan believes the provisions are adequate to cover claims incurred.

The System has a fixed-rate surety bond in the amount of \$49,174 at December 31, 2019 and 2018. The surety bond was obtained in connection with the System's self-insured workers' compensation program at a rate of 0.31% per annum.

The System also has an unused letter of credit totaling \$185 through May 31, 2020. The letter of credit was obtained in connection with the System's construction programs at a fee of 0.45% per annum.

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(17) Taxes

The System has been determined to qualify as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. The System has also been determined to be exempt from federal and state income tax on related income under Section 501(a) of the Internal Revenue Code and Minnesota Statute Section 290.05, Subdivision 2. Certain of the System's subsidiaries and affiliates qualify as tax-exempt organizations, while others are taxable. The System and its subsidiaries paid taxes of \$2,320 and \$2,696 in 2019 and 2018, respectively.

As of December 31, 2019 and 2018, the taxable subsidiaries of the System's continuing operations had a gross deferred tax asset of \$47,845 and \$48,966, respectively, resulting from net operating loss carryforwards, employee compensation and benefits accruals, and depreciation, offset by valuation allowances of \$34,302 and \$34,509, respectively, and a gross deferred tax liability of \$824 and \$897, respectively, resulting from joint venture investments and employee compensation and benefits.

As of December 31, 2019 and 2018, the continuing operations of the System and its subsidiaries had net operating loss carryforwards of \$95,780 and \$102,589, respectively, for income tax purposes, which expire in various years through 2029, with \$1,389 having an indefinite carryover period.

The System has analyzed income tax positions taken for filing with the Internal Revenue Service and all state jurisdictions where it operates. The System believes that income tax filing positions will be sustained upon examination and does not anticipate any adjustments that would result in a material adverse effect on the System's consolidated financial statements. As of December 31, 2019 and 2018, the System does not have any significant liabilities for uncertain tax benefits. The filings for the years ended 2015 to 2018 are open to examination by federal and state authorities.

(18) Leases

The System has various noncancelable operating occupancy lease agreements and other operating lease agreements for computer, medical, communication, and other equipment. The terms of certain of the lease agreements contain lease escalation clauses, allow for renewal of the leases, and require the System to pay operating costs in addition to minimum base rent.

The weighted average terms of operating leases were 8.9 years for the year ended December 31, 2019. The weighted average discount rate of operating leases was 3.3% for the year ended December 31, 2019.

ALLINA HEALTH SYSTEM

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

(Dollars in thousands)

The System incurred operating lease expense of \$37,786 and \$32,451 for the years ended December 31, 2019 and 2018, respectively.

Maturities of operating lease liabilities as of December 31, 2019 are as follows:

| | | |
|-----------------------------------|----|-----------------------|
| 2020 | \$ | 38,756 |
| 2021 | | 36,996 |
| 2022 | | 34,641 |
| 2023 | | 29,960 |
| 2024 | | 24,185 |
| Thereafter | | <u>105,442</u> |
| Total undiscounted lease payments | | 269,980 |
| Less imputed interest | | <u>(34,127)</u> |
| Total lease liabilities | \$ | <u><u>235,853</u></u> |

Prior to the adoption of ASC 842, aggregate future minimum lease payments required under operating lease agreements in effect on December 31, 2018 were as follows:

| | | |
|------------|----|-----------------------|
| 2019 | \$ | 30,534 |
| 2020 | | 28,313 |
| 2021 | | 26,198 |
| 2022 | | 23,597 |
| 2023 | | 19,527 |
| Thereafter | | <u>100,411</u> |
| | \$ | <u><u>228,580</u></u> |

(19) Commitments and Contingencies

Approximately 40% of employees are represented by various collective bargaining arrangements, of whom approximately 11% are represented by arrangements that are pending or expire within one year.

Laws and regulations governing the Medicare program are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The System believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing that would have a material effect on its consolidated financial statements. Compliance with such laws and regulations can be subject to future government review and interpretation, as well as significant regulatory action, including fines, penalties, and exclusion from the Medicare program.

The System is subject to various legal proceedings and claims that are incidental to its normal business activities. With respect to these actions, established reserves are fairly stated, though actual results could vary from the estimates and assumptions that were used.

ALLINA HEALTH SYSTEM

Notes to Consolidated Financial Statements

December 31, 2019 and 2018

(Dollars in thousands)

(20) Functional Expenses

The System provides health care services to residents within its geographic location. Expenses related to providing these services included in the consolidated statements of operations and changes in net assets as of December 31, 2019, with 2018 corresponding totals, are as follows:

| | <u>Healthcare services</u> | <u>General and administration</u> | <u>Total</u> |
|-------------------------------|--------------------------------|---------------------------------------|------------------|
| 2019: | | | |
| Salaries and benefits | \$ 2,441,168 | 332,887 | 2,774,055 |
| Supplies and services | 873,820 | 166,442 | 1,040,262 |
| Depreciation and amortization | 143,634 | 40,512 | 184,146 |
| Financing costs | 49,354 | — | 49,354 |
| State assessments and taxes | 81,501 | 8,919 | 90,420 |
| Utilities and maintenance | 66,196 | 12,609 | 78,805 |
| Other operating expenses | 162,129 | 30,882 | 193,011 |
| | <u>\$ 3,817,802</u> | <u>592,251</u> | <u>4,410,053</u> |
| 2018: | | | |
| Salaries and benefits | \$ 2,377,077 | 324,147 | 2,701,224 |
| Supplies and services | 813,075 | 166,534 | 979,609 |
| Depreciation and amortization | 141,685 | 39,962 | 181,647 |
| Financing costs | 43,893 | — | 43,893 |
| State assessments and taxes | 79,693 | (3,901) | 75,792 |
| Utilities and maintenance | 65,439 | 13,403 | 78,842 |
| Other operating expenses | 185,234 | 37,940 | 223,174 |
| | <u>\$ 3,706,096</u> | <u>578,085</u> | <u>4,284,181</u> |

(21) Subsequent Events

The System has evaluated subsequent events from the consolidated balance sheet date through March 11, 2020, the date at which the consolidated financial statements were issued, and determined there are no other items to disclose



KPMG LLP
4200 Wells Fargo Center
90 South Seventh Street
Minneapolis, MN 55402

Independent Auditors' Report on Supplementary Information

The Board of Directors
Allina Health System:

We have audited the consolidated financial statements of Allina Health System and its subsidiaries as of and for the years ended December 31, 2019 and 2018, and have issued our report thereon dated March 11, 2020, which contained an unmodified opinion on those consolidated financial statements. Our audits were performed for the purpose of forming an opinion on the consolidated financial statements as a whole. The 2019 and 2018 consolidating balance sheets and statements of operations and changes in net asset information are presented for the purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

KPMG LLP

Minneapolis, Minnesota
March 11, 2020

ALLINA HEALTH SYSTEM

Consolidating Balance Sheet

December 31, 2019

(Dollars in thousands)

| Assets | Obligated Group | Other nonobligated | Eliminations | Allina Health System |
|--|----------------------------|-------------------------------|---------------------|-------------------------------------|
| Current assets: | | | | |
| Cash and cash equivalents | \$ 160,209 | 14,079 | — | 174,288 |
| Short-term investments | 471,112 | — | — | 471,112 |
| Patient accounts receivable, net | 526,045 | 17,464 | — | 543,509 |
| Inventories | 74,733 | 523 | — | 75,256 |
| Other current assets | 120,125 | 4,797 | — | 124,922 |
| | <u>1,352,224</u> | <u>36,863</u> | <u>—</u> | <u>1,389,087</u> |
| Investments | 2,068,991 | 50,441 | — | 2,119,432 |
| Investments with limited uses | 15,591 | 151,286 | — | 166,877 |
| Beneficial interests in net assets of Allina Foundations | 194,409 | — | (194,409) | — |
| Operating lease right of use assets, net | 215,554 | 3,988 | — | 219,542 |
| Land, buildings, and equipment, net | 1,271,123 | 4,366 | — | 1,275,489 |
| Other assets | 195,987 | 112,978 | — | 308,965 |
| Total assets | \$ 5,313,879 | 359,922 | (194,409) | 5,479,392 |
| | | | | |
| Liabilities and Net Assets | | | | |
| Current liabilities: | | | | |
| Accounts payable and accrued expenses | \$ 423,847 | 29,430 | — | 453,277 |
| Current portion of long-term debt | 25,820 | 915 | — | 26,735 |
| Current portion of operating lease liability | 29,696 | 652 | — | 30,348 |
| Other current liabilities | 140,636 | — | — | 140,636 |
| | <u>619,999</u> | <u>30,997</u> | <u>—</u> | <u>650,996</u> |
| Long-term debt | 1,190,900 | 1,328 | — | 1,192,228 |
| Operating lease liabilities | 202,123 | 3,382 | — | 205,505 |
| Other liabilities | 294,294 | 88,716 | — | 383,010 |
| Total liabilities | 2,307,316 | 124,423 | — | 2,431,739 |
| Net assets: | | | | |
| Without donor restriction | 2,802,533 | 77,774 | — | 2,880,307 |
| With donor restriction | 204,030 | 157,725 | (194,409) | 167,346 |
| Total net assets | 3,006,563 | 235,499 | (194,409) | 3,047,653 |
| Total liabilities and net assets | \$ 5,313,879 | 359,922 | (194,409) | 5,479,392 |

See accompanying independent auditors' report.

ALLINA HEALTH SYSTEM

Consolidating Statement of Operations and Changes in Net Assets

Year ended December 31, 2019

(Dollars in thousands)

| | <u>Obligated Group</u> | <u>Other nonobligated</u> | <u>Eliminations</u> | <u>Allina Health System</u> |
|---|----------------------------|-------------------------------|---------------------|-------------------------------------|
| Revenues: | | | | |
| Net patient service revenue | \$ 4,149,495 | 32,961 | — | 4,182,456 |
| Other operating revenue | <u>250,215</u> | <u>19,640</u> | <u>20,327</u> | <u>290,182</u> |
| Total revenues | <u>4,399,710</u> | <u>52,601</u> | <u>20,327</u> | <u>4,472,638</u> |
| Expenses: | | | | |
| Salaries and benefits | 2,759,730 | 14,325 | — | 2,774,055 |
| Supplies and services | 987,619 | 52,643 | — | 1,040,262 |
| Depreciation and amortization | 182,316 | 1,830 | — | 184,146 |
| Financing costs | 48,844 | 510 | — | 49,354 |
| Services provided by (to) related divisions | 7,310 | (27,637) | 20,327 | — |
| State assessments and taxes | 88,340 | 2,080 | — | 90,420 |
| Utilities and maintenance | 78,029 | 776 | — | 78,805 |
| Other operating expenses | <u>184,113</u> | <u>8,898</u> | <u>—</u> | <u>193,011</u> |
| Total expenses | <u>4,336,301</u> | <u>53,425</u> | <u>20,327</u> | <u>4,410,053</u> |
| Operating income (loss) | 63,409 | (824) | — | 62,585 |
| Nonoperating gains (losses): | | | | |
| Investment return | 273,103 | 3,323 | — | 276,426 |
| Loss on interest rate swap agreements | (25,173) | — | — | (25,173) |
| Loss on debt refinancing | (943) | — | — | (943) |
| Nonservice periodic pension costs | (3,009) | — | — | (3,009) |
| Other | <u>(6,469)</u> | <u>(1,413)</u> | <u>—</u> | <u>(7,882)</u> |
| Excess of revenues over expenses | \$ <u>300,918</u> | <u>1,086</u> | <u>—</u> | <u>302,004</u> |

ALLINA HEALTH SYSTEM

Consolidating Statement of Operations and Changes in Net Assets

Year ended December 31, 2019

(Dollars in thousands)

| | <u>Obligated Group</u> | <u>Other nonobligated</u> | <u>Eliminations</u> | <u>Allina Health System</u> |
|---|----------------------------|-------------------------------|-------------------------|-------------------------------------|
| Net assets without donor restrictions: | | | | |
| Excess of revenues over expenses | \$ 300,918 | 1,086 | — | 302,004 |
| Net assets released from restrictions for capital purposes | 82 | 9,988 | — | 10,070 |
| Transfer net assets released to Obligated Group | 11,213 | (11,213) | — | — |
| Amortization of unrealized loss on interest rate swap agreement | 874 | — | — | 874 |
| Capital contributions to nonobligated group affiliates, net Other | (5,153) 3,610 | 5,153 (1,798) | — — | — 1,812 |
| Increase in net assets without donor restrictions | <u>311,544</u> | <u>3,216</u> | <u>—</u> | <u>314,760</u> |
| Net assets with donor restrictions: | | | | |
| Contributions | 727 | 14,153 | — | 14,880 |
| Investment return | 655 | 18,427 | — | 19,082 |
| Net assets released from restrictions | (82) | (21,397) | — | (21,479) |
| Change in beneficial interests in net assets of Allina Foundations | 10,880 | — | (10,880) | — |
| Other | (56) | (130) | — | (186) |
| Increase in net assets with donor restrictions | <u>12,124</u> | <u>11,053</u> | <u>(10,880)</u> | <u>12,297</u> |
| Increase in net assets | 323,668 | 14,269 | (10,880) | 327,057 |
| Net assets at beginning of year | <u>2,682,895</u> | <u>221,230</u> | <u>(183,529)</u> | <u>2,720,596</u> |
| Net assets at end of year | \$ <u><u>3,006,563</u></u> | <u><u>235,499</u></u> | <u><u>(194,409)</u></u> | <u><u>3,047,653</u></u> |

See accompanying independent auditors' report.

ALLINA HEALTH SYSTEM

Consolidating Balance Sheet

December 31, 2018

(Dollars in thousands)

| Assets | Obligated Group | Other nonobligated | Eliminations | Allina Health System |
|--|----------------------------|-------------------------------|---------------------|-------------------------------------|
| Current assets: | | | | |
| Cash and cash equivalents | \$ 126,359 | 9,221 | — | 135,580 |
| Short-term investments | 278,587 | — | — | 278,587 |
| Patient accounts receivable, net | 491,915 | 19,747 | — | 511,662 |
| Inventories | 72,055 | 497 | — | 72,552 |
| Other current assets | 108,458 | 4,270 | — | 112,728 |
| | <u>1,077,374</u> | <u>33,735</u> | <u>—</u> | <u>1,111,109</u> |
| Investments | 1,778,940 | 45,179 | — | 1,824,119 |
| Investments with limited uses | 9,739 | 144,074 | — | 153,813 |
| Beneficial interests in net assets of Allina Foundations | 183,529 | — | (183,529) | — |
| Land, buildings, and equipment, net | 1,218,454 | 5,374 | — | 1,223,828 |
| Other assets | 224,080 | 101,068 | — | 325,148 |
| | <u>4,492,116</u> | <u>329,430</u> | <u>(183,529)</u> | <u>4,638,017</u> |
| Total assets | \$ 4,492,116 | 329,430 | (183,529) | 4,638,017 |
| Liabilities and Net Assets | | | | |
| Current liabilities: | | | | |
| Accounts payable and accrued expenses | \$ 419,012 | 34,610 | — | 453,622 |
| Current portion of long-term debt | 26,639 | 852 | — | 27,491 |
| Other current liabilities | 110,174 | — | — | 110,174 |
| | <u>555,825</u> | <u>35,462</u> | <u>—</u> | <u>591,287</u> |
| Long-term debt | 918,643 | 2,242 | — | 920,885 |
| Other liabilities | 334,753 | 70,496 | — | 405,249 |
| | <u>1,809,221</u> | <u>108,200</u> | <u>—</u> | <u>1,917,421</u> |
| Total liabilities | 1,809,221 | 108,200 | — | 1,917,421 |
| Net assets: | | | | |
| Without donor restriction | 2,490,989 | 74,558 | — | 2,565,547 |
| With donor restriction | 191,906 | 146,672 | (183,529) | 155,049 |
| | <u>2,682,895</u> | <u>221,230</u> | <u>(183,529)</u> | <u>2,720,596</u> |
| Total net assets | 2,682,895 | 221,230 | (183,529) | 2,720,596 |
| Total liabilities and net assets | \$ 4,492,116 | 329,430 | (183,529) | 4,638,017 |

See accompanying independent auditors' report.

ALLINA HEALTH SYSTEM

Consolidating Statement of Operations and Changes in Net Assets

Year ended December 31, 2018

(Dollars in thousands)

| | <u>Obligated Group</u> | <u>Other nonobligated</u> | <u>Eliminations</u> | <u>Allina Health System</u> |
|---|----------------------------|-------------------------------|---------------------|-------------------------------------|
| Revenues: | | | | |
| Net patient service revenue | \$ 4,041,023 | 30,691 | — | 4,071,714 |
| Other operating revenue | <u>255,938</u> | <u>22,817</u> | <u>19,970</u> | <u>298,725</u> |
| Total revenues | <u>4,296,961</u> | <u>53,508</u> | <u>19,970</u> | <u>4,370,439</u> |
| Expenses: | | | | |
| Salaries and benefits | 2,687,350 | 13,874 | — | 2,701,224 |
| Supplies and services | 913,973 | 65,636 | — | 979,609 |
| Depreciation and amortization | 179,733 | 1,914 | — | 181,647 |
| Financing costs | 43,423 | 470 | — | 43,893 |
| Services provided by (to) related divisions | 5,783 | (25,753) | 19,970 | — |
| State assessments and taxes | 89,618 | (13,826) | — | 75,792 |
| Utilities and maintenance | 78,017 | 825 | — | 78,842 |
| Other operating expenses | <u>210,827</u> | <u>12,347</u> | <u>—</u> | <u>223,174</u> |
| Total expenses | <u>4,208,724</u> | <u>55,487</u> | <u>19,970</u> | <u>4,284,181</u> |
| Operating income | 88,237 | (1,979) | — | 86,258 |
| Nonoperating gains (losses): | | | | |
| Investment return | (57,907) | (1,740) | — | (59,647) |
| Gain on interest rate swap agreements | 2,653 | — | — | 2,653 |
| Nonservice periodic pension costs | 921 | — | — | 921 |
| Other | <u>(6,367)</u> | <u>(1,434)</u> | <u>—</u> | <u>(7,801)</u> |
| Excess of revenues over expenses | \$ <u>27,537</u> | <u>(5,153)</u> | <u>—</u> | <u>22,384</u> |

ALLINA HEALTH SYSTEM

Consolidating Statement of Operations and Changes in Net Assets

Year ended December 31, 2018

(Dollars in thousands)

| | <u>Obligated Group</u> | <u>Other nonobligated</u> | <u>Eliminations</u> | <u>Allina Health System</u> |
|---|----------------------------|-------------------------------|-------------------------|-------------------------------------|
| Net assets without donor restrictions: | | | | |
| Excess of revenues over expenses | \$ 27,537 | (5,153) | — | 22,384 |
| Net assets released from restrictions for capital purposes | 265 | 13,772 | — | 14,037 |
| Transfer net assets released to Obligated Group | 15,728 | (15,728) | — | — |
| Amortization of unrealized loss on interest rate swap agreement | 874 | — | — | 874 |
| Capital contributions to nonobligated group affiliates, net Other | (24,741) (253) | 24,741 (2,056) | — — | — (2,309) |
| Increase in net assets without donor restrictions | <u>19,410</u> | <u>15,576</u> | <u>—</u> | <u>34,986</u> |
| Net assets with donor restrictions: | | | | |
| Contributions | 326 | 16,636 | — | 16,962 |
| Investment return | (152) | (5,107) | — | (5,259) |
| Net assets released from restrictions | (265) | (25,453) | — | (25,718) |
| Change in beneficial interests in net assets of Allina Foundations | (20,736) | — | 20,736 | — |
| Other | (1,804) | (490) | — | (2,294) |
| (Decrease) increase in net assets with donor restrictions | <u>(22,631)</u> | <u>(14,414)</u> | <u>20,736</u> | <u>(16,309)</u> |
| (Decrease) increase in net assets | (3,221) | 1,162 | 20,736 | 18,677 |
| Net assets at beginning of year | <u>2,686,116</u> | <u>220,068</u> | <u>(204,265)</u> | <u>2,701,919</u> |
| Net assets at end of year | \$ <u><u>2,682,895</u></u> | <u><u>221,230</u></u> | <u><u>(183,529)</u></u> | <u><u>2,720,596</u></u> |

See accompanying independent auditors' report.